

# Pensions Committee

15 December 2021

<b>Report title</b>	Budget Monitoring 2021/22 and Quarterly Accounts 30 September 2021	
<b>Originating service</b>	Pension Services	
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## Recommendations for noting:

The Pensions Committee is asked to note:

1. The Fund accounts for the quarter ending 30 September 2021 which estimate the value of West Midlands Pension Fund at this date to be £20.2 billion, an increase of £1.3 billion (6.9%) since 31 March 2021
2. As at the end of September 2021, West Midlands Pension Fund forecasts an out-turn underspend for the year against operating budgets as recruitment to new posts continued into the second quarter of 2021/22.

## 1.0 Purpose

- 1.1 The purpose of this report is to update Pensions Committee on the forecast out-turn for the year against operating budget for 2021/22 and present the quarterly accounts to 30 September 2021.
- 1.2 The operating budget for the year to 31 March 2022 was approved by Committee on 24 March 2021.

## 2.0 Forecast Out-turn against Operating Budget 2021/22

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

2.2

	Budget 2020/21	Budget 2021/22	Forecast 2021/22	Variance Out-turn
	£000	£000	£000	£000
Employees	9,066	9,700	9,210	(490)
Premises	300	700	700	-
Transport	38	40	34	(6)
Other Supplies and Services	437	488	456	(32)
Service Development	1,027	1,054	947	(107)
Professional Fees	1,552	1,499	1,470	(29)
Communications and Computing	613	627	627	-
Support Services	723	733	733	-
Miscellaneous Income	(595)	(590)	(590)	-
<b>Net Expenditure</b>	<b>13,161</b>	<b>14,251</b>	<b>13,587</b>	<b>(664)</b>
External Investment Management Costs	77,970	82,539	82,539	-
LGPS Central Charges	4,949	5,225	5,225	-
<b>Total External Investment Costs</b>	<b>82,919</b>	<b>87,764</b>	<b>87,764</b>	-
<b>Total</b>	<b>96,080</b>	<b>102,015</b>	<b>101,351</b>	<b>(664)</b>

\*There may be slight differences due to rounding.

- 2.3 Forecasts have been made using a combination of reviewing spend to date and taking into account plans for the remainder of the financial year. At this half-way stage in the financial year, it is anticipated there is likely to be an underspend on staffing (£490k) as the recruitment to newly budgeted positions is underway but ongoing at the end of quarter two. With many meetings still taking place remotely and other events not yet reinstated since lockdown restrictions were lifted, forecasts for transport costs and training and associated accommodation expenses (included in other supplies and services) have been reduced accordingly.

Three months further into the year and with a little more clarity on projects that may not be completed in 2021/22, the forecast for service development expenditure has been revised downwards since the outlook at the end of quarter one.

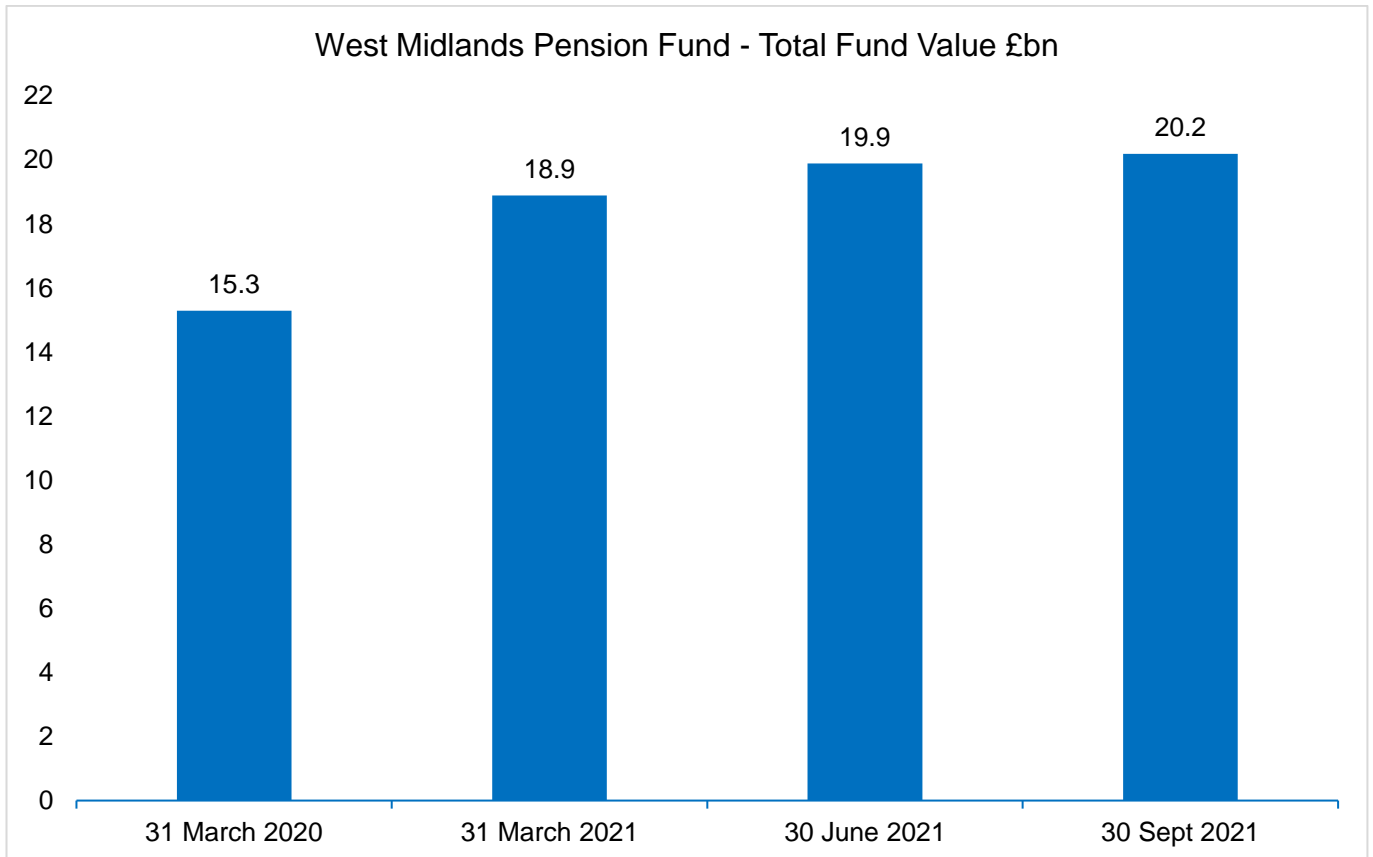
- 2.4 The budget includes allowance for an increase in premises cost for 2021/22 reflecting plans for the Fund to transition to new offices during the year.
- 2.5 Investment management costs are heavily influenced by market movements and investment performance and are therefore expected to fluctuate during the year. The Fund will continue to take a transparent approach to reporting investment management costs, including capture of previously 'hidden' charges and recording of transaction costs associated with turnover within individual portfolios but now increasingly captured in the cost transparency reporting templates, along with performance fees. These are analysed in depth on an annual basis.
  - 2.5.1 By their very nature and given the scale and complexity of the Fund's investment portfolio, these fees deducted at source are difficult to collate and measure on a quarterly basis with sufficient precision from which to draw conclusions and estimates can be misleading. Portfolio changes during the year and asset allocation or strategic changes can also impact on the annual reported costs. Following each year end, the Fund obtains, scrutinises and reconciles cost transparency reports from all its managers as part of its annual Statement of Accounts preparation and audit processes to be able to present the final position to Committee more accurately in its Out-turn 2021/22 reporting and, in context with the results from investment performance benchmarking exercises which the Fund undertakes each year.
- 2.6 Investment costs remain a key consideration throughout the Fund's investment decision making and the Fund continues to review and seek opportunities for cost reduction where these can be achieved on implementation without impacting risk or expected return.
- 2.7 Cost-per-member is used as a measure of pension schemes' cost-effectiveness but does not necessarily reflect the level of service provided to employers or scheme members. 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.
  - 2.7.1 At this time, we are forecasting a slight increase relative to budget for total administration, oversight & governance cost from £35.83 to £36.09 per member. This increase is not driven by forecast costs but derives from the number of members at 30 September 2021 being lower than the membership projected for budget setting purposes.

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	2020/21 Actual	2021/22 Budget	2021/22 Forecast
Total Administration Costs (£000)	6,268	9,266	9,018
Administration Cost per Member (£)	18.70	27.04	27.01
Total Oversight and Governance Costs (£000)	3,133	3,012	3,033
Oversight and Governance Cost per Member (£)	9.35	8.79	9.08
Number of Members	335,101	342,684	333,895
<b>Total Administration, Oversight and Governance cost per Member (£)</b>	<b>28.05</b>	<b>35.83</b>	<b>36.09</b>
Total Investment Management Costs (£000) *	100,850	89,737	89,300
Investment Management Cost per Member (£)	300.95	261.87	267.45
<b>Investment Management Costs as a Percentage of Forecast Net Assets</b>	<b>0.54%</b>	<b>0.46%</b>	<b>0.44%</b>

*\*Total investment management costs include costs of the Fund's internal Investments team. Pending ongoing recruitment to posts in this team, the forecast for internal investment costs 2021/22 is below the amount budgeted at the start of the year.*

- 2.8 The Fund, like all public-sector bodies, remains cost-conscious and keeps its operating costs and procedures under regular review, with annual benchmarking.
- 3.0 Quarterly Accounts – West Midlands Pension Fund**
- 3.1 Appendix A provides a Fund Account for the six months ending 30 September 2021 together with a Net Assets Statement as at that date.
- 3.2 The Net Assets Statement estimates a value for the Fund at 30 September 2021 of £20.2 billion. This is an increase of £1.3 billion (6.8%) from the 31 March 2021 value shown in last year's accounts.



The main reasons for the increase in the value of the Fund for the year so far are market movements and investment performance which have increased valuations of invested assets by £1.4 billion over the period.

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

- Past Service Deficit Contributions for the year have been recognised in full in the first quarter;
- 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 (the combined effect of these two points is that the contributions income shown in the Fund Account is more than one half of the total amount that will be due for the year);
- Management expenses have been estimated 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.

#### 4.0 Financial implications

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

#### 5.0 Legal implications

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

## **6.0 Equalities implications**

6.1 This report has no equalities implications.

## **7.0 Other implications**

7.1 There are no other implications.

## **8.0 Schedule of background papers**

8.1 Budget 2021/22 and Financial Plan to 2025/26, Report to Pensions Committee, 24 March 2021

## **9.0 Schedule of appendices**

9.1 Appendix A: West Midlands Pension Fund Quarterly Accounts to 30 September 2021  
[Budget Monitoring 2021-2022 and Quarterly Accounts 30 June 2021.pdf](#)  
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