

Report of the Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 13 September 2022.

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Subject:

West Yorkshire Pension Fund (WYPF) Finance Report.

Summary statement:

This report presents the WYPF 2021/22 financial outturn, financial and service performance and the draft 2021/22 annual report and accounts (WYPF accounts). The Local Government Pension Scheme Regulations 2013 (LGPS Reg 2013), Regulation 57 specifies that - an annual report must be prepared each year ending 31 March and must be published by 1st December following the year end.

The WYPF accounts forms part of the City of Bradford Metropolitan District Council (CBMDC) accounts, and will be audited by the Council Auditor "Mazars LLP" and signed by Mazars as part of the City of Bradford accounts bundle. The audited WYPF accounts are also required by all West Yorkshire employers that are employer members of WYPF for their annual audit. The LGPS Reg 2013 Regulation 56 stipulates that WYPF must supply audited accounts to all its employers and WYPF complies with this regulation by publishing the audited annual report and account on the WYPF website. There are also a number of audit regulations requiring employers' auditors to gain assurance on pension liabilities and assets, by auditing our records.

Our outturn for 2021/22 is £10.46m against a budget of £12.65m, underspend of £2.19m, major underspend on employee costs £0.42m, and investment transaction cost underspend of £1.28m. We delivered top quartile services performance using efficient and continuous improvement processes. Our cost per member for 2020/21 was £33.93, 2021/22 is £33.97, WYPF remained the lowest in the LGPS whilst maintaining service quality.

The net asset value of the Fund as at 31 March 2022 is £17.91 billion, increase of £1.58 billion (9.67%) compared to 31 March 2021 figure of £16.33 billion.

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Portfolio:

Overview & Scrutiny Area:

1 SUMMARY

1.1 In order to comply with statutory accounting requirements for Local Government and Local Government Pension Schemes, WYPF must prepare an annual report and accounts. The 2021/22 financial outturn, financial and service performance and the draft 2021/22 annual report and accounts (WYPF accounts) were presented to the Joint Advisory Group (JAG) on 28/07/22. The latest version of the report will be presented to Bradford Council Governance and Audit Committee on 22/09/22 for approval.

1.2 This report provides a summary of West Yorkshire Pension Fund's financial position at the end of the year, and key financial activities during the year ended 31 March 2022. The accounts have been prepared in accordance with:

- CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2021/22
- CIPFA Guidance on Accounting for Local Government Pension Scheme Management Costs
- Latest Pensions Statement of Recommended Practice
- International Financial Reporting Standards (IFRS), as amended for the UK public sector

The annual report and accounts complies with all relevant regulations and best practice.

External Auditor's work 2021/22

1.3 The Council's auditor Mazars presented their approach to the final audit for WYPF, to JAG on 28 July. Mazars' plan will ensure that external audit work is completed to meet WYPF regulatory deadlines.

1.4 The WYPF Draft 2021/22 Report and Accounts is attached as Appendix 1 to this report.

2 BACKGROUND

Net value of assets

2.1 The net asset value of the Fund as at 31 March 2022 is £17,906.42m, a net increase of £1,579.22m (9.67%) from 31 March 2021. The table below gives net assets values for the last ten years including 2021/22.

<u>Year to</u> <u>31 March</u>	<u>Net Asset</u>	<u>Increase /</u> <u>(Decrease)</u>	<u>Increase /</u> <u>(Decrease)</u>
2022	£17,906.42m	£1,579.22m	9.67%
2021	£16,327.20m	£3,112.90m	23.56%
2020	£13,214.30m	(£1,148.74)m	(8.00%)
2019	£14,363.04m	£796.41m	5.87%
2018	£13,566.63m	(£65.70)m	(0.48%)
2017	£13,632.33m	£2,421.35m	21.60%
2016	£11,210.98m	(£108.22)m	(0.96%)
2015	£11,319.20m	£950.40m	9.17%
2014	£10,368.80m	£428.50m	4.31%
2013	£9,940.30m	£1,155.89m	13.16%

Change in net assets during the year

- 2.2 The increase in net assets of £1,579.22m between 31 March 2021 and 31 March 2022 is mainly due to positive financial markets movements post the Covid-19 pandemic financial impact.

Return on investment

- 2.3 The total return on investment in 2021/22 is £1,693.49m (2020/21 £3,189.25m). This is made up of £1,275.54m (2020/21 £2,833.73m) gains in market value and net investment income of £425.22m (2020/21 £361.16m) from dividends, interest, and stock lending commission, less taxes on income £9.14m (2020/21 £7.92m).

Net cashflow

- 2.4 WYPF continues to have a positive net cashflow, in 2021/22 net cashflow was £323.27m (2020/21 £297.09m).

(£66,346)	Net additions/(withdrawals) from dealing with members	(£103,825)
£361,159	Investment income	£425,221
£2,278	Stock lending	£1,871
£297,091		£323,267

Investment performance

- 2.5 In 2021/22 financial assets / investment performance was 10.5%. This is 2.3% above our benchmark. The long term track record is also positive, as shown in the table below, over ten years WYPF has outperformed the benchmark by 0.9% per annum. Investment returns against benchmark are as follows:

<u>31-Mar-22</u>	<u>Annualised</u>	<u>Fund Specific</u>	<u>Over</u>
	<u>Return</u>	<u>Benchmark</u>	<u>/(Under)</u>
	<u>%</u>	<u>%</u>	<u>%</u>
One Year	10.5	8.2	2.3
Three Years	8.3	6.8	1.3
Five Years	7.1	6.9	0.0
Ten Years	8.7	7.8	0.9

2021/22 service financial performance

- 2.6 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 service 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.
- 2.7 Our rigour in managing services and monitoring financial activities and expansion of shared services delivered a budget savings of £2.19m. The cost of managing Pension Administration Shared Service, WYPF Investment Management and WYPF Oversight and Governance cost are paid for by a charge to the WYPF Fund Account, net of our LGPS and Fire & Rescue Service partners. Shared service income for 2021/22 is £2.53m and forecast for 2022/23 is £2.83m and likely to grow in future.

WYPF TOTAL SERVICE	2020/21 OUTTURN PD13	2020/21 COST PER MBR	2021/22 BUDGET	2021/22 OUTTURN PD13	2021/22 VAR BGT - PD03 FAV (ADV)	2021/22 COST PER MBR	2022/23 BUDGET	2022/23 FORECAST PD03 JUN	2022/23 VAR BGT - PD03 FAV (ADV)	2022/23 COST PER MBR PD3
	£000		£000	£000	£000		£000	£000	£000	
PENSION ADMINISTRATION	4,002	£13.42	4,522	4,225	297	£13.73	5,250	5,581	-331	£17.93
OVERSIGHT	871	£2.92	965	699	266	£2.27	1,004	770	234	£2.48
WYPF PENSION ADMIN & OVERSIGHT	4,873	£16.34	5,487	4,924	563	£16.00	6,254	6,351	-97	£20.41
INVESTMENT MANAGEMENT	5,129	£17.19	7,158	5,531	1,627	£17.97	8,496	8,284	212	£26.62
TOTAL WYPF NET EXP	10,002	£33.53	12,645	10,455	2,190	£33.97	14,750	14,635	115	£47.02
MEMBER NUMBER		298,317				307,796				311,243

WYPF	2020/21 OUTTURN PD13	2020/21 COST PER MBR	2021/22 BUDGET	2021/22 OUTTURN PD13	2021/22 VAR BGT - PD03 FAV (ADV)	2021/22 COST PER MBR	2022/23 BUDGET	2022/23 FORECAST PD03 JUN	2022/23 VAR BGT - PD03 FAV (ADV)	2022/23 COST PER MBR PD3
	£000		£000	£000	£000		£000	£000	£000	
Accommodation	349	£1.17	347	301	46	£0.98	261	331	-70	£1.06
Actuary	337	£1.13	370	189	181	£0.61	350	208	142	£0.67
CBMDC Support Services	453	£1.52	463	459	4	£1.49	463	504	-41	£1.62
Computer	1,307	£4.38	1,451	1,351	100	£4.39	1,216	1,702	-486	£5.47
Invest to save	0	£0.00	0	0	0	£0.00	1,000	612	388	£1.97
Employees	6,877	£23.05	8,580	8,160	420	£26.51	10,604	10,862	-258	£34.90
Other Running Costs	926	£3.10	1,045	1,046	-1	£3.40	1,066	1,151	-85	£3.70
Printing & stationery	496	£1.66	506	373	133	£1.21	299	410	-111	£1.32
Transaction Costs	1,496	£5.01	2,616	1,333	1,283	£4.33	2,500	2,000	500	£6.43
WYPF Support Services	0	£0.00	0	0	0	£0.00	0	0	0	£0.00
WYPF TOTAL SERVICE EXPENDITURE	12,241	£41.04	15,378	13,212	2,166	£42.92	17,759	17,780	-21	£57.13
Other Income	-223	-£0.75	-205	-214	9	-£0.70	-179	-235	56	-£0.76
Shared Service Income	-2,016	-£6.76	-2,528	-2,543	15	-£8.26	-2,830	-2,911	81	-£9.35
WYPF TOTAL SERVICE NET EXPENDITURE	10,002	£33.53	12,645	10,455	2,190	£33.97	14,750	14,634	116	£47.02
MEMBER NUMBER		298,317				307,796				311,243

2.8 Variances between the budget and outturn for 2021/22 are mainly due to:

- **Accommodation costs:** £46k underspend. Reduction in spend direct impact of staff working from home, due to Covid-19.
- **Actuarial costs:** £181k underspend on actuarial services due to improved cost control, improved IAS19 reporting and employer cost recharges carried out in time.
- **CBMDC Support Services:** £4k underspend. Payment to Bradford Council for services provided to West Yorkshire Pension Fund for ICT, payroll, legal services and other corporate services.
- **Computer costs:** £100k underspend, benefit of using a mixture of in house resources and external contractors to implement new servers, we originally planned to use external resources.
- **Employee costs:** £420k underspent against budget due to a number of vacant posts remaining difficult to fill in 2021/22.
- **Other running costs:** £1k overspend.

- **Printing and postage:** £133k underspend as a direct result of increased use of digital services.
- **Investment transaction costs:** £1,283k underspend. Continuing direct impact of Covid-19 resulting in a reduced number of investment transactions in 2021/22.
- **Total income:** £24k underspend, mainly shared service £15k (budget £2,528k, income £2,543k) and various recharges £9k (budget £205k, income £214k). All charges to our shared service partners are based on actual total cost and number of members at the yearend for each shared service partner. The total cost increased due to the increased cost of system developments due to McCloud remedy and other regulatory changes.

2022/23 budget

2.9 The budget for 2022/23 is £14.75m. The latest net expenditure forecast for 2022/23 is £14.63m. We are using invest to save strategies to manage a number of budget and service pressures from a resource pool of £1.0m. Most of the £1.0m is from increased income from shared service recharges, efficiencies and saving activities delivered. Key proposals we are working on are listed below:

- a) £300k – Maintain staffing resources and create capacity for additional shared services. This is mainly directed at staffing resources, processes, procedures and succession planning.
- b) £200k - To increase service consultation across all service areas, ESG, climate change engagements, employers’ consultation on a number of issues to improve pension services and share knowledge with employers. To improve the quality of pension management information we provide to employers and improve the accuracy of pension data in return.
- c) £200k - Increased regulations and financial compliance rules. A major development in this area is the Taskforce for Climate Financial Disclosure (TCFD) requirements for all asset owners (pension funds and wealth funds). Some of the overseas companies we invest in will be reporting using the EU’s Sustainability Financial Disclosure Regulations (SFDR). We will need additional systems and data management resources to capture additional data required by new regulations, source new data; track, validate and analyse data for investment management.

On the pension administration front there are new regulations from government, the Pension Regulator, HMRC tax compliance regulations on payment reporting (closing tax loopholes) which will require additional resources i.e.

- a. Pension dashboard
- b. McCloud
- c. GMP reconciliation
- d. Pension scams
- e. Exit cap

- f. Tax compliance rules – tax allowance (annual and lifetime),

Investment is needed to improve our processes – we are building more automated 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.

- d) £225k - Uncertain costs and impact of Covid-19 – accelerated digitisation of services, virtual services for staff, members and employers, also migration of virtual services to clients and customers. Added complexity of maintaining and meshing traditional face to face services with new digital services.

Improve investment back office services and systems and introduce workflow processes. We will be looking to employ a specialist IT developer who will collaborate with our investment system providers Linedata and Burgiss to automate more processes.

Brexit is still a concern for all business operations including the financial service sector.

- e) £75k – Improve investment performance data management and data exchange with Northern Trust, MJ Hudson (Amaces), Portfolio Evaluation (PEL) and Aon - monthly pension unitisation data for managing employers covenant, contracts and financial viability.

Of the £1m held as Invest to Save resources, £0.39m has been allocated for additional staffing, training and apprentices, system developments for McCloud remedy, IT systems and equipment.

- 2.10 The 2022/23 budget is scoped to maintain the current growth of pension administration shared service, investment pooling, increased service capacity, improved service quality, strengthened regulatory compliance and improved data governance.

2021/22 and 2022/23 cost performance

- 2.11 The 2021/22 annual cost of managing WYPF per member is £33.97 and for 2022/23 £47.03. These figures should place WYPF 1st in the LGPS cost per member league table.

WYPF COST PER MEMBER	2019/20	2020/21	2021/22	2022/23
	ACTUAL	ACTUAL	ACTUAL	FORECAST
MEMBER NUMBER	SF3	SF3	307,796	311,243
WYPF PENSION ADMIN	£16.23	£13.46	£13.73	£17.99
WYPF INVEST MANAGEMENT	£22.83	£17.25	£17.97	£26.62
WYPF OVERSIGHT	£2.88	£2.93	£2.27	£2.48
TOTAL COST PER MEMBER	£41.94	£33.64	£33.97	£47.02
INVESTMENT VALUE (000)	£13,180,582	£16,267,534	£17,760,000	£18,000,000
COST OF INVEST MANAGEMENT	£6,697	£5,129	£5,531	£8,588
COST OF INVEST MANAGEMENT IN BASIS POINTS (bps)	5.08	3.15	3.11	4.77

2.12 Using 2021/22 value of assets and investment management costs to calculate basis points (bps) WYPF investment management cost is 3.11bps of current investment asset value of £17.76 billion. WYPF is between 5bps and 3bps, based on the Investment Association survey for 2021/22 the average cost of investment management is 18bps, this is 500% 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.

LGPS top 10 funds with the lowest cost per member (latest result)

Local Authority SF3 2020/21 (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
West Yorkshire Pension Fund	297,384	17.25	1	13.46	5	2.93	4	33.63	1	41.94	1
Nottinghamshire	145,647	30.00	2	18.48	13	12.39	40	60.87	2	60.93	2
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			

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

Membership numbers

2.14 Our membership increased from 298,317 in 31 March 2021 to 307,796 in 31 March 2022, an increase of 3.2% (2020/21 1.3%).

Number of employers

2.15 The number of employers as at 31 March 2021 was 423, at 31 March 2022 it was 463, an increase of 40.

Pension admin service performance

2.16 The table below shows our 2020/21 performance in 20 key work areas, this performance reflects the commitment of officers and managers in delivering services to all our clients.

Work type	Total cases	Target days	Target cases met	KPI target	Actual KPI	Actual KPI	
	2021/22	2021/22	2021/22	2021/22	2021/22	2020/21	
				%	%	%	
1	Payment of pensioners (WYPF LG pensioners and beneficiaries)	1,984,308	Paid on due days	1,984,308	100	100.00	100.00
2	Change of address	3,266	10	3,128	85	95.79	95.79
3	Change to bank details	1,926	10	1,815	85	94.52	94.52
4	Death grant nomination	4,463	20	3,513	85	99.77	99.77
5	Death grant payments	2,682	10	2,461	85	93.05	93.05
6	Death in retirement	239	20	122	85	88.84	88.84
7	Deferred benefits	2,967	35	2,698	85	96.66	96.66
8	Deferred benefits into payment actual	2,350	5	2,240	90	88.25	88.25
9	Divorce quote	430	20	391	85	91.36	91.36
10	Life certificate received	5	10	4	85	80.41	80.41
11	Monthly posting	4,885	10	4,601	95	95.58	95.58
12	Payroll changes	1,986	10	1,940	85	98.74	98.74
13	Pension estimate	3,076	10	2,555	90	96.30	96.30
14	Refund payment	1,862	10	1,851	95	98.22	98.22
15	Refund quote	3,706	35	3,696	85	99.39	99.39
16	Retirement actual	3,318	3	3,225	90	92.71	92.71
17	Transfer out payment	215	35	187	85	89.86	89.86
18	Transfer-in payment	562	35	531	85	94.89	94.89
19	Transfer-in quote	844	35	838	85	99.63	99.63
20	Transfer-out quote	1,812	20	1,675	85	76.17	76.17

3 OTHER CONSIDERATIONS

The financial accounts for the Council will be presented for approval by the Governance and Audit Committee on 22/09/2022.

4 FINANCIAL & RESOURCE APPRAISAL

The Council is required by law to produce an audited annual financial report for WYPF within the Council's financial statements.

5 RISK MANAGEMENT AND GOVERNANCE ISSUES

The WYPF report and accounts is a statutory financial document. It is a key element of financial risk management and governance, and provides the outcome of key financial controls in operation during the financial year.

6 LEGAL APPRAISAL

In order to meet statutory deadlines, the report and accounts must be approved and signed by the Chair of Governance and Audit Committee on or before 1 December 2022. There are no other legal issues.

6.1 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 waste.

6.2 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 energy efficiency of 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 equipment in the building.

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 lower greenhouse gas emission alternatives are available.

In order to maintain a balanced service, we have moved to a hybrid operation on a standard two days office working and three days home working each week. This approach is supported by the majority of staff.

6.3 COMMUNITY SAFETY IMPLICATIONS

None.

6.4 HUMAN RIGHTS ACT

None.

6.5 TRADE UNION

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

6.6 WARD IMPLICATIONS

None.

6.7 IMPLICATIONS FOR CORPORATE PARENTING

None.

6.8 ISSUES ARISING FROM PRIVACY IMPACT ASSESSMENT

None.

7 NOT FOR PUBLICATION DOCUMENTS

No

8 OPTIONS

The Local Pension Board should note the finance report or may make recommendations to management on any part of the report.

9 RECOMMENDATION

A. That the annual report and account be noted and may suggest any improvements.

B. That WYPF's financial and service performance be noted.

10 APPENDICES

Appendix 1 – WYPF Draft Report and Accounts 2021/22

11 BACKGROUND DOCUMENTS

None