

## **Report of the Director, West Yorkshire Pension Fund, to the meeting of Joint Advisory Group to be held on 29 July 2021.**

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### **Subject:**

West Yorkshire Pension Fund (WYPF) Administration Outturn 31 March 2021

### **Summary statement:**

This report summarises WYPF total costs of administering pensions and investments for 2020/21.

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### **Portfolio:**

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

## 1 SUMMARY

1.1 The cost of LGPS pension administration and investment management is disclosed in the accounts over three main headings:

- a.) Pensions administration – cost of managing members and pensioners.
- b.) Investment management – costs directly related to managing each investment asset, and internal investment management costs.
- c.) Oversight and governance – cost of statutory compliance, legal, auditors, actuary, investment advisers, investment accounting systems, pension committees – Local Board – Investment Panel – Joint Advisory Group.

The total WYPF cost for 2020/21 is £10.0m (2019/20 £12.3m)

## 2 BACKGROUND

2.1 The total management costs of operations charged to WYPF account for 2020/21 is £10.0m (2019/20 £12.3m) against a revised budget of £12.4m, resulting in underspend of £2.4m for the year. Cost of services provided to other organisations using our shared services is £2.0m. In addition, WYPF provide dispute resolution to other pension funds, and other organisations generating total income of £0.2m.

<b>WYPF ALL SERVICES</b>	<b>2019/20 OUTTURN PD13 £000</b>	<b>2020/21 BUDGET £000</b>	<b>2020/21 OUTTURN PD13 £000</b>	<b>2020/21 VAR BGT - PD13 FAV (ADV) £000</b>
WYPF PENSION ADMIN	4,763	3,775	4,002	-227
WYPF INVEST MANAGEMENT	6,698	7,507	5,129	2,378
WYPF OVERSIGHT	845	1,082	871	211
<b>TOTAL CHARGED TO WYPF ACCOUNT</b>	<b>12,306</b>	<b>12,364</b>	<b>10,002</b>	<b>2,362</b>
CHARGE TO SHARED SERVICE	1,958	2,300	2,017	283
OTHER INCOME	309	186	224	-38
<b>TOTAL EXPENDITURE</b>	<b>14,573</b>	<b>14,850</b>	<b>12,243</b>	<b>2,607</b>

2.2 The total revenue cost of £12.2m is paid for by:

- a.) Charge of £10.0m to WYPF account.
- b.) Income of £2.0m from shared services partners – Lincolnshire, Hounslow and Barnet pension funds; and 20 fire authorities.
- c.) Miscellaneous income of £0.2m.

## WYPF Reports and Accounts 2020/21 - Note 13

	2020/21	2019/20
	£000	£000
Administrative costs	-4,002	-4,763
Investment management expenses	-5,129	-6,698
Oversight and governance	-871	-845
<b>Total</b>	<b>-10,002</b>	<b>-12,306</b>

2.3 The table above shows the total management costs in the WYPF account for 2020/21, this is the net figure after charging for services provided to other organisations. The largest cost reduction in 2020/21 is investment transactions cost and salary due to a number vacant posts in the new structure delivered during 2020/21, we have embarked on a new recruitment drive to address this and bring in much needed resources.

### 3 SHARED SERVICES

3.1 During 2020/21 more fire and rescue authorities joined; as of 31/03/2021 there are 22 pension administration shared service partners, 3 LGPS and 19 Fire services:

	Service type	Shared service partners
1	LGPS	Lincolnshire LGPS
2	LGPS	LB Hounslow LGPS
3	LGPS	LB Barnet LGPS
4	FIRE	Buckinghamshire and Milton Keynes Fire
5	FIRE	Derbyshire Fire
6	FIRE	Devon and Somerset Fire
7	FIRE	Dorset and Wiltshire Fire
8	FIRE	Durham and Darlington Fire
9	FIRE	East Sussex Fire
10	FIRE	Hereford and Worcester Fire
11	FIRE	Humberside Fire Authority
12	FIRE	Leicestershire Fire
13	FIRE	Lincolnshire Fire
14	FIRE	Norfolk Fire
15	FIRE	North Yorkshire Fire
16	FIRE	Northumberland Fire
17	FIRE	Royal Berkshire Fire
18	FIRE	South Yorkshire Fire
19	FIRE	Staffordshire Fire
20	FIRE	Tyne and Wear Fire
21	FIRE	West Yorkshire Fire
22	FIRE	Nottinghamshire Fire

## 4 MAJOR OVERSPEND AND UNDERSPEND - 2020/21

4.1 Table below analyses WYPF total cost of operations for 2020/21, showing variance between 2020/21 revised budget and costs.

WYPF ALL SERVICES	2019/20 OUTTURN PD13 £000	2020/21 BUDGET £000	2020/21 OUTTURN PD13 £000	2020/21 VAR BGT – PD13 FAV (ADV) £000
Accommodation	422	369	350	19
Actuary	533	300	337	-37
Computer	991	803	1,307	-504
Contingency	0	0	0	0
Employees	7,711	8,167	6,877	1,290
Internal Recharge	454	454	453	1
Other Running Costs	1,174	1,370	927	443
Transaction Costs	2,770	2,725	1,496	1,229
Printing & Stationery	518	662	496	166
Strategy	0	0	0	0
<b>TOTAL EXPENDITURE</b>	<b>14,573</b>	<b>14,850</b>	<b>12,243</b>	<b>2,607</b>
Charge to WYPF Account	-12,306	-12,364	-10,002	-2,362
Other Income	-309	-186	-224	38
Shared Service Income	-1,958	-2,300	-2,017	-283
<b>TOTAL INCOME</b>	<b>-14,573</b>	<b>-14,850</b>	<b>-12,243</b>	<b>-2,607</b>

4.2 In 2020/21 total expenditure was £12,243k against a budget of £14,850k, net underspend of £2,607k. Main overspend and underspend are:

- **Accommodation costs:** £19k underspend, reduction in spend direct impact of staff working from home, due to Covid-19.
- **Actuarial costs:** £37k overspend on actuarial services is due to increased regulatory, covenant and general technical work to improve actuarial services for WYPF and fund employers.
- **Computer costs:** £504k increased investment in computers and systems to support home working and digital services for members and employers.
- **Employee costs:** £1,290k underspent against budget. Backdated estimated cost of new staffing structure was charged to 2019/20, however actual pay charged for this in 2020/21 was less than the provision. In addition, a number of vacant posts remained difficult to fill during 2020/21.

- **Internal recharges:** £1k underspend, payment to Bradford Council for services provided to West Yorkshire Pension Fund for ICT, payroll, legal services and other corporate services.
- **Other running costs:** £443k underspend due to reduced traveling and restrictive impact of the Covid-19 pandemic, however we have maintained service using remote working, virtual services and increased investment in our digital services.
- **Investment transaction costs:** £1,229k underspend, this is another direct impact of Covid-19 resulting in reduced number of investment transactions in 2020/21.
- **Printing and postage:** £166k underspend as a direct result of increased use of digital services.
- **Total income:**

£38K more income collected on services provided on dispute resolution services and recharges to other organisations.

£283k less income collected as a result of cost effectiveness and saving in 2020/21, we share our savings by charging our partners less. All charges to our shared service partners are based on actual total cost and number of members at the yearend for each service partner.

## 5 WYPF VALUE FOR MONEY

- 5.1 **Projected cost per member.** Total cost per member is £33.53 for 2020/21 against a budget of £41.99, savings of £8.46 per member. Net total savings for members of £2.53m.

WYPF COST PER MEMBER		2019/20 OUTTURN PD13	2020/21 BUDGET	2020/21 OUTTURN PD13	2020/21 VAR BGT - PD13 FAV (ADV)
<b>MEMBER NUMBER</b>	<b>SF3</b>		<b>294,447</b>	<b>298,307</b>	
WYPF PENSION ADMIN	16.23		12.82	13.42	-0.60
WYPF INVEST MANAGEMENT	22.83		25.50	17.19	8.30
WYPF OVERSIGHT	2.88		3.67	2.92	0.75
<b>TOTAL COST PER MEMBER</b>	<b>41.94</b>		<b>41.99</b>	<b>33.53</b>	<b>8.46</b>

5.2 **WYPF total savings 5 years.** Total savings 2016/17 to 2020/21 is £4.82m.

<b>WYPF SAVINGS</b>	<b>Budget £000</b>	<b>Outturn £000</b>	<b>Savings £000</b>
2016/17	9,600	9,132	468
2017/18	12,051	12,007	44
2018/19	13,636	11,995	1,641
2019/20	14,633	14,573	60
2020/21	14,850	12,243	2,607
5 years	64,770	59,950	4,820

5.3 **Savings delivered to shared service partners.** Over the last 5 years, 2016/17 to 2020/21 we have delivered savings of over £5m for pension admin shared services before inflation and increased members.

<b>SHARED SERVICE FINANCIAL PERFORMANCE</b>	<b>TOTAL MEMBERS</b>	<b>% INCREASE IN MEMBERS</b>	<b>WYPF MEMBERS</b>	<b>CONTRACT MAX CHARGE NO INFLATION</b>	<b>ACTUAL CHARGE PER MEMBER</b>	<b>SAVINGS (MAX LESS ACTUAL x MBRS)</b>	<b>WYPF SHARE OF SAVINGS</b>	<b>PARTNERS SHARE</b>
2016/17	373,472	2.91%	284,819	£17.00	£13.70	1,232,458	939,903	292,555
2017/18	377,454	1.05%	286,470	£17.00	£14.35	1,000,253	759,146	241,108
2018/19	418,141	9.73%	291,513	£17.00	£15.01	832,101	580,111	251,990
2019/20	425,483	1.73%	294,446	£17.00	£15.87	480,796	332,724	148,072
2020/21	464,037	8.31%	298,307	£17.00	£13.68	1,540,603	990,379	550,224
						5,086,210	3,602,262	1,483,948

**2020/21 WYPF Cost per member**

5.4 The 2020/21 annual cost of administering the West Yorkshire Pension Fund per member is £13.42, investment management £17.19, oversight and governance £2.92 giving a total management cost per member of £33.53. These figures compare favourably with the average cost for authorities in the Ministry of Housing Communities & Local Government (MHCLG) – SF3 data collection results for the previous year are shown in the table below.

Cost per member	West Yorkshire Pension Fund	Position	West Yorkshire Pension Fund	LGPS lowest	LGPS highest	Average LGPS
	2020/21 Financial Statement	2019/20 Gov't data SF3	2019/20 Gov't data SF3	2019/20 Gov't data SF3	2019/20 Gov't data SF3	2019/20 Gov't data SF3
Admin cost per member	£13.42	7th	£16.23	£0.74	£118.78	£23.50
Investment cost per member	£17.19	1st	£22.83	£20.68	£774.27	£278.76
Oversight and governance	£2.92	5th	£2.88	£0.00	£52.64	£12.21
<b>Total cost per member</b>	<b>£33.53</b>	<b>1st</b>	<b>£41.94</b>			
<b>Lowest / Highest / Average (not a sum of figures in the table above)</b>				<b>£41.94</b>	<b>£829.30</b>	<b>£245.41</b>

### 2019/20 Administration cost per member

- 5.5 From the latest data provided by government WYPF pension administration cost is the 7th lowest amongst LGPS fund in England & Wales for 2019/20, cost of £16.23 per member, the lowest cost is £ 0.74 and the highest is £118.78.

### 2019/20 Investment management cost per member

- 5.6 WYPF investment management cost is the second lowest cost per member in the latest result at £22.83, the lowest £20.68 and the highest cost is £553.02. The reason for this low cost is because WYPF use directly employed staff to manage investments and a centralised office support for both investment management and pension administration.

### 2019/20 Oversight and governance cost per member

- 5.7 On oversight and governance, WYPF cost is the 5th lowest cost at £2.92. The lowest is £0 and the highest is £52.64.

### 2019/20 Total cost per member

- 5.8 WYPF has the lowest total cost per member (administration, investment and oversight & governance) at £41.94, the national average for LGPS in 2019/20 is £245.41 and the highest is £829.30.

## 6 MEMBERSHIP AND NUMBER OF EMPLOYERS

- 6.1 Our membership increased from 294,447 in March 2020 to 298,307 by March 2021, an increase of 1.31%.
- 6.2 The number of employers as at 31 March 2021 was 423, in 2020 451, a net reduction of 28 as a result of employers leaving – contractual changes and academy mergers.

## **7 INTERNAL AUDIT REVIEWS COMPLETED DURING 2020/21**

The Internal Audit function for the West Yorkshire Pension Fund is carried out by Bradford Council; each year an agreed number of planned audits are performed on financial systems and procedures across the organisation. Listed below is a summary of reviews that were carried out during the financial year 2020/21.

### **Transfer of Custodial Arrangements**

- 7.1 This piece of work looked at the high level controls in place to manage the transfer of assets to the new custodial provider, the Northern Trust Bank. No issues were identified as a result of this audit.

### **Pensioners Payroll**

- 7.2 The pensioner's payroll process was reviewed, the majority of these payments are made, mainly on a monthly basis, to almost 141,000 pensioners. The process was found to be well controlled and did not result in any recommendations being made.

### **New Pensions and Lump Sums Flexible Retirements**

- 7.3 This audit examined the calculation of the annual pension and the lump sum following a member's decision to retire on a flexible basis. The standard of control in this process was found to be good, with two recommendations for improvement being made and implemented. We are monitoring the new controls to ensure delivery of required improvements and where necessary we will redesign these controls.

### **Transfers Out**

- 7.4 This was an audit of the risks to the process where individuals cease to be employed by an admitted body of the West Yorkshire Pension Fund and transfer their pension benefits into a new pension scheme. The control environment was found to be of an excellent standard with no recommendations arising from the work carried out.

### **Review of the West Yorkshire Pension Fund 2019/20 Accounts**

- 7.5 This is an annual account review process, that ensures the final account is consistent with internal control reviews carried out by our Internal Audit Team during the year.

### **New Pensions and Lump Sums Fire and Rescue Authorities**

- 7.6 West Yorkshire Pension Fund provides an administration service for the payment of nineteen fire and rescue authority pensions. This audit examined the calculation of the annual pension and the lump sum following a Fire Pension member's decision to retire. The control environment was largely as required resulting in one recommendation for improvement and implemented. We are monitoring the new control to ensure delivery of required improvements and where necessary we will redesign the control.

### **Equities**

- 7.7 Since November 2019, all quoted investments are now held under the custody of the Northern Trust Bank (previously HSBC), and represent a significant proportion of the West Yorkshire Pension Fund investment portfolio, the annual audit review of this asset



class found the process to be well controlled.

### **Treasury Management**

- 7.8 This audit reviewed the arrangements in place for Treasury Management, to ensure that surplus cash is invested in the most appropriate ways. Controls in this area were found to be excellent.

### **Financial plan for 2021/22**

#### **Increase service capacity**

- 7.9 We have increase staff resource across WYPF, however we need to keep this under review to maintain capacity and headroom of at least 5% for service improvements

#### **Invest to save**

- 7.10 Contingency forecast of £120k for 2021/22 is earmarked for increased system automation, resolve pension auto calculation issues, additional facilities for MyPension and EmployerWeb.

#### **Cost per member targets for shared services**

- 7.11 We aim to maintain the £17 maximum charge for 2021/22 to 2022/23. However, organisations joining our partnership from 2020 could be charged up to £18, but our plan is to keep to the £17 maximum. If we see exceptional service workload due to regulatory changes or case law e.g. McCloud, Goodwin cases, exit cap, GMP etc, we will consult with partners before any change.

#### **Remote working and hot desking**

- 7.12 We are reviewing and investing in remote and mobile working - IT equipment and furniture to support our staff to work flexibly from home or in the office. In 2021/22 financial year hot desking working arrangements are being brought in to maintain safer working environment when working in the office and increase flexibility for staff to work from home or in the office, according to service needs.

## **8 OTHER CONSIDERATIONS**

- 8.1 This is the latest update on cost of administering West Yorkshire Pension Fund for 2020/21, the final accounts for the year are currently being audited by Mazars. The result of the audit will be presented at the next meeting.

## **9 FINANCIAL & RESOURCE APPRAISAL**

This report is a key financial document and there are no additional resource implications for the Council.

**10 RISK MANAGEMENT AND GOVERNANCE ISSUES**

This report is a key financial and risk management document, within the governance process for WYPF.

**11 LEGAL APPRAISAL**

There are no legal implications resulting from the report.

**12 OTHER IMPLICATIONS**

None

**13 RECOMMENDATION**

- That this report be noted