

## Report of the Director, West Yorkshire Pension Fund, to the meeting of Joint Advisory Group to be held on 27 January 2022.

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### Subject:

#### WYPF Pension Admin and Oversight Budget Report 2021/22 Forecast and 2022/23 Budget

### Summary statement:

The latest pension admin and oversight net expenditure forecast for 2021/22 is £5.09m against a budget of £5.41m, net underspend of £0.32m. The proposed budget for 2022/23 is £6.17m and expenditure forecast is £6.16m. A separate report on financial resource for investment management is also being presented to the WYPF Investment Panel for consideration on 27 January 2022.

The 2021/22 total cost per member for WYPF is projected to be £37.10, the last published result from government for WYPF 2020/21 total cost per member is £33.63, a reduction of 20% compared to the 2019/20 result of £41.94. This placed WYPF in 1<sup>st</sup> position, with the lowest cost. The proposals in this report should maintain this performance.

The budget proposal in this report is based on a detailed analysis of costs and planned services activities that will address a number of service pressures such as McCloud, GMP reconciliation, hybrid working, digital services and cyber security. With the continued expansion of WYPF shared services which is forecast to generate income of £2.48m in 2021/22 (actual £2.07m in 2020/21), increasing to £2.83m in 2022/23, the financial resources in this report will support over 470,000 members, 900 employers and 20 pension administration services across the UK.

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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 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 support the governance and oversight of over £17.5 billion of 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

### WYPF pension admin and oversight net expenditure, forecast and budget

2.1 Budget and expenditure monitoring is a routine monthly activity within WYPF and it underpins our financial control, financial planning and financial risk management. We use detailed activity analysis of expenditure, contracts, commitments, identified service risks, regulatory changes and service best practice on a monthly basis to produce budget monitoring reports for decision making and management information. This detailed process is also known as zero base budget management and provides the most effective financial control. Summarised result of the budget monitoring and review process is provided in the table below for 2021/22 and 2022/23.

<b>WYPF PENSION ADMIN &amp; OVERSIGHT</b>	<b>2020/21 OUTTURN</b>	<b>2021/22 BUDGET</b>	<b>2021/22 FORECAST</b>	<b>2021/22 VAR BGT - FCST FAV (ADV)</b>	<b>2022/23 BUDGET</b>	<b>2022/23 FORECAST</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Accommodation	263	122	190	-68	197	186
Actuary	337	370	300	70	371	350
Computer	287	291	291	0	267	252
Invest to Save resources	0	0	0	0	0	500
Employees	3,091	3,711	3,553	158	4,339	4,094
CBMDC Support Services	316	323	323	0	343	323
WYPF Support Services	1,535	1,863	1,912	-49	2,385	2,250
Other Running Costs	619	802	704	98	782	738
Transaction Costs	0	0	0	0	0	0
Printing & Stationery	492	499	299	200	317	299
<b>WYPF PENSION ADMIN &amp; OVERSIGHT EXPENDITURE</b>	<b>6,940</b>	<b>7,981</b>	<b>7,572</b>	<b>409</b>	<b>9,001</b>	<b>8,992</b>
Other Income	-88	-75	-90	15	0	0
Shared Service Income	-1,980	-2,500	-2,393	-107	-2,830	-2,830
<b>WYPF PENSION ADMIN &amp; OVERSIGHT NET EXPENDITURE</b>	<b>4,872</b>	<b>5,406</b>	<b>5,089</b>	<b>317</b>	<b>6,171</b>	<b>6,162</b>

**Further analysis is provided in Appendix 1 to this report.**

## **2021/22 Pension admin and oversight net expenditure forecast**

- 2.2** The latest pension admin and oversight net expenditure forecast for 2021/22 is £5.09m, against a budget of £5.72m, resulting in underspend of £0.32m. The £0.32m underspend forecast is made up of a mixture of underspends and overspends, two significant items are:
- a) Underspend of £0.16m on salaries. We have increased the number of staff in in pensions admin, however we are still struggling to fill a number of vacancies across WYPF.
  - b) Underspend of £0.20m on printing and stationery, we are finally seeing some savings being delivered by switching our communication to digital channels.

## **2022/23 Pension admin and oversight net budget and expenditure forecast**

- 2.3** The budget for 2022/23 was compiled using last year budget, adjusted for cost specific inflation, additional service costs and removing cost of services not needed. This process resulted in a base budget of £6.17m. Net expenditure forecast for 2022/23 is £6.16m and was produced using the latest expenditure data and current planned expenditure. We are using invest to save strategies to manage a number of budget and service pressures from a resource pool of £0.5m, most of this resource is from £0.38m increase income from shared service charges. Key proposals we are looking at are listed below:
- a) £200k - Maintain staffing resources and create capacity for additional shared services. This is mainly directed at staffing resources, processes and procedures. The WYPF senior staff average age is over 50yrs, and succession planning for key staff members that may retire soon needs resourcing. There is an urgent need to build service resilience across WYPF and create capacity for shared services.
  - b) £100k - We need to increase our engagement with employers to improve pension services and train employers. There is also an urgent need to improve the quality of pension management information we provide to employers and also ensure we get accurate pension data in return.
  - c) £100k - Increased regulations from government, the Pension Regulator, increased tax compliance regulations on payment reporting to close tax loopholes. In addition, the Pension Ombudsman is changing its approach on how complaints is handle – possible class actions and members needing lower thresholds to raise complaints.
    - a. Pension dashboard
    - b. McCloud
    - c. GMP reconciliation
    - d. Pension scams

- e. Exit cap – is still a key government aspiration
- f. Tax compliance rules – tax allowance (annual and life time),

More investment is needed to improve our processes – were are building more auto processes, this will release staff to work on exceptions and activities that will add value. We are investing in systems and processes that will improve data quality and accuracy of pension calculations. We are also procuring digital training for staff and employers.

- d) £100k - Uncertain costs - impact of Covid-19 – accelerated digitisation of services, virtual services not only for staff, also migration of virtual services to clients and customers. Added complexity of maintaining and meshing traditional face to face services with new digital services.

The £0.5m held in Invest to Save resources will be released only after further consideration of the business case by management.

### WYPF total service cost

- 2.4 The table below gives a summary of WYPF total budget and cost, this is made up of pension administration, oversight and investment management. The budget for pension administration and oversight is being presented at this meeting. The budget for investment management, the largest of the three operational budgets will be presented for approval by Investment Panel on 27 January 2022.

WYPF TOTAL SERVICE	2020/21	2021/22	2021/22	2021/22	2022/23	2022/23
	OUTTURN	BUDGET	FORECAST	VAR BGT - PD09 FAV (ADV)	BUDGET	FORECAST
	£000	£000	£000	£000	£000	£000
WYPF PENSION ADMIN EXP	6,069	7,017	6,641	376	7,927	7,979
WYPF PENSION ADMIN INC	-2,068	-2,575	-2,483	-92	-2,830	-2,830
<b>WYPF PENSION ADMIN NET EXP</b>	<b>4,001</b>	<b>4,442</b>	<b>4,158</b>	<b>284</b>	<b>5,097</b>	<b>5,149</b>
WYPF OVERSIGHT EXP	871	964	931	33	1,074	1,013
<b>WYPF PENSION ADMIN &amp; OVERSIGHT</b>	<b>4,872</b>	<b>5,406</b>	<b>5,089</b>	<b>317</b>	<b>6,171</b>	<b>6,162</b>
WYPF INVEST MANAGEMENT EXP	5,302	7,397	6,230	1,167	8,762	8,767
WYPF INVEST MANAGEMENT INC	-173	-158	-140	-18	-189	-179
<b>WYPF INVEST MANAGEMENT NET EXP</b>	<b>5,129</b>	<b>7,239</b>	<b>6,090</b>	<b>1,149</b>	<b>8,573</b>	<b>8,588</b>
<b>TOTAL WYPF NET EXPENDITURE</b>	<b>10,001</b>	<b>12,645</b>	<b>11,179</b>	<b>1,466</b>	<b>14,744</b>	<b>14,750</b>

### Cost performance 2020/21 WYPF Cost per member

- 2.5 The 2020/21 annual cost of administering the West Yorkshire Pension Fund per member is £13.46, investment management £17.25, oversight and governance £2.93 giving a total

management cost per member of £33.63. These figures placed WYPF 1st the LGPS league table.

WYPF COST PER MEMBER	2019/20 OUTTURN	2020/21 OUTTURN	2021/22 BUDGET	2021/22 FORECAST	2022/23 BUDGET	2022/23 FORECAST
MEMBER NUMBER (UPDATED MAY20)	SF3	SF3	298,307	301,352	303,000	303,000
WYPF PENSION ADMIN	16.23	13.46	14.89	13.80	16.82	16.99
WYPF INVEST MANAGEMENT	22.83	17.25	24.27	20.21	28.29	28.34
WYPF OVERSIGHT	2.88	2.93	3.23	3.09	3.54	3.34
TOTAL COST PER MEMBER	41.94	33.63	42.39	37.10	48.66	48.68
INVESTMENT VALUE	13,180,582	16,267,534	16,267,534	17,500,000	17,500,000	17,500,000
COST OF INVEST MANAGEMENT	6,697	5,129	7,239	6,090	8,573	8,588
COST OF INVEST MANAGEMENT IN BASIS POINTS (bps)	5.08	3.15	4.45	3.48	4.90	4.91

### Investment cost of management in basis points (bps).

- 2.6 Using basis points (bps) WYPF investment cost is between 3 and 5 bps of current investment asset value of £17.5 billion. Based on the Investment Association survey for 2021/22 the average cost of investment management is 18bps, this is 300% more than WYPF. Similar to the LGPS table, this measure put WYPF in the top quartile in terms of investment management cost of the best performing investment management organisations.

Local Authority SF3 2019/20 (RANK 1 TO 10) + PARTNERS TOTAL NUMBER OF LGPS 85	2020/21								2019/20		
	Total members	Invest mngmt pr mbr	Rank	Pension Admin pr mbr	Rank	Gov & Ovsht pr mbr	Rank	Total mngmt cost pr mbr	Rank	Total mngmt cost pr mbr	Rank
<b>West Yorkshire Superannuation Fund</b>	<b>297,384</b>	<b>17.25</b>	<b>1</b>	<b>13.46</b>	<b>5</b>	<b>2.93</b>	<b>4</b>	<b>33.63</b>	<b>1</b>	<b>41.94</b>	<b>1</b>
<b>Nottinghamshire</b>	<b>145,647</b>	<b>30.00</b>	<b>2</b>	<b>18.48</b>	<b>13</b>	<b>12.39</b>	<b>40</b>	<b>60.87</b>	<b>2</b>	<b>60.93</b>	<b>2</b>
East Riding of Yorkshire UA	100,050	51.71	4	20.64	21	8.64	28	80.99	3	63.07	3
Tameside	390,652	78.78	8	18.90	17	3.95	7	101.63	4	90.43	4
Middlesbrough UA	73,620	67.33	6	26.32	41	7.99	25	101.64	5	103.85	5
Lewisham	25,399	62.64	5	27.21	44	20.04	61	109.89	6	134.88	6
Surrey	111,800	68.14	7	26.20	40	22.26	66	116.60	7	133.54	9
Bedfordshire	72,124	94.49	9	20.83	22	13.32	47	128.64	8	121.21	8
Somerset	67,907	105.78	11	18.70	14	10.03	35	134.51	9	121.25	9
Islington	20,981	46.85	3	68.73	80	19.64	60	135.22	10	151.04	12
Lincolnshire	76,856	128.30	12	12.82	3	9.82	33	150.94	11	156.66	13
Hounslow	69,878	168.31	29	38.16	62	5.07	10	211.54	29	238.91	41
Merseyside Pension Fund	140,023	249.90	44	21.61	29	12.66	42	284.17	44	339.88	60
Barnet	26,803	350.60	63	38.91	65	32.38	80	421.89	63	342.52	62

England & Wales AVERAGE	6,128,702	238.43	24.16	11.74	274.34	245.41	0
					+12% on 19/20		

**2.7** Based on government figures LGPS average cost was up by 12%, WYPF went down by 20% between 2019/20 and 2020/21.

**2.8** The impact of WYPF cost per member within the Northern LGPS is shown below, and the relative rank of the NLGPS Pool when compared to the government figures, would place NLGPS in 4th overall.

Local Authority SF3 2020/21	NORTHERN LGPS 2020/21								
	Total number of members	Insvt Exp per Mbr	Rank	Admin Exp per Mbr	Rank	O&G Exp per Mbr	Rank	Tot Exp per Mbr	Rank
West Yorkshire Superannuation Fund	297,384	£17.25	1	£13.46	5	£2.93	4	£33.63	1
Tameside	390,652	£30.00	8	£18.48	17	£12.39	7	£60.87	4
Merseyside Pension Fund	140,023	£249.90	44	£21.61	29	£12.66	42	£284.17	44
<b>NORTHERN LGPS POOL</b>	<b>828,059</b>	<b>£62.61</b>	<b>5</b>	<b>£17.21</b>	<b>9</b>	<b>£9.04</b>	<b>29</b>	<b>£88.85</b>	<b>4</b>

### **3. OTHER CONSIDERATIONS**

None

### **4. FINANCIAL & RESOURCE APPRAISAL**

Expenditure and income detailed in this report will be charged to the WYPF pension fund account. This report is one of two reports that will be used to determine the financial resources available to the WYPF to deliver operational services for the 2021/22 and 2022/23 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 planned expenditure and income, report on financial activities and strategy, cost control and performance to the Joint Advisory Group.

### **6. LEGAL APPRAISAL**

In accordance with Local Government Pension Scheme Regulations 2013, the pension fund must prepare annual management and financial performance reports. This report will allow the Group to consider the resources available to WYPF to deliver statutory functions and effective high performing pension management and financial services.

### **7. OTHER IMPLICATIONS**

#### **7.1 SUSTAINABILITY IMPLICATIONS**

The services covered in this report are committed to mitigating climate change by using energy efficient supplies and services, avoid waste and where not possible minimise waste. Reuse materials and where facilities are available recycle office wastes.

## **7.2 GREENHOUSE GAS EMISSIONS IMPACTS**

WYPF operates from a modern “Aldermanbury House”, the building was bought in 2014 and we have invested significant sums to improve the energy efficiency of the building, however there is still more to do. We are working with our property managers to further improve the building for staff, visitors and our commercial tenants. Electricity supplied to the building is sourced from renewable suppliers and there is programme to review water boilers and other plant.

In terms of our operations a significant number of our staff have always been able to work from home before the Covid-19 pandemic and since the start of the pandemic all staff that want to work from home have been able to work from home. This has reduced our staff daily journeys into work and also reduced our operational greenhouse gas emission significantly. When on business travel our staff are encouraged to use public transport, unless low greenhouse gas emission alternatives are available.

## **7.3 COMMUNITY SAFETY IMPLICATIONS**

None.

## **7.4 HUMAN RIGHTS ACT**

None.

## **7.5 TRADE UNION**

The services covered by this report will provide additional employment and apprenticeship opportunities within the local area.

## **7.6 WARD IMPLICATIONS**

The services covered by this report will provide additional employment and apprenticeship opportunities within the local area.

## **7.7 IMPLICATIONS FOR CHILDREN AND YOUNG PEOPLE**

The services covered by this report will provide additional employment and apprenticeship opportunities within the local area.

## **7.8 ISSUES ARISING FROM PRIVACY IMPACT ASSESSMENT**

None.

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

No

## **9. OPTIONS**

The Joint Advisory Group should consider, approve the original estimate for 2022/23, note the projected outturn for 2021/22, or may make recommendations to management on any part of this report.

## 10. RECOMMENDATIONS

That the Group:

- A. Note the projected outturn of £5.09m against budget of £5.41m for 2021/22.
- B. Approve the proposed budget of £6.17m for 2022/23.
- C. Note the WYPF total cost per member of £33.63 is the lowest LGPS cost per member, this is also supported by strong service performance and quality.

## 11. APPENDICES

Appendix 1 – Pension admin and oversight analysis of expenditure 2021/22 and 2022/23.

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WYPF PENSION ADMIN & OVERSIGHT	2020/21	2021/22	2021/22	2021/22	2022/23	2022/23
	OUTTURN	BUDGET	FORECAST	VAR BGT - FCST FAV (ADV)	BUDGET	FORECAST
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- a) Accommodation – this is the charge for the office area occupied by the pension admin teams in Aldermanbury House. WYPF owns the building and we charge ourselves a market rent. The rent is reviewed every three years by our professional valuers CBRE.

Increased spend forecast for 2021/22 of £190k is due to increased building repairs, cleaning, cost of electricity and gas. We are also looking at ways of making the building and our office area safer for staff and visitors – in terms of security, safety and Covid-19 risks.



The budget for 2022/23 of £197k is based on rent charges, planned building maintenance and energy costs. The reduced forecast of £186k is due to staff count forecast for investment teams compared to increased staff forecast for pension admin.

- b) Actuary – This is a key element of pensions governance management ensure correct benefits are paid, each employers pay their cost and obligations, and overall the fund is well managed.

The reduction in cost forecast for 2021/22 the result of two invest to save projects:

a.) Monthly unitisation data – traditionally information is shared every three years with the actuary during valuation. We send data to the actuary on members, employers, asset value, operational cost and income. This process allows issues with members' data, employers asset share, costs and income issues and experience to be actively managed each month. This means employers leaving or joining, IAS19 etc can be deal with more efficiently and at reduced costs.

b.) We have put more resources into our control process in Finance and Technical teams to ensure all actuary work for employers are tightly controlled, majority of work are delivered on fixed price and where possible negotiated to reduce cost to employers and WYPF.

2022/23 Actuary budget is based on the current contract and increase for the March 2022 valuation work, however the forecast takes in some savings resulting from 2021/22.

- c) Computer – this is the total cost of pension admin management systems and any other direct computer systems used to support members, employers and shared services clients.

2021/22 £291k forecast, we are planning to spend to budget in 2021/22.

2022/23 £267k budget is based on current contracts, the forecast of £252k recognises the high level of investments we have made in improving systems. This is under constant review and we will assess and address all emerging pressures, if necessary fund from Invest to save resources provision using invest to save criteria.

- d) Invest to Save resources – provision for a number of emerging cost pressures in 2022/23:
- i. Staffing resources, processes and procedures £200k, rebuild shared service capacity.
  - ii. Employers engagement and compliance £100k.
  - iii. Increased regulations £100k, McCloud, GMP, pension scams, exit cap, tax rules.
  - iv. Improve back office, systems, digital services and management information £100k.
- e) Employees – Direct staff cost of pension admin and oversight.

2021/22 forecast is £3,553k. Out of a total staff structure of 91 FTE, we have 13 FTE staff

vacancies, 14% for a service that is labour intensive this very high. We have made progress in bringing this down from 20% and there are plans in place to increase our recruitment activities.

For 2022/23 we have budgeted for full structure total cost of £4,339k. The forecast of £4,094k is based on the full structure, adjusted for the fact that it will take few months to fill vacancies in the new financial year.

- f) CBMDC Support Services – this is the cost of central support services provided by CBMDC, Bradford ICT, Legal, telephone systems, corporate services, HR etc.

A projected charge of £158k is expected for 2021/22 and a budget of £343k is provided for 2022/23. We are still waiting for a proposed charge for 2022/23 from Bradford.

- g) WYPF Support Services – this is made up of departmental support costs within WYPF (finance, IT, facilities management, service development, staff training, health and safety, contact centre, communication and website services).

The total spend for WYPF support services is forecasted to be £2,958k. Charge to pension admin and oversight is based on specific usage factors, the charge for 2021/22 is forecasted to be £1,1912k.

- h) Other running costs – cost of tracing agents, legal opinions, professional training, access to technical services for pension, LGA LGPS services. We also pay for strategic advice on investments, investment performance independent analytics, tax advice and compliance, external audit fees, general bank charges etc

Service cost forecast for 2021/22 is £704k, budget for 2022/23 is £782k and forecast is £738k, we hope to achieve this by negotiating with service providers and reviewing how we use these services.

- i) Other income – this is income generated from providing independent dispute resolution procedure (IDRP) to other pension funds across the UK.

Income of £90k for 2021/22 is our best forecast, we are reviewing this area of service and budget for 2022/23 is currently set at zero. We are looking at reallocating resources to this area to assess if this is adequate and if what we charge cover the cost.

- j) Shared service income – this is income generated from pension admin services provided to LGPS and fire service across the UK. By the end of 2021/22 financial we will have a total of 25 partners (3 LGPS and 22 fire services)

Forecast for 2021/22 is income of £2,393k against a budget of £2,500k overspend of £170k. We charge our service partners based on actual costs, therefore a reduced invoice because we are underspending. This ensure we share cost savings across the group, keeping our cost low and bringing in more business.

Budget for 2022/23 is currently set at £2,830k, the increased income is based on current number of members within the pension admin shared services, this is a prudent forecast.