

Pensions Committee

21 September 2022

Report title	Budget Monitoring 2022/23 and Quarterly Accounts 30 June 2022	
Originating service	Pension Services	
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Recommendations for noting:

The Committee is asked to note:

1. The value of the net assets of the West Midlands Pension Fund (WMPF) at the end of quarter ended 30 June 2022 was £19.4bn.
2. As at the end of June 2022, WMPF forecasts an overspend of £4.5m at yearend attributable to £5.3m forecast overspend on investment management expenses offset by £0.8m forecast underspend on employee costs.

1.0 Purpose

- 1.1 The purpose of this report is to update Pensions Committee on the yearend forecast at the end of quarter ended 30 June 2022 and to provide an update on the value of the net assets of the WMPF at the end of quarter ended 30 June 2022.
- 1.2 The operating budget for the year to 31 March 2023 was approved by Committee on 30 March 2022.

2.0 Forecast Out-Turn Against Operating Budget 2022/23

- 2.1 The following table sets out the forecast at the end of the first quarter 30 June 2022 compared with the Fund's operating budget:

	Actual 2021/22	Budget 2022/23	Forecast 2022/23	Variance Out-Turn
	£000	£000	£000	£000
Employees	7,859	10,426	9,589	(837)
Premises	474	569	664	95
Transport	2	25	27	2
Other Supplies and Services	366	589	589	-
Service Development	423	1,412	1,358	(54)
Professional Fees	1,170	1,559	1,604	46
Communications and Computing	561	770	781	11
Support Services	697	754	661	(93)
Miscellaneous Income	(557)	(580)	(580)	-
Net Expenditure	10,995	15,524	14,693	(832)
External Investment Management Costs	102,402	87,115	92,400	5,285
LGPS Central Charges	4,356	4,768	4,798	30
Total External Investment Costs	106,758	91,883	97,198	5,315
Total	117,753	107,407	111,891	4,484

- 2.2 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 early stage, it is anticipated there is likely to be an underspend on staffing (£837k) as the recruitment to newly budgeted positions are ongoing but taking longer than usual due to low level of unemployment across the country and relative difficulties with recruitment.
- 2.3 Forecast for investment management expenses is anticipated to be an overspend of £5.3m. 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 recognition of previously 'hidden' charges and recording of transaction

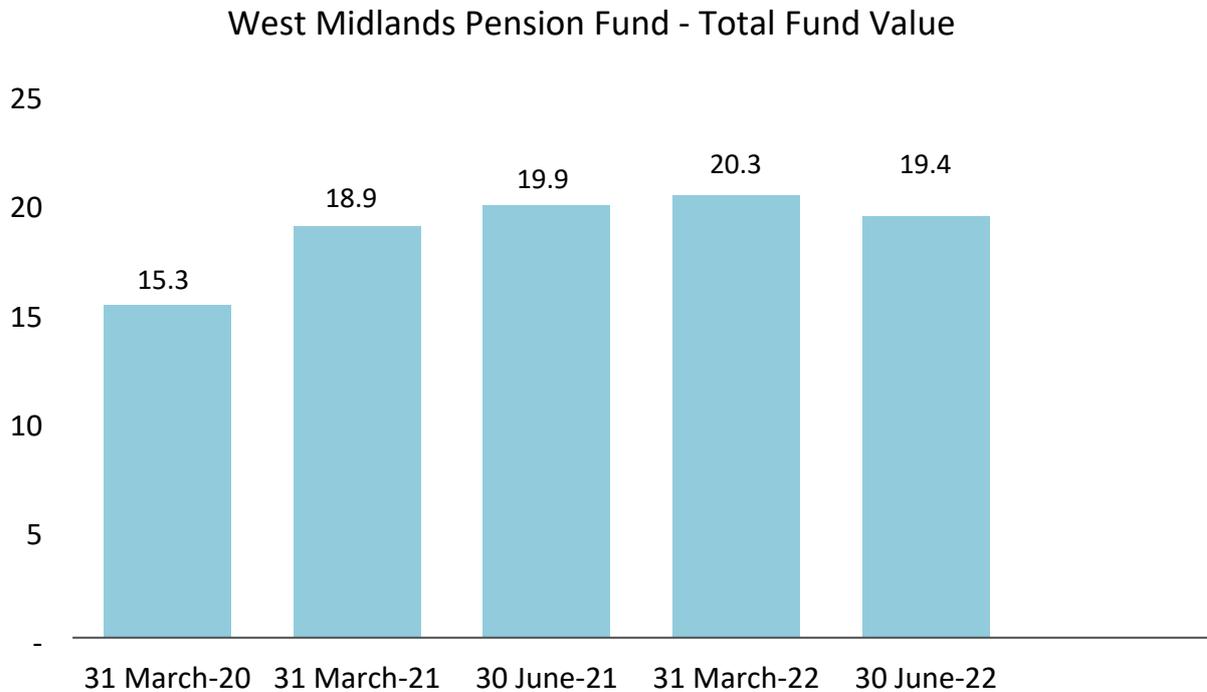
costs associated with turnover within individual portfolios but now increasingly captured in the cost transparency initiatives being commissioned through an external benchmarking company. These are analysed in depth on an annual basis.

- 2.4 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 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 2022/23 reporting and, in context with the results from investment performance benchmarking exercises which the Fund undertakes each year.
- 2.5 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.

3.0 Net Assets – West Midlands Pension Fund

- 3.1 The chart below provides a summary of the Net Assets Statement.

3.2 The Net Assets Statement estimates a value of £19.4bn for the Fund as at 30 June 2022 (£20.3bn at 31 March 2022). This represents a 4.8% decrease since 31 March 2022 and is largely attributable to the movement in equity market during the same period, which saw the Financial Times Stock Exchange (FTSE 100) index decrease by 4.6%.



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

This report is PUBLIC

8.1 Budget 2022/23 and Financial Plan to 2025/26, Report to Pensions Committee, 24 March 2021

9.0 Schedule of Appendices

9.1 None