

<b>Report title</b>	Budget Monitoring 2021/22 and Quarterly Accounts 31 December 2021	
<b>Originating service</b>	Pension Services	
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## Recommendations for noting:

The Pensions Committee is asked to note:

1. The quarterly accounts for the period ending 31 December 2021 which estimate the value of West Midlands Pension Fund at this date to be £20.8 billion, an increase of £1.9 billion (10%) since 31 March 2021.
2. West Midlands Pension Fund forecast out-turn for the year against operating budgets as at the end of December 2021 is an underspend of £3.0 million.

## 1.0 Purpose

- 1.1 The purpose of this report is to update Pensions Committee on the forecast out-turn against operating budget for 2021/2022 and present the quarterly accounts to 31 December 2021.
- 1.2 The operating budget was approved by the Committee in 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 third quarter:

	Budget 2020/21	Budget 2021/22	Forecast 2021/22	Variance Outturn
	£000	£000	£000	£000
Employees	9,066	9,700	8,233	(1,467)
Premises	300	700	700	-
Transport	38	40	10	(30)
Other Supplies and Services	437	488	448	(40)
Service Development	1,027	1,054	158	(896)
Professional Fees	1,552	1,499	1,427	(72)
Communications and Computing	613	627	594	(33)
Support Services	723	733	733	-
Miscellaneous Income	(595)	(590)	(590)	-
<b>Net Expenditure</b>	<b>13,161</b>	<b>14,251</b>	<b>11,713</b>	<b>(2,538)</b>
External Investment Management Costs	77,970	82,539	82,539	-
LGPS Central Charges	4,949	5,225	4,727	(498)
<b>Total External Investment Costs</b>	<b>82,919</b>	<b>87,764</b>	<b>87,266</b>	<b>(498)</b>
<b>Total</b>	<b>96,080</b>	<b>102,015</b>	<b>98,979</b>	<b>(3,036)</b>

- 2.2 Forecasts have been reviewed and updated at the end of the third quarter, using a combination of reviewing spend to date and taking into account outlook for the remainder of the financial year. Over the most recent quarter employee spend has been reforecast to reflect delays in recruitment and an increase in turnover over the latter part of the year. Service development expenditure has also been reviewed, noting planned change and improvement programmes are ongoing with planning and preparatory work over 2021/22 expected to expand over 2022/23, with associated costs deferred.
- 2.3 As at the end of December 2021, LGPS Central Charges were forecast £0.5 million below the budget set at the start of the year. Over 2021/22 the Fund has continued to

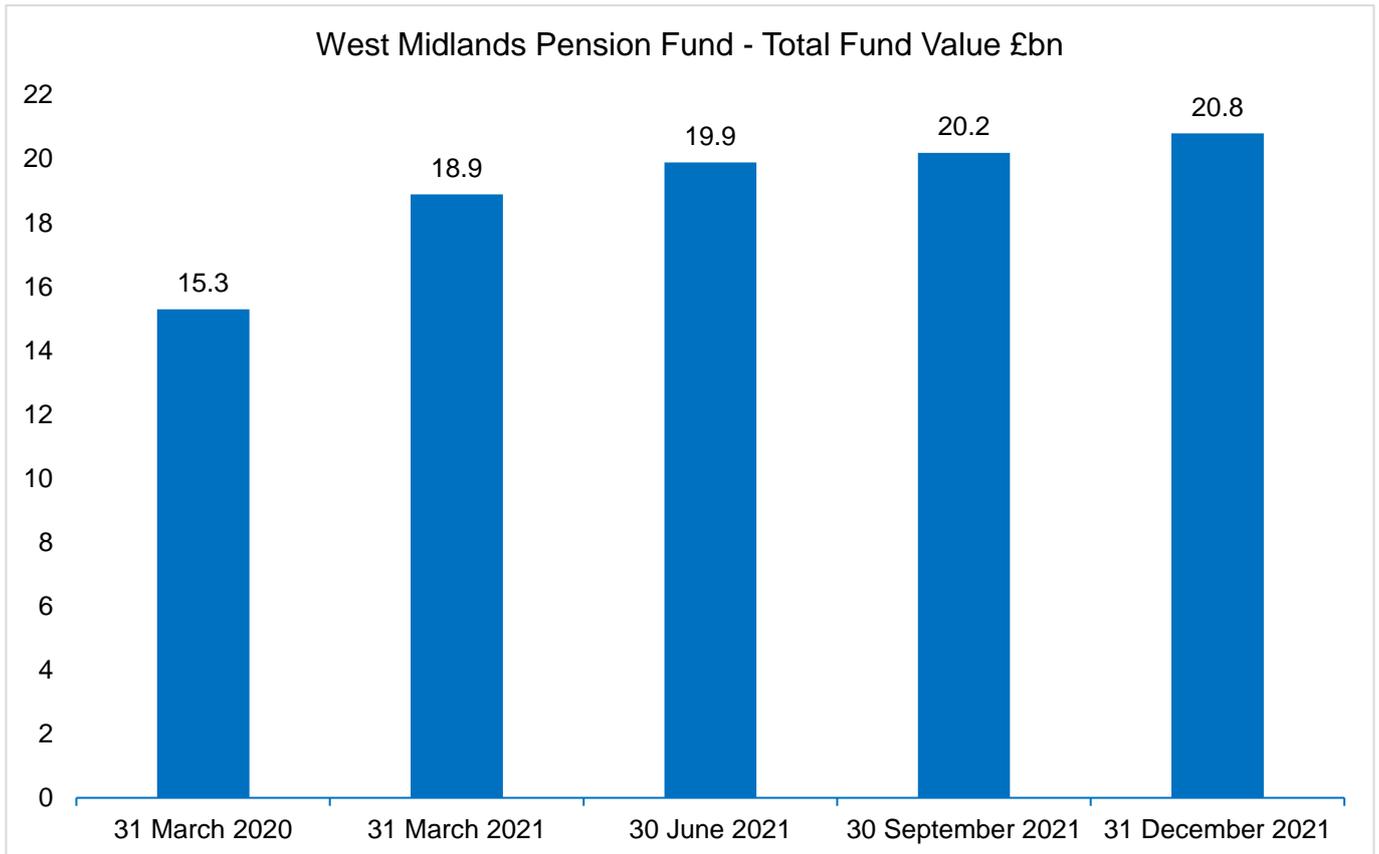
transfer assets to the pool (as reported separately) and increase utilisation of the products and services available through LGPS Central. The reduction in forecast relative to budget is driven by the Company's review and change in the level of mark-up applied to costs on recharge to Partner Funds, as clients of LGPS Central.

- 2.4 Investment management costs are heavily influenced by market movements and investment performance and are therefore expected to fluctuate during the year. Portfolio changes during the year and asset allocation or strategic changes may also impact on the annual reported costs. The Fund continues 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 captured in the cost transparency reporting templates, along with performance fees. Actual costs over 2021/22 are expected to be higher than budgeted and forecast in the table above, based on costs collated and reported for 2020/21 and rising asset values during the year. These are analysed in depth on an annual basis, with reporting on 2021/22 costs to be provided to the Committee alongside the annual Statement of Accounts in June and September 2022.
- 2.5 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 and consequently overall value for money. 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.
- 2.6 At this time, we are forecasting a reduction on expenditure relative to budget for both total administration, oversight & governance cost from £35.83 to £30.21 per member.

	2020/21 Actual	2021/22 Budget	2021/22 Forecast
Total Administration Costs (£000)	6,268	9,266	7,616
Administration Cost per Member (£)	18.70	27.04	22.80
Total Oversight and Governance Costs (£000)	3,133	3,012	2,476
Oversight and Governance Cost per Member (£)	9.35	8.79	7.41
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>30.21</b>
Total Investment Management Costs* (£000)	100,850	89,737	88,881
Investment Management Cost per Member (£)	300.95	261.87	266.19
<b>Investment Management Costs as a Percentage of Net Assets</b>	<b>0.54%</b>	<b>0.46%</b>	<b>0.46%</b>

*\*Total investment management costs include costs of the Fund's internal Investments team.*

- 2.7 The Fund, like all public-sector bodies, continues to be cost-conscious and keeps its operating costs and procedures under regular review.
- 3.0 Quarterly Accounts – West Midlands Pension Fund**
- 3.1 Appendix A provides a Fund Account for the nine months ended December 2021 and a Net Assets Statement as at 31 December 2021.
- 3.2 The Net Assets Statement estimates a value for the Fund at 31 December 2021 of £20.8 billion. This is an increase of £1.9 billion (10%) from the 31 March 2021 value shown in the year end 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 £2.2 billion over the third quarters year to date.

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; and
- 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 direct equalities implications.

**7.0 Other potential implications**

7.1 This report has no other potential implications.

**8.0 Schedule of background papers**

8.1 None.

**9.0 Schedule of appendices**

9.1 Appendix A – West Midlands Pension Fund Quarterly Accounts 31 December 2021