

# Pensions Committee

## 29 June 2022

**Report title** Statement of Accounts 2021 -2022

**Originating service** Pension Services

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### Recommendations for decision:

The Pensions Committee is recommended to approve:

1. The draft Statements of Accounts for the year ending 31 March 2022.
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 2021-2022 Annual Report following approval of the draft by Pensions Committee in September 2022 and ahead of the Local Government Pension Scheme (LGPS) Regulatory requirement to publish the Fund Annual Report and Accounts by 1 December.

### Recommendations for action:

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.
3. Grant Thornton's Audit Plan for 2021/22 external audit of the Pension Fund.

4. The publication of draft Accounts and Audit (Amendment) Regulations 2022 in May 2022, which proposes to extend the deadline for publishing local authority accounts for 2021/22 from 30 September to 30 November 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 2022 together with delegations to finalise and enable publication of the Statement of Accounts and Annual Report following Committee approval of the draft in September 2022, subject to completion of the external audit.

## **2.0 Background**

- 2.1 LGPS funds are required by law to produce an Annual Statement of Accounts. These form part of the wider Administering Local Authority's accounts and are subject to Local Government Accounts and Audit regulations and publication deadlines. They are also included in the LGPS Fund's own Annual Report and Accounts for audit and publication by 1 December each year.
- 2.2 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 2021/22' (Chartered Institute of Public Finance & Accountancy (CIPFA)) ('the Code').
- 2.3 In line with the above, as well as being published in the Fund's own Annual Report, the West Midlands Pension Fund accounts are included in the Statement of Accounts of the the City of Wolverhampton Council. In line with the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the transactions and balances of the Fund are completely separate and not combined with those of the Administering Authority. Monies held by the Fund are for the purposes of the pension fund only.
- 2.4 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 Amendments to the Account and Audit Regulations 2015 and Audit Plan**

- 3.1 In March 2021, an Amendment to the Local Authority Accounts and Audit Regulations was made to relax and extend the timescales for the Local Authorities to publish their accounts for financial years beginning in 2020 and 2021 from 31 July to 30 September.

- 3.2 In May 2022, a consultation and draft Statutory Instrument (SI) was issued by the Department of Levelling-Up Housing and Communities (DLUHC) to further amend regulations to extend the publication date for 2021/22 from 30 September to 30 November, reverting to 30 September for the six years to 2027/28. This was part of a package of measures to support the improved timeliness of local audit.
- 3.3 We currently await the response and outcome of the consultation but note that this has the potential to impact on the timeliness of the external audit and finalisation of both the Council and Pension Fund Annual Report and Statement of Accounts. Attached as Appendix A to this report is Grant Thornton's updated Audit Plan and representatives will attend the Committee to draw highlights from this for noting, as audit work commences.

#### **4.0 Draft Statement of Accounts 2021/22**

- 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 £1.4bn over the year due to gains in the value of investment assets (£1.8bn) offset by benefits and expenditure in excess of contribution income (£0.4bn) during the financial year.
- 4.3 Overall, during 2021/22, investment markets continued to make steady gains and contribution receipts were lower than the prior year as a result of advance payments received from employers during 2020/21. Cash receipts for advance contribution payments were fully recognised in the 2020/21 Statement of Accounts.
- 4.4 Net assets of the Fund at 31 March 2022 stood at £20.3bn, up from £18.9bn at 31 March 2021. This comprises investment assets of £20.1bn, an insurance contract valued at £174m and working balances of £26m.
- 4.5 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 International Accounting Standard Nineteen (IAS 19) basis, stood at £28.4bn at 31 March 2022. This is a decrease on the 31 March 2021 figure of £29.9bn due to adjustments to the actuarial assumptions.
- 4.6 The draft Statement of Accounts for the West Midlands Pension Fund is attached at Appendix B and has now been passed across to the external auditors.

## 5.0 Investment Management Expenses 2021/22

- 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. Total investment management expenses reported in the draft accounts for 2021/22 are £107 million, compared to £101 million reported for 2020/21.
- 5.2 The Fund continues to take a transparent approach with investment management costs using industry-wide cost capture templates to obtain even higher levels of cost transparency from the investment managers, most notably in the recording of performance fees and transaction costs associated with turnover within individual portfolios. The following table summarises the breakdown of the total investment management expenses noted above:

	<b>Actual 2020/21 £m</b>	<b>Actual 2021/22 £m</b>
External Investment Management Costs – Invoiced	14.5	14.5
External Investment Management Costs – Deducted at Source	81.2	87.6
External Investment Management Costs – LGPS Central	4.7	4.4
<b>Total External Investment Management Costs</b>	<b>100.4</b>	<b>106.5</b>
Custody Fees	0.4	0.2
<b>Total Investment Management Expenses</b>	<b>100.8</b>	<b>106.7</b>

- 5.3 Based on cost collection and analysis to mid-June, the investment management costs deducted at source can be broken down further, and included within Note 13 to the draft accounts is the split between management fees, performance fees and transaction costs.
- 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 draft 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 The challenges of cost data collection and comparison were highlighted in research by the Cost Transparency Initiative (CTI) published by the Pensions and Lifetimes Savings Association (PLSA) in May 2021 – coverage, consistency and accuracy continue 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 and the Fund has seen an increase in returns from its managers for the 2021/22 year end.

## **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 (together with any subsequent Amendments). 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 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 Perceptions of the CTI Framework – research published by the PLSA in May 2021  
[CTI-Perceptions-Report-May-2021.pdf \(plsa.co.uk\)](https://www.plsa.co.uk/CTI-Perceptions-Report-May-2021.pdf)

## **11.0 Schedule of Appendices**

- 11.1 Appendix A – Grant Thornton's Audit Plan for the external audit of the West Midlands Pension Fund Statement of Accounts for the year ending 31 March 2022
- 11.2 Appendix B – West Midlands Pension Fund Statement of Accounts for the year ending 31 March 2022