

# Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 23 June 2020

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**Subject: WYPF 2020/21 Service Budgets.**

## **Summary statement:**

Between December 2019 and January 2020 we carried out a zero base cost analysis of services resulting in a proposed gross base budget of £15.20m for 2020/21. In order to maintain WYPF cost performance going forward we looked at a number of cost savings activities to manage cost down to £43 per member. The outcome of this work is the budget of £14.85m that was presented to the Joint Advisory Group (JAG). Our savings activities will reduce printing costs, increase the use of digital technology resulting in increased capacity, service efficiency and cost reductions.

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.

## **Recommendation:**

1. To note the total service budget of £14.85m approved for 2020/21 by the Joint Advisory in January 2020.
2. To note 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.

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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 budgets 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 £13bn WYPF investment assets.

The number of partners in our pension shared cost service continue to grow, increasing 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.

### 1. BACKGROUND

#### 2020/21 Service Budgets

- 1.1 In January 2020 a budget of £14.85m was set by JAG for 2020/21, an increase of £0.22m on 2019/20 budget. The zero base budgeting work carried out by officers using current activity data resulted in a budget of £15.19m, this figure was reduced down to £14.85m by a number of savings proposals.

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>

- 1.2 For 2020/21 we are targeting printing costs and postage for savings using a new web services “MyPension” to provide newsletters and documents to members. We are also bringing in the next phase of pension monthly data return and improved record maintenance for active members, to improve service automation and efficiencies. These activities are targeted to deliver savings of £0.38m to maintain our total cost per member at £43.
- 1.3 The 2020/21 budget is focused on growing pension administration shared service, investment pooling, increased service capacity, improved quality, strengthen 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**

- 1.4 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 activities will review printing and data management activities; and increasing shared service partners should yield some savings to push this cost down.

**Relative cost of service**

- 1.5 Our performance within LGPS using comparative data for local government pension schemes collected by MHCLG 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 went 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.

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

- 1.6 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 LGPS 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	
		2018/19		2018/19		2018/19		2018/19	
Nottinghamshire Pension Fund	2 <sup>nd</sup>	£65.91	5 <sup>th</sup>	£15.41	3 <sup>rd</sup>	£38.96	44 <sup>th</sup>	£11.74	
		2017/18		2017/18		2017/18		2017/18	
Nottinghamshire Pension Fund	2 <sup>nd</sup>	£55.58	10 <sup>th</sup>	£14.80	3 <sup>rd</sup>	£37.09	13 <sup>th</sup>	£3.70	

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

1.7 Table 4 below provides a summary of the combined Pensions Administration and Investment Management budgets by expenditure type.

TABLE 4: WYPF ALL SERVICES	2018/19 Full Year Outturn	2019/20 BUDGET	2020/21 DRAFT BDGT ZERO BASED	2020/21 ORIGINAL BDGT
	£000	£000	£000	£000
<b>Expenditure</b>				
Accommodation	£337	291	369	375
Actuary	£249	200	300	297
Computer	£755	763	1,152	1,071
Contingency	0	0	0	378
Employees	£7,062	8,628	8,167	8,114
Internal Recharge	£452	412	456	218
Other Running Costs	£1,277	1238	1,367	1,255
Transaction Costs	1,311	2,500	2,725	2,500
Printing & stationery	552	600	662	405
	<b>11,995</b>	<b>14,632</b>	<b>15,198</b>	<b>14,613</b>
<b>Paid for</b>				
Charge to WYPF Account	-10,005	-12,225	-13,002	-12,605
Other Income	-196	-217	-96	-96
Shared Service Income	-1,793	-2,190	-2,100	-2,150
	<b>-11,994</b>	<b>-14,632</b>	<b>-15,198</b>	<b>-14,851</b>

**Accommodation**

We have had issues with heating and cooling systems in Aldermanbury House and we have worked with our agents MJMapp and St Brides to resolve most of these issues. We have put together a budget of £375k to pay rent, service charges and pay our share of planned maintenance for 2020/21.

**Actuarial costs**

Compliance, regulatory, and covenant work has increased, we have continued to manage this area of cost down, by providing Aon our actuary with monthly investment valuation, cashflow, and employer data; and maintaining good quality member and employer data. We have reviewed costs in this area and implemented an improved works order process. A budget of £297k is considered to be adequate.

**Computer costs**

We have increased budget provision in this area based on existing IT system contracts, planned IT projects, and equipment replacements. We are replacing all our computer servers and providing additional web services. These investments will increase service capacity, improve resilience and deliver increased service automation and savings. In 2020/21 a budget of £1,071k is provided.

**Contingency**

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

**Employee costs**

For 2020/21 a budget of £8,114k is provided based on approved posts and grades in December 2019. This budget will be reviewed once the new structure being consulted on is released by Bradford.

**Recharges from Bradford**

This budget head covers Bradford ICT, Legal Services, Internal Audit, Corporate Services and Central Mailroom. £456k budget provision for 2020/21 is based on current cost model provided by Bradford.

**Other running costs**

This budget head covers the cost of specialist analytical services, independent performance services, UK and overseas tax reclaim activities, external audit fees, insurance, legal fees, office furniture, communication facilities, office phones and a number of low value items. A budget of £1,255k is provided for 2020/21.

**Transaction costs**

This is the cost of buying and selling financial assets – brokerage fees, statutory stamp duty and other fees. 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 provided for 2020/21.

### **Printing and postage**

In 2020/21 there is a budget provision of £405k, this budget area is targeted for savings of £195k, by using our new web service “MyPension” to deliver documents and newsletters to our members.

### **Paid for:**

### **WYPF**

This is the amount charged to our account from the total spend, the budgeted charge to our account for 2020/21 is £12,605k.

### **Other Clients**

This is the total recharges for IDRP work, teachers’ compensation costs, recharge for Northern Pool work (GLIL) and a small recharge to Bradford Council for treasury services, total budgeted income of £96k for 2020/21.

### **Shared Cost Service Partners**

This is the total budget for recharges to Lincolnshire Pension Fund, Hounslow Pension Fund, and 16 fire authorities, budget of £2,150k for 2020/21.

## **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 2020/21. 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 Joint Advisory Group.

## **5. LEGAL APPRAISAL**

There are no other legal issues.

## **6. OTHER IMPLICATIONS**

None

## **7. NOT FOR PUBLICATION DOCUMENTS**

None

## **8. RECOMMENDATIONS**

- 8.1 To note the total service budget of £14.85m approved for 2020/21 by the Joint Advisory in January 2020.
- 8.2 To note 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.

## **9. APPENDICES**

None