

Pensions Committee

29 June 2022

Report title	Budget Monitoring / Quarterly Accounts 31 March 2022	
Originating service	Pension Services	
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Recommendation for noting:

The Pensions Committee is asked to note:

1. West Midlands Pension Fund outturn for the year against operating budgets at the end of March 2022. This reflects and incorporates reported investment management fees deducted at source (as collected as part of the 2021/22 the cost transparency initiative). Net expenditure excluding investment management costs is an outturn of £10.995 million against operating budget of £14.251million budget for 2021/22.

1.0 Purpose

- 1.1 The purpose of this report is to update Pensions Committee on the outturn for the year against operating budgets as at the end of March 2022.
- 1.2 The operating budget for the year to 31 March 2022 was approved by the Committee in March 2021.

2.0 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 financial year 2021/22:

	Budget 2022/23	Budget 2021/22	Outturn 2021/22	Variance Outturn
	£000	£000	£000	£000
Employees	10,425	9,700	7,859	(1,841)
Premises	698	700	474	(226)
Transport	25	40	2	(38)
Other Supplies and Services	411	488	366	(122)
Service Development	1,412	1,054	423	(631)
Professional Fees	1,764	1,499	1,170	(329)
Communications and Computing	780	627	561	(66)
Support Services	774	733	697	(36)
Miscellaneous Income	(600)	(590)	(557)	33
Net Expenditure	15,689	14,251	10,995	(3,256)
External Investment Management Costs	95,397	82,539	102,402	19,863
LGPS Central Charges	4,768	5,225	4,356	(869)
Total External Investment Costs	100,165	87,764	106,758	18,994
Total	115,854	102,015	117,753	15,738

- 2.2 Budget monitoring reports to Committee during the year anticipated an underspend in employee spend and service development as a result of delays in recruitment and deferral on planned project work to 2022/23. Service development expenditure during the year included investment in Fund Audio Visual equipment to support delivery of hybrid meetings and service delivery through webinars and digital events.
- 2.3 Professional fees include the services received from the Scheme Actuary, Auditor, legal, covenant, risk and investment advisers. Where services are obtained on behalf of Fund employers (for example for employer accounting disclosures) these are recharged to employers and the Fund receives income.

- 2.4 Support services are amounts payable to the City of Wolverhampton Council for agreed services including IT equipment and support, procurement, internal audit, HR, payroll, Agresso business support and democratic services.
- 2.5 Local Government Pension Scheme (LGPS) Central Charges represent the Fund's share of the cost of running and services received from the investment pool operating company. These include governance, operational and investment management costs. As previously reported to the Committee, the out-turn is below budget for the year primarily as a result of 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.
- 2.6 Investment management costs are heavily influenced by changing asset values (market movements and investment performance) and are therefore expected to fluctuate year-on-year and will also change over time as the Fund's Strategic Asset Allocation evolves. 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 industry-standard cost transparency reporting templates.
- 2.7 As previously reported to the Committee, reported costs have increased as Fund asset values continue to grow and more of the Fund's investment managers have returned completed investment cost reporting templates. Reported costs were expected to exceed the budget set for in 2021/22 (in March 2021), following completion of the 2021 annual cost collection and review exercise (summer 2021), following which total investment management expenses reported for 2020/21 were £100.8 million, reflecting both increasing asset values and higher levels of reporting of performance fees in private market assets. Investment costs are analysed in depth on an annual basis, with further reporting on 2021/22 costs provided to the Committee alongside the annual Statement of Accounts in June and September 2022.
- 2.8 Investment costs remain a key consideration throughout the Fund's investment decision making and Officers continue to review and seek opportunities for efficient and effective implementation of investment strategy, with annual benchmarking of value add relative to implementation cost. Investment management costs as a percentage of Net Assets over 2021/22, remains broadly in line with the prior year.
- 2.9 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 cost-per-member compared to budget using the three standard headings specified by Chartered Institute of Public Finance & Accountancy (CIPFA); administration; oversight; and governance and investment management costs.
- 2.10 The out-turn shows a reduction on expenditure relative to budget for both total administration, oversight & governance cost from £35.83 to £32.47 per member.

	2020/21 Actual	2021/22 Budget	2021/22 Outturn
Total Administration Costs (£000)	6,268	9,266	7,205
Administration Cost per Member (£)	18.70	27.04	21.28
Total Oversight and Governance Costs (£000)	3,133	3,012	3,790
Oversight and Governance Cost per Member (£)	9.35	8.79	11.19
Number of Members	335,101	342,684	338,591
Total Administration, Oversight and Governance cost per Member (£)	28.05	35.83	32.47
Total Investment Management Costs* (£000)	100,850	89,737	106,758
Investment Management Cost per Member (£)	300.95	261.87	315.302
Investment Management Costs as a Percentage of Net Assets	0.54%	0.46%	0.53%

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

- 2.11 The Fund, like all public-sector bodies, continues to be cost-conscious and keeps its operating costs and procedures under regular review. Annual independent benchmarking of costs and added value is undertaken and reported to the Committee each year.

3.0 Financial Implications

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

4.0 Legal Implications

- 4.1 This report contains no direct legal implications for the authority.

5.0 Equalities Implications

- 5.1 This report has no direct equalities implications.

6.0 Other Potential Implications

- 6.1 This report has no other potential implications.

7.0 Schedule of Background Papers

7.1 None.

8.0 Schedule of Appendices

8.1 None.