

Pensions Committee

14 December 2022

Report title	Budget Monitoring 2022/23 and Quarterly Accounts to 30 September 2022	
Originating service	Pension Services	
Accountable employee	Chris Manning Email	Head of Finance christopher.manning@wolverhampton.gov.uk
Report to be/has been considered by	Rachel Brothwood Tel Email	Executive Director of Pensions 01902 551715 rachel.brothwood@wolverhampton.gov.uk

Recommendations for noting:

The Pensions Committee is asked to note:

1. The value of the net assets of the West Midlands Pension Fund at the end of quarter ended 30 September 2022 was £19.0 billion.
2. As at the 30 September 2022, West Midlands Pension Fund forecasts an underspend of £6.3m at year end attributable to £5.7m forecast underspend on investment management expenses offset by £0.6m forecast underspend on operational costs, primarily related to lower employee costs.

1.0 Purpose

- 1.1 The purpose of this report is to update Pensions Committee on the year end forecast at the end of the quarter (six months) ended 30 September 2022 and provide an update on the value of the net assets of the West Midlands Pension Fund at the end of the same quarter.
- 1.2 The operating budget for the year to 31 March 2023 was approved by Committee on 31 March 2022.

2.0 Forecast Out-turn against Operating Budget 2022/23

- 2.1 The following table sets out the year end forecast as at the end of the second quarter, 30 September 2022, compared with the Fund's full year operating budget:

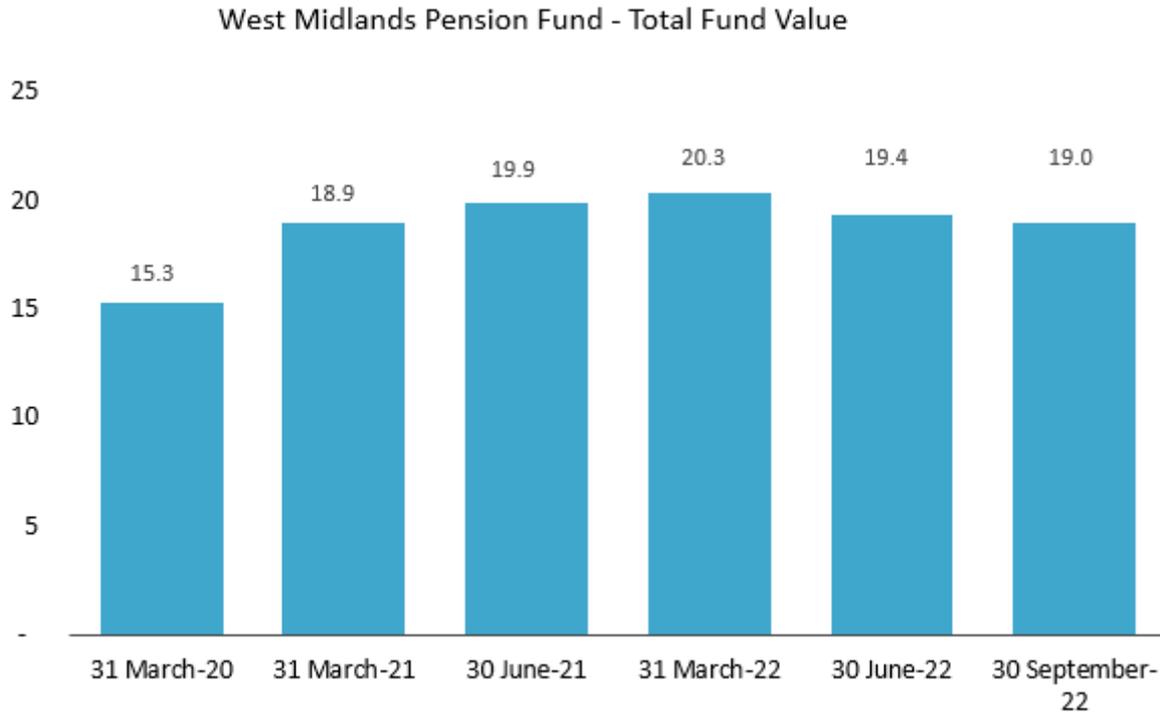
	Actual 2021/22	Budget 2022/23	Forecast 2022/23	Variance Out-turn
	£000	£000	£000	£000
Employees	7,859	10,426	9,460	(966)
Premises	474	698	793	95
Transport	2	25	28	3
Other Supplies and Services	366	411	398	(13)
Service Development	423	1,412	1,396	(16)
Professional Fees	1,170	1,764	2,115	351
Communications and Computing	561	780	829	49
Support Services	697	773	686	(87)
Miscellaneous Income	(557)	(600)	(599)	1
Net Expenditure	10,995	15,689	15,106	(583)
External Investment Management Costs	102,402	95,397	89,738	(5,659)
LGPS Central Charges	4,356	4,768	4,723	(45)
Total External Investment Costs	106,758	100,165	94,461	(5,704)
Total	117,753	115,854	109,567	(6,287)

- 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 midway stage, it is anticipated there is likely to be an underspend on employees (£966,000) as the recruitment to newly budgeted positions are ongoing but taking longer than usual due to low level of unemployment across the country and the specialist nature of many of the roles within the Fund. These external factors are affecting the Funds ability to recruit as part of the normal turnover of employees, creating further in year vacancies, which are also contributing to the underspend.

- 2.3 The overall underspend is partially offset by increases in premises costs. These relate to some uncertainty over the costs of the new premises at the time of setting the budget alongside the increased utility costs impacting nationally. There is also a provision within the forecast for final costs relating to the relocation of the fund operations. The premises forecast is presented as a worst-case value at this time and improvements are anticipated through the remainder of the year.
- 2.4 Similarly the forecast increase in professional fees further offset the forecast underspend in employees. The majority of the increase in forecast relates to an addition to the scope of work carried out relating to funding and investment strategy review. This is in response to unforeseen changes and events during the year requiring additional in-depth review of the Fund's approach and response.
- 2.5 The forecast for investment management expenses is anticipated to be an underspend of £5.7m. 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 with in-year forecasts being revised in light of the changes in value, and nature of Assets under Management and new information as it is received.
- 2.6 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. This information will in turn be used to refine the forecasting mechanisms during the 2023/24 year.
- 2.7 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 £19.0 billion for the Fund at 30 September 2022 (£20.3 billion at 31 March 2022). This represents a 6.6% decrease since 31 March 2022 and is largely attributable to the movement in equity markets during the same period which saw FTSE 100 index decrease by 8.3%.



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 2022/23 and Financial Plan to 2026/27, Report to Pensions Committee, 30 March 2022.

9.0 Schedule of appendices

9.1 None.