

Pensions Committee

23 June 2021

Report title Statement of Accounts 2020/2021

Originating service Pension Services

Accountable employee Darshan Singh Head of Finance
Tel 01902 55 2768
Email darshan.singh@wolverhampton.gov.uk

Report to be/has been considered by Rachel Brothwood Director of Pensions
Tel 01902 55 1715
Email rachel.brothwood@wolverhampton.gov.uk

Recommendations for action or decision:

The Pensions Committee is recommended to approve:

1. The draft Statements of Accounts for the year ending 31 March 2021.
2. Delegation of authority to the Chair and Vice Chair of Pensions Committee to approve the final Statement of Accounts once the audit is completed in September.
3. Delegation of authority to the Chair and Vice Chair of Pensions Committee to approve the final publication of the Fund's 2020-2021 Annual Report after approval of the draft by Pensions Committee in September 2021.

Recommendations for noting:

The Pensions Committee is asked to note:

1. The draft accounts have been certified by the Section 151 Officer as required by regulations.
2. The draft Statement of Accounts (and the Annual Report) for West Midlands Pension Fund will now be subject to audit by the Fund's external auditors, Grant Thornton, with the final version, including their audit opinion, to be reported to the Committee in September.
3. The Accounts and Audit (amendment) Regulations 2021 (SI no 2021/263) have extended the statutory accounting deadlines for completion of the draft and final Statement of Accounts for 2020/2021 and 2021/2022.

1.0 Purpose

- 1.1 The purpose of this report is to seek the Committee's approval of the draft Statement of Accounts for the year ending 31 March 2021 together with delegations to finalise and enable publication of the Statement of Accounts and Annual Report following Committee approval of the draft in September 2021.

2.0 Background

- 2.1 Local Government Pension Scheme (LGPS) funds are required by law to produce a Statement of Accounts by 31 May each year. These must be subject to external audit and published no later than 31 July.
- 2.2 In view of the ongoing COVID-19 disruption, timescales for closing and auditing of accounts for the current year have again been extended. With effect from 31 March 2021 and applicable to the Statement of Accounts for the year ended 31 March 2021 the Accounts and Audit (amendment) Regulations 2021 extend the above statutory accounting deadlines to 1 August and 30 September 2021 respectively.
- 2.3 In preparing their accounts, Funds must have regard to proper practice and to any guidance which has the effective standing of 'statutory guidance'. These are for the Statement of Accounts, 'The Code of Practice on Local Authority Accounting in the United Kingdom 2020/2021' (CIPFA) ('the Code').
- 2.4 As well as being published in the Fund's own Annual Report, its accounts must be included in the Statement of Accounts of the Administering Authority (for the West Midlands Pension Fund, the City of Wolverhampton Council). It is important to note that the transactions and balances of the Funds are completely separate and not combined with those of the Administering Authority.
- 2.5 This year, the draft accounts are required to be certified by the Section 151 Officer on or before 1 August 2021. This certification was provided by the City of Wolverhampton Council's Director of Finance during June 2021.
- 2.6 The Committee will receive a further report in September presenting the final version of the Statement of Accounts for publication along with the draft Annual Report and the findings of the external auditor's work including their audit opinion. Under the City of Wolverhampton Council's constitution, formal approval of the audited Statement of Accounts rests with its Audit Committee; this does not apply to the other parts of the Annual Report which will be presented to Pensions Committee for approval.

3.0 Accounts Closure and Preparation of the Annual Report

- 3.1 Despite challenging times and a number of conflicting pressures, the Fund has succeeded in preparing its draft Statement of Accounts well within the revised statutory deadline. This is due to careful planning, resource management and close monitoring.

- 3.2 An Annual Report will be prepared to include the finalised version of the Statement of Accounts and presented to the September 2021 meeting of the Pensions Committee.
- 3.3 The Fund's external auditors have already undertaken interim audit work with the Fund prior to year end to include testing samples of investments and benefits payment transactions to the end of December 2020. The main audit visit has commenced (remotely again) in mid June.

4.0 Draft Statement of Accounts 2020/2021

- 4.1 The purpose of the Statement of Accounts is to report the Fund's financial performance for the year and its balances and reserves at the year-end. There are two primary statements: the Fund Account, which is concerned with transactions during the year and the Net Assets Statement which reports balances at the year-end. These are supplemented by a series of notes to the accounts which expand on items in the primary statements or provide further information about the Fund.
- 4.2 The draft Statement of Accounts show the estimated value of the Fund increased by some £3.6bn over the year due to gains in the value of investment assets (£3.1bn) and a surplus of contributions income over benefits expenditure (£0.5bn).
- 4.3 There are two main reasons behind the increase. Global investment markets suffered sharp and unexpected falls in the last few weeks of the prior financial year due to the impact of the COVID-19 pandemic and the valuation of the Fund's investments was some £1.4bn lower than had originally been forecast for end of March 2020. During 2020/2021, investment markets have experienced a 'bounce back' making significant recoveries which pushed valuations back up to pre-COVID levels and then beyond. This is reflected in the reported £3.1bn of net investment return.
- 4.4 Secondly, the balance of contributions income over benefits expenditure, £0.5bn, is positive this year because most of the Council bodies opted to pay three years worth of Future Service and Past Service Deficit contributions in advance in April 2020 following the results of the March 2019 triennial Actuarial Valuation. These significant cash receipts have been accounted for fully in this year's Statement of Accounts.
- 4.5 The figure for contributions receivable also includes £10.9m paid by employers to cover early retirement strain costs, reflecting the additional contributions received as a result of employer staffing decisions taken during the year.
- 4.6 Net assets of the Fund at 31 March 2021 stood at £18.9bn, up from £15.3bn at 31 March 2020. This comprises investment assets of £18.7bn, an insurance contract valued at £200m and working balances of £31m.
- 4.7 The Fund has taken the option under the Code to disclose the present value of all fund employer pension liabilities in a note to the accounts. This value, calculated on an IAS 19 basis, stood at £29.9bn at 31 March 2021. This is an increase on the 31 March 2020 figure of £23.1bn due to adjustments to the actuarial assumptions.

- 4.8 The draft Statement of Accounts for the West Midlands Pension Fund is attached at Appendix A and has now been passed across to the external auditors.

5.0 Investment Management Costs 2020/2021

- 5.1 CIPFA guidance, introduced in 2014, requires the disclosure of all investment management costs including fees which are deducted at source by external investment managers. External investment management costs deducted at source saw a significant increase on the prior year at £80.7 million up from £67.2 million, whilst some of this reflects growth in assets under management and performance fees, additional transparency on 'hidden expenses' has meant the Fund has been able to capture greater detail on costs.
- 5.2 The Fund continues to take a transparent approach with investment management costs using still relatively new industry-wide cost capture templates to obtain even higher levels of cost transparency from the investment managers most notably, in the recording of transaction costs associated with turnover within individual portfolios. The following table analyses the total investment management costs reported above:

	Actual 2019/20 £m	Actual 2020/21 £m
External Investment Management Costs – Invoiced	10.5	14.5
External Investment Management Costs – Deducted at Source	67.2	80.7
External Investment Management Costs – LGPS Central	4.0	4.7
Total External Investment Management Costs	81.7	99.9
Internal Investment Management Costs	0.9	0.8
Total Investment Management Costs	82.6	100.7

Transparency and reporting of investment management costs

- 5.3 The Fund has undertaken additional data collection and analysis over the last few months to scrutinise cost transparency templates received as the Fund continues to strive to get full transparency over investment costs and capture those which hitherto, have not been transparent. The Fund has received more reporting templates and information again this year and discloses all costs information received including performance fees. Although there is a growing number of Funds and schemes aspiring to do the same, many other Pension Fund accounts do not currently include amounts close to full disclosure.
- 5.4 It should be noted that actual investment management costs are heavily influenced by market movements and investment performance and are therefore expected to fluctuate during the year and between years. Not all managers have returned cost reporting templates in time for review ahead of publication of the Statement of Accounts. Where there are gaps, base management fees (the largest element of cost) have been

estimated but not other potential fees, as the Fund does not hold information to estimate with any accuracy. Portfolio changes during the year and asset allocation or strategic changes will also impact the development of costs over time.

- 5.5 Further analysis of the Fund's investment performance and costs undertaken by CEM global benchmarking is incorporated within a separate paper to the Committee for discussion later in the meeting.
- 5.6 The challenges of cost data collection and comparison were highlighted in research by the Cost Transparency Initiative (CTI) published by the PLSA in May this year – coverage, consistency and accuracy appear to be barriers to wider use in reporting but there is an increased call for mandatory adoption and guidance on disclosure to improve consistency and benchmarking to enable pension schemes to be better equipped to challenge their investment managers.

6.0 Financial implications

- 6.1 The financial implications are discussed in the body of the report.

7.0 Legal implications

- 7.1 The Statement of Accounts of the Administering Authority (of which the Fund's accounts form part) must be prepared in accordance with the statutory framework established by the Accounts and Audit Regulations 2015. The audit of the financial statements will be undertaken in accordance with the statutory framework established by sections 3 and 20 of the Local Audit and Accountability Act 2014.
- 7.2 The Accounts and Audit (amendment) Regulations 2021 came into force on 31 March and extend the publication date for local authority audited accounts to 30 September 2021 with the public inspection period starting on the first working day of August 2021.
- 7.3 Under LGPS Regulations, Administering Authorities are required to produce and publish a pension fund annual report, including information about the management and financial performance of the Fund by 1 December each year.

8.0 Equalities implications

- 8.1 This report has no direct equalities implications.

9.0 All other implications

- 9.1 This report has no other direct implications.

10.0 Schedule of background papers

- 10.1 Budget Monitoring 2020/2021 and Quarterly Accounts to 31 December 2020, Report to Pensions Committee, 24 March 2021

10.2 External Audit Plan 2020/2021, Report to Pensions Committee, 24 March 2021

10.3 Perceptions of the CTI Framework – research published by the PLSA in May 2021
[CTI-Perceptions-Report-May-2021.pdf \(plsa.co.uk\)](#)

11.0 Schedule of appendices

11.1 Appendix A: Draft WMPF Statement of Accounts 2020/2021