

Pensions Committee

12 December 2018

Report title	Budget Monitoring 2018/19 and Quarterly Accounts September 2018	
Originating service	Pension Services	
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Recommendations for noting:

The Committee is asked to note:

1. The quarterly accounts for the period ending 30 September 2018 which show that:
 - the value of West Midlands Pension Fund at this date was £16.1 billion, an increase of £713.5 million from 31 March 2018.
 - the value of West Midlands Integrated Transport Authority Pension Fund at this date was £500 million, an increase of £8 million from 31 March 2018.
2. West Midlands Pension Fund outturn against operating budgets as at the end of September 2018 is an underspend of £4 million primarily attributable to lower investment management costs.

1.0 Purpose

- 1.1 The purpose of this report is to update the Committee on the forecast outturn for the year against operating budgets and quarterly accounts as at the end of September 2018.
- 1.2 The operating budget was approved by the Committee on 21 March 2018.

2.0 Forecast Outturn against Operating Budget 2018/19

- 2.1 The following table sets out the forecast outturn compared with the Fund's operating budget as at the end of the second quarter:

	2017/18 Actual £000	2018/19 Budget £000	2018/19 Forecast £000	Forecast variance £000
Employees	5,579	5,527	5,630	103
Premises	382	221	297	76
Transport	65	65	64	(1)
Other Supplies and Services	430	1,177	1,177	0
Professional Fees	1,801	1,171	1,005	(166)
Communications and Computing	665	534	561	26
Support Services	508	544	572	28
Miscellaneous Income	(810)	(180)	(180)	-
Net Expenditure	8,620	9,059	9,126	67
External Investment Management Costs	58,900	65,201	61,833	(3,368)
LGPS Central Charges	-	4,425	4,074	(351)
Total	67,520	78,685	75,033	(3,652)
Funded by:				
West Midlands Pension Fund (WMPF)	66,770	77,935	74,283	(3,652)
West Midlands Integrated Transport Authority (ITA) Pension Fund	750	750	750	-
Net Budget	67,520	78,685	75,033	(3,652)

- 2.2 Forecasts have been made using a combination of reviewing spend to date and taking into account plans for the remainder of the financial year including posts currently held vacant. At this time, it is anticipated that there is likely to be an overspend on staffing and premises although this is offset by lower professional fees. The higher staffing costs reflect the need to maintain adequate resourcing levels, given the growing employer base, along with additional governance and oversight requirements. The higher staffing includes forecasting some temporary resourcing of vacant posts and additional work identified to clear temporary backlogs. Work is currently underway to get a clearer assessment of likely resourcing requirements going forwards as the Fund looks to develop the 2019/20 budget.

- 2.3 As at the end of September 2018, investment management costs are forecast to be £2.6 million under budget reflecting the on-going work to streamline portfolio management arrangements and focus on reducing external investment management costs; also compared to prior year we expect a drop-in performance related fees. However, since these are heavily influenced by market movements and investment performance, this is particularly subject to change during the remainder of the year.
- 2.4 The majority of investment management costs and fees and other costs are deducted at source by fund managers, total investment management costs for the Main Fund are forecast to be £67 million, as follows:

	Actual 2017/18 £'000	Forecast 2018/19 £'000
External Costs:		
- Invoiced	11,424	10,263
- Deducted at Source	44,643	51,570
- LGPS Central		4,074
Total External Investment Management Costs	56,067	65,907
Internal Investment Management Costs	2,833	1,088
Total Investment Management Costs	58,900	66,995

- 2.5 Cost-per-member is a critical measure for the Fund of its cost-effectiveness. The following table sets out the forecast cost-per-member compared to budget using the three standard headings specified by CIPFA: administration, oversight and governance, and investment management costs. These figures are stated for West Midlands Pension Fund only reflecting the £150,000 recharge to the ITA Fund.

At this time, we are forecasting a slight decrease on budget from £26.51 per member to £25.24. Looking at the recent 2017 SF3 data for cost per member for local authority pension funds, WMPF remains below the average for England and Wales which stood at £29.87 for 2017.

	2017/18 Actual £000	2018/19 Budget* £000	2018/19 Forecast** £000
Total Administration Costs (£000)	3,826	4,964	4,633
Administration Cost per Member (£)	12.21	15.84	14.55
Total Oversight and Governance Costs (£000)	2,776	3,345	3,405
Oversight and Governance Cost per Member (£)	8.86	10.67	10.69
Number of Members	313,339	313,399	318,468
Total Administration, Oversight and Governance cost per Member (£)	21.07	26.51	25.24
Total Investment Management Costs (£000)	58,900	69,626	66,995
Investment Management Cost per Member (£)	187.94	222.16	210.37
Investment Management Costs as a Percentage of Forecast Net Assets	0.39%	0.43%	0.42%

* As at 31 March 2018

** As at 30 September 2018.

2.6 The Fund, like all public-sector bodies, continues to be cost-conscious and keeps its operating costs and procedures under continuous review.

3.0 Quarterly Accounts – West Midlands Pension Fund

3.1 Appendix A provides a Fund Account for the half year ended 30 September 2018 and a Net Assets Statement as at that date.

3.2 The Net Assets Statement provides a value for the Fund at 30 September 2018 of £16.1 billion. This is an increase of £713.5 million from the 31 March 2018 value.

3.3 These quarterly accounts have been prepared using a number of key assumptions, which are set out below:

- Where employers have made up-front payments for the whole year, and in some cases for future years, these have been recognised in full in the first quarter (contributions income shown in the Fund Account for the first six months of the year will therefore be expected to be more than one half of the total amount that will be due for the full year);
- Management expenses have been calculated on an accrual's basis, being equal to one half of the forecast net cost for the year;
- Investment income has been calculated based on income due for the period.

3.4 The main reason for the increase in the value of the Fund for the year so far is contributions receivable, amounting to £228.8 million for the year so far. In addition, gains in the value of investment assets have increased the value of the Fund by £728.1 million. Together, net of income and benefits paid, these have led to a £713.5 million increase in asset value over the first six months of the year.

4.0 Quarterly Accounts – West Midlands ITA Pension Fund

4.1 Appendix B provides a Fund Account for the quarter ended 30 September 2018 and a Net Assets Statement as at that date.

4.2 The Net Assets Statement provides a value for the Fund at 30 September 2018 of £500 million. This is an increase of £8 million from the 31 March 2018 value.

4.3 The main reason for the increase in the value of the Fund for the year so far is gains in the value of investment assets (£7.8 million).

5.0 Financial implications

5.1 The financial implications are discussed in the body of the report.

6.0 Legal implications

6.1 This report contains no direct legal implications for the authority.

7.0 Equalities implications

7.1 This report has no equalities implications.

8.0 Environmental implications

8.1 This report has no environmental implications.

9.0 Human resources implications

9.1 The report has no human resources implications.

10.0 Corporate landlord implications

10.1 This report has no corporate landlord implications.

11.0 Schedule of Background Papers

11.1 None

12.0 Schedule of Appendices

12.1 Appendix A – West Midlands Pension Fund Quarterly Accounts 30 September 2018.

11.2 Appendix B – West Midlands ITA Pension Fund Quarterly Accounts 30 September 2018.