



West Midlands Pension Fund

Practical Considerations in Preparing the Accounts

David Kane
Head of Finance

Background

- New guidance introduced in 2014
- Desire for consistent, comparable data across funds
- New categorisation of management costs
- Full disclosure of investment management costs, including non-invoiced, transaction costs and underlying fees

West Midlands Pension Fund



- 473 employers
- 277,558 members
- £11.4 billion investment assets
- Mix of internal and external management
- 164 external fund managers, managing 295 funds

(All figures 2014/15)

Classification of Costs (1)

- Increase in number of reporting categories from two (Administration/Investment) to three (Administration/Investment/Oversight and Governance)
- Changes required:
 - Apportionment of 'corporate' costs
 - Stripping out certain professional fees
 - Allocating resulting adjusted cost centres to the three headings

Classification of Costs (2)

- Costs directly attributable to four teams:
 - Administration
 - Governance
 - Finance
 - Investments
- Plus apportionments for:
 - Premises costs (floor space)
 - IT costs (FTE staff)
 - Support services from council (FTE staff)

Classification of Costs (3)

- Other adjustments:
 - Investment strategy and oversight – to Oversight and Governance
 - Settlements – to Investments
 - Scheme communications – to Administration
 - Professional fees – to Oversight and Governance
 - Investment advice, tax advice, legal fees, actuarial fees, internal and external audit

Impact

Heading	2013/14 Original £000	2013/14 Re-stated * £000
Administration	4,518	3,153
Investment	11,477	10,816
Oversight and Governance	-	2,026
TOTAL	15,995	15,995

* Before adjustment for non-invoiced investment fees

- Cost of 'Administration' significantly reduced
- Internally, moved to monitoring 'cost of Administration and Oversight and Governance'

Investment Management Costs: Our Approach (1)

- Welcomed the drive for enhanced transparency and completeness
- Supported work already underway internally
- Wanted to comply with the new guidance in full
- Implemented from 2014/15
- Prior to this, disclosed the cost of invoiced fees only (2013/14: £11.0 million, including internal)

Investment Management Costs: Our Approach (2)

- Already collected high-level data around fee structures
- Supplemented this by surveying fund managers directly, requesting:
 - Management costs
 - Performance costs
 - Transaction costs
 - Any other costs
- Provided selected quotes from CIPFA guidance to assist

Investment Management Costs: Our Approach (3)

- Seek to recognise costs for all external funds
- Realistic about prospects of capturing absolutely everything first time: materially correct
- Early discussions with auditors and Committee members
- Measurement based on:
 - invoiced costs
 - costs reported by manager
 - our own estimate

Investment Management Costs: Survey Results

- Partial data from fund manager returns
- Overlaid this on existing data
- Cross-checking, reasonableness

Issues

- Confusion around transaction costs and expenses
- Timing of performance fees charged/accrued
- Returned fees for whole fund
- Returned cumulative fees
- Currency
- Chasing and checking
- Fourth quarter - estimate

Outcome



Heading	2014/15 Pre-Code £000	2014/15 Code £000
Administration	4,287	3,059
Investment	11,512	81,235
Oversight and Governance	-	2,132
TOTAL	15,799	86,426

- Total increase in reported costs of £70.6 million

Adjustments to the Accounts

- Adjust Fund Account:
 - Debit Management Costs
 - Credit Changes in Market Value of Investments
- Also need to adjust note “Reconciliation of Movement in Investments”
 - Increase Sales During the Year to match increase in Changes in Market Value
- Separate disclosure of transaction costs and performance fees
- Re-state prior year

Developments in 2015/16

- Spreadsheet template developed and circulated to all external managers
- Quarterly reporting required
- Monitoring of position in-year
- More on transaction costs
- Building up picture in stages

Questions

