

## Report of the Director, West Yorkshire Pension Fund, to the meeting of Joint Advisory Group to be held on 31 January 2019.

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**Subject: WYPF 2018/19 revised estimates and 2019/20 original estimates.**

### **Summary statement:**

The latest spend forecast for 2018/19 is £12.96m against a revised budget of £13.64m, an underspend of £0.67m. The underspend is mainly due to significant savings of £0.65m on investment transaction costs, our chief investment officers have negotiated substantial savings on costs of buying and selling assets, the balance of £0.02m net under spend on printing & stationery (cost of communication with members) and other service areas.

For the financial year 2019/20 we have carried out a zero base cost analysis of services and a gross base budget of £14.63m is required to fund current activities including inflation, cost of new structure and cost of providing services to new shared cost service clients. The 2019/20 budget also include a number of service investments (mainly IT) that will result in future savings. The total budget of £14.63m will be funded by charging £2.41m to other organisations and £12.22m to WYPF pension account.

Based on the latest data published by Government (MHCLG) on local government pension schemes (LGPS) our total pension cost per member for 2017/18 is £36.45. WYPF has the lowest LGPS cost for 2017/18, the 2<sup>nd</sup> lowest cost is Nottinghamshire with a total cost per member of £55.58, £19.13 more than WYPF. The proposed revised budget for 2018/19 and the original budget for 2018/19 would allow us to invest for future savings and ensure that we retain our top performance on costs within the sector. Our estimated cost per member for 2018/19 is £36.86 and 2019/20 is £41.85.

### **Recommendation:**

1. That the projected outturn of £12.96m against a revised estimate of £13.64m is noted for 2018/19.
2. That the original estimate of £14.63m be approved for 2019/20.
3. That the total pension cost per member of £36.45 for 2017/18 making WYPF the lowest cost LGPS scheme for 2017/18 be noted.

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**Portfolio:**

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**Overview & Scrutiny Area:**

## SUMMARY

In accordance with Local Government Pension Scheme Regulations, costs of managing LGPS pension funds must be charged to pension fund accounts and not to local authorities' general fund accounts. The cost of services reported in this report will be charged to WYPF accounts. The budget proposals in this report will deliver pension administration services to over 428,000 (402,000 for 2018/19) pension scheme members, made up of 302,000 WYPF and 126,000 shared service partner members. We support over 800 active employers. The same resource will be used to manage over £14 billion WYPF investment assets. The number in our pension shared cost service increased from 7 to 16 in October 2018, with more expected to join in 2019/20.

### 1. BACKGROUND

#### 2018/19 Revised Estimate

- 1.1 A revised estimate of £13.64m was approved at the special meeting on 1 November 2018. The latest expenditure forecast for 2018/19 is £12.96m, resulting in underspend of £0.67m. This is due to significant cost savings of £0.67m delivered by renegotiation of investment transaction costs.

TABLE 1:	2017/18	2018/19			2019/20	
TOTAL WYPF MANAGEMENT COSTS	Outturn	Revised Estimates	Latest Forecast	Var (Rvsd Est 2018/19 less Forecast 2018/19)	Original Estimate	Var (Org Est 2019/20 less Rvsd Est 2018/19)
	£	£	£	£	£	£
WYPF PENSIONS ADMINISTRATION	3,991,772	4,372,300	4,056,020	-316,280	4,605,980	233,680
WYPF INVESTMENTS MANAGEMENT	5,820,485	6,462,000	5,644,960	-817,040	6,712,540	250,540
WYPF OVERSIGHT & GOVERNANCE	547,037	691,850	855,410	163,560	905,410	213,560
<b>CHARGED TO WYPF FUND ACCOUNT</b>	<b>10,359,294</b>	<b>11,526,150</b>	<b>10,556,390</b>	<b>-969,760</b>	<b>12,223,930</b>	<b>697,780</b>
<b>CHARGED TO SHARED SERVICES</b>	<b>1,365,931</b>	<b>1,985,000</b>	<b>2,190,890</b>	<b>205,890</b>	<b>2,190,890</b>	<b>205,890</b>
<b>MISCELLANEOUS CHARGES</b>	<b>281,482</b>	<b>125,000</b>	<b>217,700</b>	<b>92,700</b>	<b>217,700</b>	<b>92,700</b>
<b>TOTAL COSTS</b>	<b>12,006,707</b>	<b>13,636,150</b>	<b>12,964,980</b>	<b>-671,170</b>	<b>14,632,520</b>	<b>996,370</b>

- 1.2 The total cost of managing Pension Administration Shared Cost Service, WYPF Investment Management and WYPF Oversight and Governance cost is paid for by a charge to WYPF Fund Account and recharges to our service partners Lincolnshire Pension Fund, Hounslow Pension Fund, and Fire & Rescue services. Shared cost

service income is estimated to be £2.41m in 2018/19 and to be the same, £2.41m, in 2019/20.

- 1.3 We buy a number of services from CBMDC and these are benefiting from service efficiency drives from CBMDC. Cost for 2018/19 is estimated to be £0.41m, and we are using the same estimate for 2019/20. In return we provide treasury support to CBMDC and for this we charge a small fee of £0.03m.
- 1.4 The budget estimates in Table 1 were prepared using cost forecasts and calculations to project the likely outturn for both 2018/19 and 2019/20. The forecast for 2018/19 is based on current staffing costs, career progressions and other pay adjustments. Other costs are based on detailed cost of services, contract prices and projected efficiency savings.

### **2019/20 Original Estimate**

- 1.5 The proposed budget of £14.63m for 2019/20 was compiled using a zero base budget approach. Comparing this to the 2018/19 revised budget of £13.64m shows an increase of £0.99m. This increase is the impact of the new service structure for WYPF and increased provision of shared cost service to clients. Price inflation will be funded from efficiencies and savings.
- 1.6 The budget review for 2019/20 is focused on growing pension administration shared service, investment pooling, increase service capacity, improved quality, strengthened regulatory compliance and improved data governance. These areas continue to have increased regulatory compliance monitoring and will continue to be heavily regulated by government and as such our activities are geared to maintain and improve performance on regulatory compliance. We are working with our external auditor Mazars to achieve ISAE 2402 assurance for our Pension Administration Shared Cost Service.

### **Shared service cost per member**

- 1.7 The projected shared service pension administration cost per member for 2018/19 is £14.58. This figure will be adjusted for actual cost in May 2019, before we close our accounts and the adjusted figure will be used to charge our shared cost service partners for 2018/19.
- 1.8 Our performance target on shared service costs per member for pension administration shared service is £17.00. The original estimate for 2018/19 will give us a projected shared service cost per member of £15.87 for 2019/20, this cost gives us a headroom of £1.13 for 2019/20.

## Relative cost of service

- 1.9 Our performance within LGPS using comparative data for local government pension schemes collected by DCLG is shown below. The data shows that for 2017/18 WYPF total cost of £36.45 is the lowest total cost within LGPS funds in England and Wales. Whilst the average cost for all funds has gone up from £186.75 to £205.25 between 2016/17 and 2017/18 to £205.25, our cost has gone down by £1.58 from £38.03 to £36.45.

TABLE 2: Total number of funds 89	Cost per scheme member					
	WYPF				All Local authority Pension Funds	
	2017/18		2016/17		2017/18	2016/17
	Rank	Cost per Member	Rank	Cost per Member	Cost per Member	Cost per Member
Pensions Administration	7th	£14.05	7th	£14.35	£20.85	£20.73
Investment Management	1st	£20.48	1st	£20.58	£175.44	£155.06
Oversight & Governance	5th	£1.92	9th	£3.10	£8.96	£10.96
<b>Total</b>	<b>1st</b>	<b>£36.45</b>	<b>1st</b>	<b>£38.03</b>	<b>£205.25</b>	<b>£186.75</b>

- 1.10 Table 3 below shows the 2<sup>nd</sup> placed LGPS funds for 2016/17 and 2017/18. In each financial year the gap between WYPF total cost per member and Nottinghamshire the 2<sup>nd</sup> placed pension fund total cost per member is over £15. In 2016/17 there is a cost gap of £15.07 and in 2017/18 has gone up to £19.13. For the past two years the position for 2<sup>nd</sup> has been held by Nottinghamshire, with East Riding in 3<sup>rd</sup> place.

TABLE 3:	Cost per scheme members for 2 <sup>nd</sup> best LGPS funds 2017/18 and 2016/17							
	Total		Pension Administration		Investments		Oversight	
Nottinghamshire Pension Fund	2017/18		2017/18		2017/18		2017/18	
		2nd	£55.58	10th	£14.80	3rd	£37.09	13th
Nottinghamshire Pension Fund	2016/17		2016/17		2016/17		2016/17	
	2nd	£53.10	6th	£13.13	3rd	£33.76	19th	£6.21

## Summary revenue account 2018/19 and 2019/20

- 1.11 Table 4 below provides a summary of the combined Pensions Administration and Investment Management budgets by type of spend, showing variances against the revised estimate for 2018/19 and original estimate for 2019/20.

TABLE 4:	2017/18	2018/19			2019/20	
TOTAL WYPF MANAGEMENT COSTS	Outturn	Revised Estimates	Latest Forecast	Var (Rvsd Est 2018/19 less Forecast 2018/19)	Original Estimate	Var (Org Est 2019/20 less Rvsd Est 2018/19)
<u>Expenditure</u>	£	£	£	£	£	£
Accommodation	299,881	293,200	£291,060	-2,140	£291,060	-2,140
Actuarial Costs	78,325	100,000	£150,000	50,000	£200,000	100,000
Computer Costs	719,604	754,000	£821,000	67,000	£762,970	8,970
Employee Costs	6,234,752	8,233,200	£7,993,960	-239,240	£9,494,290	1,261,090
Recharges from Bradford	421,866	410,100	£411,670	1,570	£411,670	1,570
Other Running Costs	3,847,417	3,396,200	£2,747,290	-648,910	£2,872,220	-523,980
Printing and Postage	407,863	449,400	£550,000	100,600	£600,310	150,910
<b>CHARGED TO WYPF FUND ACCOUNT</b>	<b>12,009,708</b>	<b>13,636,100</b>	<b>12,964,980</b>	<b>-671,120</b>	<b>14,632,520</b>	<b>996,420</b>
<u>Paid for</u>						
WYPF	-10,362,295	-11,526,100	-10,556,390	969,710	-12,223,930	-697,830
Shared Cost Service Partners	-1,365,931	-1,985,000	-2,190,890	-205,890	-2,190,890	-205,890
Other Clients	-281,482	-125,000	-217,700	-92,700	-217,700	-92,700
<b>TOTAL COSTS</b>	<b>-12,009,708</b>	<b>-13,636,100</b>	<b>-12,964,980</b>	<b>671,120</b>	<b>-14,632,520</b>	<b>-996,420</b>

### Accommodation

Small underspend of £2k projected for Aldermanbury House. £291k spend is projected for 2018/19 and 2019/20.

### Actuarial costs

Projected to spend £150k for 2018/19, overspend by £50k on revised budget of £100k, due to increased actuarial work. For 2019/20 increased budget of £200k is provided for triennial valuation to be conducted in that financial year.

**Computer costs**

£67k overspend in 2018/19 is due to increased investment in IT facilities. A new contract is now in place with Civica, based on development and collaboration. The cost of the contract is fixed for the next 7 years, with freedom to use 100% of new modules developed by Civica and penalties should Civica fail to deliver improvements. Comparing the cost of the old contract to the new contract we make a saving of £100k on the old contract, however we are paying £250k extra over the seven year to allow full access to all Civica existing and future modules.

**Employee costs**

Underspend of £239k in 2018/19 is due to staff vacancies. For 2019/20 increased budget provision is the result of new structure, to address capacity for new pension administration shared service contracts. Whilst, we have projected on best information for both 2018/19 and 2019/20 outturns, this is subject to the outcome WYPF new structure review by AON.

**Recharges from Bradford**

This charge covers Bradford ICT, Legal Services, Internal Audit, Corporate Services and Central Mailroom. A small £2k overspend is projected the same estimate is used for 2018/19 and 2019/20.

**Printing and postage**

Overspend of £101k is due to increased shared cost service clients and communication activities with new client members. This budget area has been under pressure since 2017/18 for different reasons to manage this pressure we are introducing an updated version of "MyPension", this is a new digital service acquired via our new IT contract with Civica, which will enable increased, secure, electronic communication with members.

**Other running costs**

Underspend of £648k is mainly due to reduction in investment transaction costs as a result of contract negotiations carried out by our chief investment officers. This spend area covers investment transaction costs, investment stamp duties, external audit fees, insurance, legal fees, office furniture, communication facilities, office phones and a number of low value items.

**Paid for:**

**WYPF**

This is the amount charged to our account from the total spend, the estimated charge to our account is projected to go down by £970k for 2018/19 and projected to go up by £698k for 2019/20.

**Shared Cost Service Partners**

This is the total projected recharges to Lincolnshire Pension Fund, Hounslow Pension Fund; and 14 fire authorities.

**Other Clients**

This is the total recharges for IDRPs work, teachers' compensation costs and a small recharge to Bradford Council for treasury services.

**2. OTHER CONSIDERATIONS**

None

**3. FINANCIAL & RESOURCE APPRAISAL**

The Council is required by law to produce an audited annual financial report for WYPF within the Council's financial statement. Information in this report will be used in WYPF financial statement for 2018/19. All financial implications are included in the body of this report and there are no other financial implications.

**4. RISK MANAGEMENT AND GOVERNANCE ISSUES**

Budget monitoring is key element of our risk management and control, this report allows management to report financial activities, planned expenditure and income; and our overall strategy for cost control and performance to the Group.

**5. LEGAL APPRAISAL**

There are no other legal issues.

**6. OTHER IMPLICATIONS**

None

**7. NOT FOR PUBLICATION DOCUMENTS**

No

## **8. OPTIONS**

The Group should consider, approve the original estimate for 2019/20, note the projected outturn for 2018/19, or may make recommendations to management on any part of the report.

## **9. RECOMMENDATIONS**

- 9.1 That the projected outturn of £12.96m against a revised estimate of £13.64m is noted for 2018/19.
- 9.2 That the original estimate of £14.63m be approved for 2019/20.
- 9.3 That the total pension cost per member of £36.45 for 2017/18 making WYPF the lowest cost LGPS scheme for 2017/18 be noted.