

## Report of the Director, West Yorkshire Pension Fund, to the meeting of Joint Advisory Group to be held on 30 January 2020.

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**Subject: WYPF 2019/20 revised estimates and 2020/21 original estimates.**

### **Summary statement:**

The latest spend forecast for 2019/20 is £14.50m against a revised budget of £14.63m, net underspend of £0.13m. In 2019/20 we increased investment in ICT, there is also increased volume of work in pension administration shared services, increased engagement with employers on covenant and governance work with Aon, and changes to investment costing. As a result pension services income went up for shared services. Based on this latest forecast our cost per member for 2019/20 is projected to be £41.40 (2018/19 £34.46). Compared to 2018/19 the biggest cost increase between 2018/19 and 2019/20 are - investment management transaction costs, replacement of computer servers and investment in MyPension members web module.

The latest government data for 2018/19 shows WYPF having the lowest total cost at £34.46. The 2<sup>nd</sup> lowest LGPS fund Nottinghamshire at £65.91. The latest WYPF project cost per member of £41.40 would still be £24 below Nottinghamshire (39% cheaper than Nottinghamshire). Based on this analysis WYPF will likely retain the 1<sup>st</sup> spot in 2019/20 and 2020/21.

The proposed budget for 2020/21 is based on zero base cost analysis of services resulting in a gross base budget of £15.20m. In order to maintain WYPF cost performance going forward we are looking at a number of cost savings activities to manage cost down to £43 per member, a budget of £14.85m is proposed. These savings activities will reduce printing costs, increased use of digital technology resulting in increased service efficiency and reduced cost.

### **Recommendation:**

1. That the projected outturn of £14.51m against budget of £14.61m is noted for 2019/20.
2. That a budget of £14.85m is approved for 2020/21.
3. That the total pension cost per member of £34.46 for 2018/19 (2017/18 £36.45) making WYPF the lowest cost LGPS scheme for 2018/19 be noted.

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**Portfolio:**

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**Overview & Scrutiny Area:**

## 1. 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 430,000 pension scheme members, made up of 293,000 WYPF and 126,000 shared service partner members. We support over 800 active employers. The same resource will be used to manage over £15bn WYPF investment assets.

The number of partners in our pension shared cost service continue to grow it has increased from 7 two years ago to 19 (WYPF, Lincolnshire, Hounslow LGPS and 16 fire services). More plan to join us in 2020/21. Our service strategy is to maintain our service quality and cost performance, not necessarily the lowest cost in all areas, but a balance of cost and performance, as the quality of service is important to both employers and individual members.

## 2. BACKGROUND

### 2019/20 Revised Estimate

- 2.1 The latest spend forecast for 2019/20 is £14.50m, resulting in underspend of £0.13m. In 2019/20 we invested in new computer servers to improve service resilience and increase digital capacity, we also purchased a new web services for members MyPension. This increased our cost base by £4 per member when compared to 2018/19 cost per member.

TABLE 1: WYPF ALL SERVICES	2018/19	2019/20	2019/20	PD09	2020/21	2020/21
	Full Year Outturn	BUDGET	FORECAS T DEC PD09	VARIANCE OVER(-) / UNDER(+)	DRAFT BDGT ZERO BASED	DRAFT BDGT IF CAPD @ £43 PER MBR
	£000	£000	£000	£000	£000	£000
WYPF INVESTMENTS	4,800	6,713	6,513	200	7,045	6,699
WYPF OVERSIGHT + GOVERNANCE	782	905	1,024	-119	1,046	997
WYPF PENSION ADMIN	4,423	4,606	4,589	17	4,899	4,909
<b>CHARGED TO WYPF ACCOUNT</b>	<b>10,005</b>	<b>12,224</b>	<b>12,126</b>	<b>98</b>	<b>12,990</b>	<b>12,605</b>
OTHER INCOME	196	218	271	-53	96	96
CHARGED TO SHARED SERVICES	1,793	2191	2,100	91	2,100	2,150
<b>TOTAL SPEND</b>	<b>11,994</b>	<b>14,633</b>	<b>14,497</b>	<b>136</b>	<b>15,186</b>	<b>14,851</b>
<b>SF3 COST PER MEMBER</b>	<b>34.46</b>	<b>42.85</b>	<b>41.40</b>	<b>-</b>	<b>44.35</b>	<b>43.00</b>

- 2.2 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 £2.10m in 2019/20 and £2.15m, in 2020/21.
- 2.3 We buy a number of services from CBMDC this is estimated at £0.46m for 2019/20 and 2020/21. In return we provide treasury support to CBMDC and for this we charge a small fee of £0.03m.
- 2.4 The budget estimates in Table 1 were prepared using cost forecasts and calculations to project the likely outturn for both 2019/20 and 2020/21. The forecast for 2019/20 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.

### **2020/21 Original Estimate**

- 2.5 We are proposing a budget of £14.85m for 2020/20, an increase of £0.22m on 2019/20 budget. For 2020/21 we are targeting printing costs and postage for savings by using a new web services "MyPension" to provide newsletters and documents to members. We are also bringing in the next phase of monthly postings for active member data to improve automation and efficiencies and generate savings. These activities are targeted to deliver savings of £0.38m to maintain our total cost per member at £43.
- 2.6 The 2020/21 budget is focused on growing pension the administration shared service, investment pooling, increased service capacity, improved quality, strengthened regulatory compliance and improved data governance. These areas continue to have increased regulatory compliance monitoring and continue to be heavily regulated by government, and as such our activities are geared to maintain and improve performance on regulatory compliance.

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

- 2.7 The projected shared service pension administration cost per member for 2019/20 is £16.01. This figure will be adjusted for actual cost in May 2020 before we close our accounts and the adjusted figure will be used to charge our shared cost service partners for 2019/20.
- 2.8 Our cost performance target on shared service cost per member for pension administration shared service is £17.00. The original estimate for 2020/21 will give us a projected shared service cost per member of £16.74 for 2020/21, this cost gives us a headroom of £0.26 for 2020/21. Our savings targets around printing and data

management activities and increasing shared service partners should yield some savings to push this cost down.

### Relative cost of service

- 2.9 Our performance within LGPS using comparative data for local government pension schemes collected by DCLG is shown below. The data shows that for 2018/19 WYPF total cost of £34.46 is the lowest total cost within LGPS funds in England and Wales. Whilst, the average cost for all funds has gone up from £205.25 to £222.27 between 2017/18 and 2018/19, our cost went down by £1.99 from £36.45 to £34.46.

TABLE 2: Total number of funds 87	Cost per scheme member					
	WYPF				All Local authority Pension Funds	
	2018/19		2017/18		2018/19	2017/18
	Rank	Cost per Member	Rank	Cost per Member	Cost per Member	Cost per Member
Pensions Administration	6th	£15.23	7th	£14.05	£22.28	£20.85
Investment Management	1st	£16.53	1st	£20.48	£189.59	£175.44
Oversight & Governance	8th	£2.69	5th	£1.92	£10.39	£8.96
<b>Total</b>	<b>1st</b>	<b>£34.46</b>	<b>1st</b>	<b>£36.45</b>	<b>£222.27</b>	<b>£205.25</b>

- 2.10 Table 3 below shows the 2<sup>nd</sup> placed LGPS funds for 2017/18 and 2018/19. 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 2018/19 and 2017/18							
	Total		Pension Administration		Investments		Oversight	
Nottinghamshire Pension Fund	2018/19		2018/19		2018/19		2018/19	
		2nd	£65.91	5th	£15.41	3rd	£38.96	44th
Nottinghamshire Pension Fund	2017/18		2017/18		2017/18		2017/18	
	2nd	£55.58	10th	£14.80	3rd	£37.09	13th	£3.70

## Summary revenue account 2019/20 and 2020/21

- 2.11 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 2019/20 and original estimate for 2020/21.

TABLE 4: WYPF ALL SERVICES	2018/19	2019/20	2019/20	PD09	2020/21	2020/21
	Full Year Outturn	BUDGET	FORECAST DEC PD09	OVER(-) / UNDER(+)	DRAFT BDGT ZERO BASED	DRAFT BDGT IF CAPD @ £43 PER MBR
	£000	'£000	'£000	'£000	'£000	'£000
<b><u>Expenditure</u></b>						
Accommodation	£337	291	369	-78	369	375
Actuary	£249	200	465	-265	300	297
Computer	£755	763	1,152	-389	1,152	1,071
Contingency	0	0	0	0	0	378
Employees	£7,062	8,628	7,390	1,238	8,167	8,114
Internal Recharge	£452	412	456	-44	456	218
Other Running Costs	£1,277	1238	1,345	-107	1,367	1,255
Transaction Costs	1,311	2,500	2,725	-225	2,725	2,500
Printing & stationery	552	600	595	5	662	405
	<b>11,995</b>	<b>14,632</b>	<b>14,497</b>	<b>135</b>	<b>15,198</b>	<b>14,851</b>
<b><u>Paid for</u></b>						
Charge to WYPF Account	-10,005	-12,225	-12,126	-99	-13,002	-12,605
Other Income	-196	-217	-271	53	-96	-96
Shared Service Income	-1,793	-2,190	-2,100	-90	-2,100	-2,150
	<b>-11,995</b>	<b>-14,632</b>	<b>-14,497</b>	<b>-135</b>	<b>-15,198</b>	<b>-14,851</b>

### Accommodation

In 2019/20 overspend of £78k projected for Aldermanbury House. Caused by problems with heating and cooling systems, we are working with MJMapp and St Brides towards solutions for the whole building. £375k is projected for 2020/21.

### Actuarial costs

Projected to spend £465k for 2019/20, overspend by £265k this is due to increased covenant, valuation and employers engagement work. For 2020/21 an increased budget of £297k is proposed.

### Computer costs

Spend of £1,152k is projected, overspend of £389k as a result of replacing all our

computer servers and additional web service. These two investments increase service capacity and improve service resilience to deliver increased service automation and savings. In 2020/21 a budget of £1,071k is proposed.

### **Contingency**

A service contingency provision of £378k is proposed for 2020/21 and will be allocated if needed.

### **Employee costs**

Underspend of £1,236k is projected for 2019/20 is due to delayed service restructure and staff vacancies. For 2020/21 a budget of £8,114k is proposed based on current approved posts. This cost will be reviewed once a new structure is released by Bradford.

### **Recharges from Bradford**

This charge covers Bradford ICT, Legal Services, Internal Audit, Corporate Services and Central Mailroom. Overspend of £44k is projected for 2019/20 the same estimate of £456k is proposed for 2019/20 and 2020/21.

### **Other running costs**

Overspend of £107k is projected, this overspend is mainly due to increased investment in specialist analytical services, independent performance services and increased UK and overseas tax reclaim activities. A budget of £1,255k is proposed for 2020/21. This budget head covers external audit fees, insurance, foreign tax reclaim costs, legal fees, office furniture, communication facilities, office phones and a number of low value items.

### **Transaction costs**

This is the cost of buying and selling financial assets – brokers fees, stamp duties and other fees. Overspend of £255k is projected due to increased investment activities. This budget head is difficult to forecast as it is driven by market movement and the need to manage investment strategies accordingly. A budget of £2.5m is proposed for 2020/21.

### **Printing and postage**

Overspend of £5k is projected. In 2020/21 this budget area is targeted for savings of £195k, by using our new web service “MyPension” to deliver documents and newsletter to members.

### **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 £99k compared to budget of £12,225k for 2019/20 and projection for 2020/21 is £12,605k.

#### **Other Clients**

This is the total recharges for IDRPs work, teachers’ compensation costs, recharge for

Northern Pool work (GLIL) and a small recharge to Bradford Council for treasury services. £271k for 2019/20 and £96k for 2020/21.

#### **Shared Cost Service Partners**

This is the total projected recharges to Lincolnshire Pension Fund, Hounslow Pension Fund; and 16 fire authorities. £2,100k for 2019/20 and £2,150 for 2020/21.

### **3. OTHER CONSIDERATIONS**

None

### **4. 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 2019/20. All financial implications are included in the body of this report and there are no other financial implications.

### **5. 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 Joint Advisory Group.

### **6. LEGAL APPRAISAL**

There are no other legal issues.

### **7. OTHER IMPLICATIONS**

None

### **8. NOT FOR PUBLICATION DOCUMENTS**

No

### **9. OPTIONS**

The Joint Advisory Group should consider, approve the original estimate for 2020/21, note the projected outturn for 2019/20, or may make recommendations to management on any part of the report.

### **10. RECOMMENDATIONS**

10.1 That the projected outturn of £14.51m against budget of £14.61m is noted for 2019/20.

10.2 That budget of £14.85m is approved for 2020/21.

10.3 That the total pension cost per member of £34.46 for 2018/19 (2017/18 £36.45) making WYPF the lowest cost LGPS scheme for 2018/19 be noted.

### **11. APPENDICES**

None