

## Report of the Director, West Yorkshire Pension Fund, to the meeting of Joint Advisory Group to be held on 28 January 2021.

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**Subject: WYPF 2020/21 revised estimates and 2021/22 original estimates.**

### **Summary statement:**

The latest spend forecast for 2020/21 is £12.68m against a budget of £14.85m, net underspend of £2.17m. Whilst, the underspend is welcome, as expected Covid-19 impacted on all activities. Our business continuity plan was tested to the limit. I am pleased to report that we were able to rapidly move staff out of our offices to work from home, with full home and mobile working equipment. As a result, our IT cost went up, but reduced our office running costs. I can report that during this ongoing pandemic we are managing to deliver all our services and expand some services.

Based on this latest forecast our cost per member for 2020/21 is projected to be £34.58 (2019/20 £41.49). Compared to 2019/20 the largest cost savings are a reduction in investment custodian charges, unused provision for backdated pay awards and stalled recruitment activities due to Covid-19. The latest government data for 2019/20 confirmed that WYPF delivered the England and Wales lowest total cost at £41.94 (slightly lower in the subsequent audited figure of £41.49). The 2<sup>nd</sup> lowest LGPS fund, Nottinghamshire, is £60.93. The 2020/21 WYPF projected cost per member of £34.58 would still be £26 (43%) below Nottinghamshire. Based on this analysis WYPF is likely to have the lowest LGPS total cost in 2020/21 and 2021/22.

The proposed gross budget for 2021/22 is based on zero base cost analysis, the resulting base budget, before income is £15.38m. Projected shared services income is £2.5m and miscellaneous income £0.23m, total £2.73m. Net charge to WYPF is £12.65m. The budget pressures in 2021/22 are McCloud, home working, digital services and cyber security. The proposed budget will support over £15 billion asset, 450,000 members, 900 employers and 20 pension administration services across the UK.

### **Recommendation:**

1. That the projected outturn of £12.68m against budget of £14.85m is noted for 2020/21.
2. That a budget of £15.38m is approved for 2021/22.
3. That the Government SF3 data - total pension cost per member of £41.94 for 2019/20 making WYPF the lowest cost LGPS scheme for 2019/20 be noted.

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### **Portfolio:**

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### **Overview & Scrutiny Area:**

## UMMARY

In accordance with Local Government Pension Scheme Regulations, costs of managing LGPS pension funds must be charged to the 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 both LGPS and fire services pension scheme members and employers across the UK and will be used to manage over £15bn WYPF investment assets. 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.

## 2. BACKGROUND

### 2020/21 Revised Estimate

2.1 The latest spend forecast for 2020/21 is £12.68m, against a budget of £14.85m, resulting in underspend of £2.17m. Significant elements of this underspend are:

- a) £0.5m - Savings from investment custody charges, in early 2020 we moved our investment assets from HSBC to Northern Trust, this is a direct benefit of working with the Northern LGPS.
- b) £0.4m - In 2019/20 we made a provision for backdated pay award, the pay settlement was £0.4m lower than the provision.
- c) £1.3m - Vacant posts, we were unable to fill a number of vacant post due to the pandemic, savings of £1.3m.
- d) (£0.1m) - We spent £0.1m more on IT equipment and services.

TABLE 1: WYPF ALL SERVICES	2019/20 OUTTURN	2020/21 BUDGET	2020/21 FORECAST PD09	2020/21 VAR BGT - PD09 FAV (ADV)	2021/22 BUDGET
	£000	£000	£000	£000	£000
WYPF PENSION ADMIN	4,763	3,775	3,326	449	4,159
WYPF INVEST MANAGEMENT	6,698	7,507	6,066	1,441	7,439
WYPF OVERSIGHT	845	1,082	809	273	1,047
<b>TOTAL CHARGED TO WYPF ACCOUNT</b>	<b>12,306</b>	<b>12,364</b>	<b>10,201</b>	<b>2,163</b>	<b>12,645</b>
CHARGE TO SHARED SERVICE	1,958	2,300	2,250	50	2,500
OTHER INCOME	309	186	233	-47	233
<b>TOTAL EXPENDITURE</b>	<b>14,573</b>	<b>14,850</b>	<b>12,684</b>	<b>2,166</b>	<b>15,378</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 £2.25m in 2020/21 and £2.5m in 2021/22.
- 2.3 We buy a number of services from CBMDC this is estimated at £0.46m for 2020/21 and 2021/22. In return we provide treasury support to CBMDC and for this we charge a small fee of £0.03m. we also provide dispute resolution to a number of pension funds across the UK income from this is projected at £0.08m.
- 2.4 The budget estimates in Table 1 were prepared using cost forecasts and calculations to project the likely outturn for both 2020/21 and 2021/22. The forecast for 2020/21 is based on current staffing costs and career progressions. For 2021/22 no pay award is provided, when approved we will look at contingency provisions to fund this. Other costs are based on detailed cost of services, contract prices and projected efficiency savings.

### 2021/22 Original Estimate

- 2.5 We are proposing a budget of £15.38m for 2020/20, an increase of £0.53m on 2020/21 budget, this is largely funded from increased income of £0.25m. There are a number services pressures points as a result of government legislation, the largest cost impact is from the McCloud remedy. We are still working through the impact of Covid-19 and the resources needed to balance home working with a safe office environment, and support needed to keep staff and service users safe. The need to minimise personal contacts and face to face services is also focusing management's attention on the urgency for improved digital service solutions for members, employers, our staff and shared service clients.
- 2.6 The 2021/22 budget is also scoped to maintain the current growth of pension administration shared service, investment pooling, increased service capacity, improved quality, strengthened regulatory compliance and improved data governance.

### Cost per member

TABLE 2: WYPF COST PER MEMBER	2019/20 OUTTURN PD13 £000	2020/21 BUDGET £000	2020/21 FORECAST PD09 £000	2020/21 VAR BGT - PD13 FAV (ADV) £000	2021/22 BUDGET £000
MEMBER NUMBER	SF3	294,447	295,000		295,000
WYPF PENSION ADMIN	£16.23	£12.82	£11.27	£1.55	£14.10
WYPF INVEST MANAGEMENT	£22.83	£25.50	£20.56	£4.93	£25.22
WYPF OVERSIGHT	£2.88	£3.67	£2.74	£0.93	£3.55
TOTAL COST PER MEMBER	£41.94	£41.99	£34.58	£7.41	£42.86

- 2.7 The projected shared service pension administration cost per member for 2020/21 is £11.27. The significant drop in cost per member is due to increased shared service member numbers and partner organisations and backdated pay being lower than provisions made in the accounts. This figure will be adjusted for actual cost in May 2021 before we close our accounts, and the adjusted figure will be used to charge our shared cost service partners for 2020/21.
- 2.8 Our cost performance target on shared service cost per member for pension administration shared service is £17.00. The original estimate for 2021/22 will give us a projected shared service cost per member of £14.82 for 2021/22, this cost gives us a headroom of £2.18 for 2021/22. Our service plan to focus more on digital services should also 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 MHCLG is shown below. The data shows that for 2019/20 WYPF total cost of £41.94 is the lowest total cost within LGPS funds in England and Wales. The average cost for all funds went up by £23.14 from £222.27 to £245.41 between 2018/19 and 2019/20, our cost went up by £7.48 from £36.45 to £34.46.

2019/20								
TABLE 3: Local Authority (RANK 1 TO 10) TOTAL NUMBER OF LGPS 86	Insvt Exp per Mbr	Rank	Admin Exp per Mbr	Rank	O&G Exp per Mbr	Rank	Tot Exp per Mbr	Rank
West Yorkshire Pension Fund	£22.83	2	£16.23	7	£2.88	5	£41.94	1
Nottinghamshire	£35.26	3	£15.36	6	£10.31	33	£60.93	2
East Riding of Yorkshire UA	£37.69	4	£19.89	21	£5.48	14	£63.07	3
Tameside	£71.58	7	£14.74	4	£4.10	11	£90.43	4
Middlesbrough UA	£20.68	1	£30.53	50	£52.64	86	£103.85	5
Lambeth	£47.25	5	£67.06	85	£0.00	1	£114.26	6
Bedfordshire	£88.63	8	£19.42	18	£13.16	44	£121.21	7
Somerset	£92.37	9	£19.06	14	£9.82	30	£121.25	8
Surrey	£95.49	11	£20.62	25	£17.43	61	£133.54	9
Lewisham	£93.55	10	£26.20	45	£15.13	53	£134.88	10
<b>England &amp; Wales AVERAGE</b>	<b>£209.71</b>		<b>£23.50</b>		<b>£12.21</b>		<b>£245.41</b>	

## Summary revenue account 2020/21 and 2021/22

2.10 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 2020/21 and original estimate for 2021/22.

WYPF ALL SERVICES	2019/20 OUTTURN	2020/21 BUDGET	2020/21 FORECAST PD09	2020/21 VAR BGT - PD09 FAV (ADV)	2021/22 BUDGET
	£000	£000	£000	£000	£000
Accommodation	422	369	295	74	290
Actuary	533	300	300	0	300
Computer	991	803	911	-108	900
Contingency	0	0	100	-100	110
Employees	7,711	8,167	6,621	1,546	9,229
Internal Recharge	454	454	454	0	454
Other Running Costs	1,174	1,370	729	641	870
Transaction Costs	2,770	2,725	2,700	25	2,725
Printing & stationery	518	662	574	88	500
<b>TOTAL EXPENDITURE</b>	<b>14,573</b>	<b>14,850</b>	<b>12,684</b>	<b>2,166</b>	<b>15,378</b>
Charge to WYPF					
Account	-12,306	-12,364	-10,201	-2,163	-12,645
Other Income	-309	-186	-233	47	-233
Shared Service Income	-1,958	-2,300	-2,250	-50	-2,500
<b>TOTAL INCOME</b>	<b>-14,573</b>	<b>-14,850</b>	<b>-12,684</b>	<b>-2,166</b>	<b>-15,378</b>

### Accommodation

In 2020/21 underspend of £74k projected for Aldermanbury House. Reduced running cost. £290k is projected for 2021/22.

### Actuarial costs

Projected to spend the budget of £300k for 2020/21. Estimated spend of £300 in 2021/22.

### Computer costs

For 2020/21 spend of £911k is projected, overspend of £108k, mobile devices for home working. 2021/22 spend of 900k is estimated.

### Contingency

A service contingency provision of £100k is provided for the last quarter of 2020/21. For 2021/22 £110 is assessed to be adequate, request for funding additional expenditures will be reviewed by Senior Management and, if approved, will be funded on a case by case basis.

**Employee costs**

Underspend of £1,546k is projected for 2020/21, this is due to delayed service restructure, staff vacancies and backdated pay award significantly less than the provision. For 2021/22 a budget of £9,229 is provided based on the new approved structure.

**Recharges from Bradford**

This charge covers Bradford ICT, Legal Services, Internal Audit, Corporate Services and Central Mailroom. Projected to spend to budget.

**Other running costs**

Underspend of £641k mainly as a result of new investment custodial contract with Norther Trust. A budget of £870k is proposed for 2021/22. 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. Underspend of £25k is projected. This budget area is difficult to forecast as it is driven by market movement and the need to manage investment strategies accordingly. Same level of budget of £2.725m is proposed for 2021/22.

**Printing and postage**

Underspend of £88k is projected for 2020/21. For 2021/22 estimated spend is £500k.

**The total cost of service is paid for by:****Charge to WYPF accounts**

This is the amount charged to our account from the total spend, the estimated charge to our account is projected to go down by £2,163k compared to budget of £12,364k for 2020/21 and the projection for 2021/22 is £12,645k.

**Other income**

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. £233k for 2020/21 and £230k for 2021/22.

**Shared Cost Service Partners**

This is the total projected recharges to LGPS partners and fire authorities. £2,250k for 2020/21 and £2,500 for 2021/22.

**3. OTHER CONSIDERATIONS**

None

**4. FINANCIAL & RESOURCE APPRAISAL**

Expenditure and income summarised in this report will be charged to the WYPF pension fund account. This report is used to determine the financial resources available to the fund to deliver operational services for the 2020/21 and 2021/22 financial years. As the lowest cost LGPS fund, the level of resources requested will maintain value for money, service standards and quality.

**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 2021/22, note the projected outturn for 2020/21, or may make recommendations to management on any part of the report.

**10. RECOMMENDATIONS**

- 10.1 That the projected outturn of £12.68m against budget of £14.85m is noted for 2020/21.
- 10.2 That budget of £15.38m is approved for 2021/22.
- 10.3 That the Government SF3 data - total pension cost per member of £41.94 for 2019/20 making WYPF the lowest cost LGPS scheme for 2019/20 be noted.

**11. APPENDICES**

None