

Report of the Director, West Yorkshire Pension Fund, to the meeting of Joint Advisory Group to be held on 26 January 2023.

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Subject: West Yorkshire Pension Fund (WYPF) Finance Report.

Summary statement:

This report presents the latest financial update for 2022/23, budget proposal for 2023/24 and update on the 2021/22 annual report and accounts (WYPF accounts). The Local Government Pension Scheme Regulations 2013 (LGPS Reg 2013), Regulation 57 specifies that:

1. Using best practice an annual report must be prepared each year ending 31 March.
2. The audited annual report must be published by 1st December following the yearend.

The WYPF accounts forms part of the City of Bradford Metropolitan District Council account, the WYPF accounts has been audited by the Council Auditor “Mazars LLP” and waiting to be signed by Mazars as part of the City of Bradford accounts bundle. The LGPS Regulations 2013 Regulation 56 stipulates that WYPF must supply audited accounts to all its employers. To comply we publish the audited annual report and accounts on our website. Please note that all local authorities 2021/22 final accounts audit opinions have been delayed due to a new Statutory Instrument No1232 on Council accounts that that came into force on 25/12/22.

The 2022/23 total cost per member forecast is £43.16, the latest LGPS 2021/22 published government statistics for WYPF is £34.06. This placed WYPF in 1st position, with the lowest cost. The second placed LGPS fund Nottinghamshire cost per member is £68.19. Our target cost per member for 2022/23 is £45 and for 2023/24 £51, this will maintain our performance.

Budget proposals in this report are based on a detailed analysis of costs and planned services that addresses a number of regulatory and service pressures such as McCloud, pension dashboard, digital services and governance across WYPF. The continued expansion of WYPF pension shared service showed increased income to £3,073k in 2022/23 (actual £2,543k in 2021/22), increasing again to £3,222k in 2023/24. The financial resources in this report will support a growing pension shared service with over 496,530 pension admin members, 900 employers and 27 pension administration services across the UK.

The net asset value of the Fund as at 31 March 2022 is £17.98 billion, increase of £1.65 billion (10.12%) compared to 31 March 2021 figure of £16.33 billion, with funding level of 106% 2019.

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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) are presented to the Joint Advisory Group to note. The same report was presented to Bradford Council Governance and Audit Committee later in October 2022.
- 1.2 This report provides a summary of West Yorkshire Pension Fund's financial position, 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 work 2021/22

- 1.3 The Council's auditor Mazars presented their approach to the final audit for WYPF on 28 July 2022. Mazars completed their final account audit work in October 2022, however all local authorities' account audit opinions were delayed to due to new legislative provisions that were implemented for local authority infrastructure assets. The Statutory Instrument 2022 No 1232 dealing with this issue was made on 25 November 2022, laid before Parliament on 30 November 2022 and came into force on Christmas Day 25 December 2022.
- 1.4 We are in discussion with Mazars' officers as to when Bradford Council accounts bundle, including WYPF accounts will be signed.
- 1.5 The latest WYPF Draft Report and Accounts as at 31 March 2022 is attached as Appendix 1 to this report. The current version will remain as a draft account until it is signed. We will update JAG in July 2023. Due to late receipt of a number of private asset valuations the value of asset has increased and as a result investment performance also improved.

2 BACKGROUND

Net value of assets

- 2.1 The net asset value of the Fund as at 31 March 2022 is £17,979.47m, a net increase of £1,652.27m (10.12%) compared to 31 March 2021. The table below gives net assets values for the last ten years including 2021/22.

<u>Year to 31 March</u>	<u>Net Asset</u> <u>£m</u>	<u>Increase (Decrease)</u> <u>£m</u>	<u>Increase (Decrease)</u> <u>%</u>
2022	17,979.47	1,652.27	10.12%
2021	16,327.20	3,112.90	23.56%
2020	13,214.30	-1,148.74	-8.00%
2019	14,363.04	796.41	5.87%
2018	13,566.63	-65.70	-0.48%
2017	13,632.33	2,421.35	21.60%
2016	11,210.98	-108.22	-0.96%
2015	11,319.20	950.40	9.17%
2014	10,368.80	428.50	4.31%
2013	9,940.30	1,155.89	13.16%

Change in net assets during the year

- 2.2 The increase in net assets of £1,652.27m 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 £1,766.54m (2020/21 £3,189.25m). This is made up of £1,348.59m (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 cash 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		£323,269

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 Return</u> <u>%</u>	<u>Fund Specific Benchmark</u> <u>%</u>	<u>Over / (Under)</u> <u>%</u>
One Year	10.5	8.2	2.3
Three Years	8.3	6.8	1.5
Five Years	7.1	5.9	1.2
Ten Years	8.7	7.8	0.9

WYPF pension admin and oversight net expenditure, forecast and budget

- 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 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 management information and decision making. 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 tables below for 2022/23 and 2023/24.

WYPF total service cost

- 2.7 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 26 January 2023.

WYPF TOTAL SERVICE	2021/22	2022/23	2022/23	2022/23	2022/23	2023/24	2023/24
	OUTTURN PD13	BUDGET	FORECAST PD08 NOV	VAR BGT - PD08 FAV (ADV)	COST PER MBR PD8	ORG BUDGET	ORG BUDGET COST PMBR
	£000	£000	£000	£000		£000	
01 PENSION ADMINISTRATION	4,225	5,250	5,440	-190	£17.17	6,303	£19.36
03 OVERSIGHT	699	1,004	826	178	£2.60	998	£3.06
WYPF PENSION ADMIN & OVERSIGHT	4,924	6,254	6,266	-12	£19.77	7,301	£22.42
02 INVESTMENT MANAGEMENT	5,531	8,496	7,413	1,083	£23.39	9,308	£28.59
TOTAL WYPF NET EXP	10,455	14,750	13,679	1,071	£43.16	16,609	£51.01
		£47.58			-£4.42		+£3.43
WYPF MEMBER NUMBER (SHARED SERVICE 496,530)		310,000			316,930	5.04%	325,630

WYPF PENSION ADMIN & OVERSIGHT	2021/22	2022/23	2022/23	2022/23	2022/23	2023/24	2023/24
	OUTTURN	BUDGET	FORECAST	VAR BGT -	COST	ORG	ORG
	PD13		PD08	PD08	PER	BUDGET	BUDGET
			NOV	FAV	MBR		COST
				(ADV)	PD8		PMBR
	£000	£000	£000	£000		£000	
Accommodation	203	125	179	-54	£0.57	171	0.53
Actuary	189	350	208	142	£0.66	301	0.92
CBMDC Support Services	315	323	382	-59	£1.20	396	1.22
Computer	439	216	688	-472	£2.17	688	2.11
Contingency - Invest to save	0	500	150	350	£0.47	250	0.77
Employees	3,830	4,236	4,566	-330	£14.41	5,281	16.22
Other Running Costs	576	725	723	2	£2.28	749	2.30
Printing & stationery	371	295	388	-93	£1.22	346	1.06
WYPF Support Services	1,582	2,275	2,138	137	£6.74	2,342	7.19
WYPF TOTAL SERVICE EXPENDITURE	7,505	9,045	9,422	-377	£29.73	10,524	32.32
Other Income	-77	0	-85	85	-£0.27	0	0.00
Shared Service Income	-2,504	-2,790	-3,073	283	-£9.69	-3,222	-9.90
WYPF TOTAL SERVICE NET EXPENDITURE	4,924	6,255	6,264	-9	£19.77	7,302	22.42
Cost per member		£20.18			-£0.41		+£2.24
WYPF MEMBER NUMBER (SHARED SERVICE 496,530)		310,000			316,930	5.04%	325,630

2.8 Variances between the budget and outturn for 2022/23 are mainly due to:

- **Accommodation costs:** Increased spend forecast for 2022/23 of £91k is due to increased cost of building repairs, cleaning, electricity and gas.

The budget for 2023/24 is based on current charges of £179k, we expect gas and electric charges to go up again during 2023/24.

- **Actuarial costs:** The reduction in cost forecast for 2022/23 is the result of two invest to save projects:

a.) Monthly unitisation data – traditionally information is shared every three years with the actuary during triennial valuation years. We now send monthly 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 employers pension management performance to be actively managed each month. This means employers leaving or joining, IAS19 reports etc can be dealt with more efficiently and at reduced costs.

b.) We continue to review our cost control processes in Finance and Technical teams ensuring 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.

2023/24 Actuary budget is based on current contract prices and current level of usage.

- **CBMDC Support Services:** A projected charge of £382k is expected for 2022/23.

A budget of £396k is provided for 2023/24. The increase reflects increased number of staff working in pension admin.

- **Computer costs:** 2022/23 £688k forecast, this include a provision of £319k for cost of IT systems being developed to deliver McCloud, Pension Dashboard and a number of pension regulatory changes. The increased cost for 2022/23 will be funded from invest to save provisions and additional £1 per member charge to all shared partners.

2023/24 £688k is based 2022/23 projection and the same level of system development provisions to deliver regulatory changes and system automation.

- **Invest to Save resources:** Provision reduced to £150k.

2023/24 a total provision of £250k is provided - £150k for service reviews and improvements, process and procedure reviews and £100k for general activities.

- **Employee costs:** 2022/23 forecast is £4,566k, we have been successful in filling a number of pension administration posts. However, there are still a number of areas across WYPF, where we are struggling to fill professional posts.

For 2023/24 we have budgeted for full structure, total cost of £5,281k, this is based on current cost of each post.

- **Other running costs:** Service cost forecast for 2022/23 is £704k.

Budget for 2023/24 is £782k.

- **Printing and postage:** Increased cost of £388k for 2022/23 is due to new clients joining our shared service of letters sent to new clients' members; and slow take up of MyPension by our members.

For 2023/24 a reduced budget of £346k is provided to enforce some reduction.

- **WYPF Support Services:** The total charge to pension admin and oversight is based on specific usage factors, the charge for 2022/23 is a forecast of £2,138k.

For 2023/24 a budget of £2,342 is proposed.

- **Other income:** Income of £90k for 2022/23 is our best forecast, we are reviewing this area of service.

Budget for 2023/24 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 costs incurred.

- **Shared service income:** Forecast for 2022/23 is £3,073k against income budget of £2,790k underspend of £283k. We charge our service partners based on actual costs. This ensure we share cost savings across the group, keeping our cost low and bringing in more business.

Budget for 2023/24 is currently set at £3,222k, the increased income is based on projected number of members within the pension admin shared services.

2023/24 Pension admin and oversight net budget and expenditure forecast

- 2.9 The budget for 2023/24 was compiled using activity base budgeting, adjusted for cost specific inflation, additional service costs and removing cost of services not needed. This process resulted in a base budget of £7,302k. We are using invest to save strategies to manage a number of budget and service pressures from a resource pool of £250k. This is funded from increase of £432k in shared service income budget of £2,790 in 2022/23 to £3,222k in 2023/24. The £250k resource will be released after further consideration by management of business cases during 2023/24.

Cost performance 2021/22 WYPF Cost per member

- 2.10 Based on government statistics sf3 result for 2021/22 annual cost of administering West Yorkshire Pension Fund per member is £13.76 (3rd), investment management £18.02 (1st), oversight and governance £2.28 (5th) giving a total management cost per member of £34.06 (1st). These figures placed WYPF 1st in the LGPS league table. The second place fund Nottinghamshire total cost is £68.19.

WYPF COST PER MEMBER	2019/20	2020/21	2021/22	2021/22 COST PER MBR	2022/23 BUDGET	2022/23 COST PER MBR PD8	2023/24 FRCSTYR1 COST PMBR
	ACTUAL	ACTUAL		ACTUAL		FORECAST	
MEMBER NUMBER	SF3	SF3	BDGT	SF3	BDGT		
WYPF PENSION ADMIN	£16.23	£13.46	£13.73	£13.76	£16.82	£17.17	£19.36
WYPF INVEST MANAGEMENT	£22.83	£17.25	£17.97	£18.02	£28.29	£23.39	£28.59
WYPF OVERSIGHT	£2.88	£2.93	£2.27	£2.28	£3.09	£2.60	£3.06
TOTAL COST PER MEMBER	£41.94	£33.64	£33.97	£34.06	£48.20	£43.16	£51.01
INVESTMENT VALUE (000)	£13,180,582	£16,267,534	£17,760,000	£17,760,000	£17,500,000	£17,760,000	£18,000,000
COST OF INVEST MANAGEMENT	£6,697	£5,129	£5,531	£8,496	£6,090	£7,413	£9,308
COST OF INVEST MANAGEMENT IN BASIS POINTS (bps)	5.08	3.15	3.11	4.78	3.48	4.17	5.17

Investment cost of management in basis points (bps)

2.11 Using basis points (bps) WYPF investment cost is between 3 and 5 bps of current investment asset value range of between £17.5 to £18.0 billion. Based on the Investment Association survey for the 2021 calendar year the average cost of investment management is 27bps, this is 400% 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 2020/21 (RANK 1 TO 10) + PARTNERS TOTAL NUMBER OF LGPS 85	2020/21									
	Invest mngm t pr mbr	Ra nk	Pensi on Admi n pr mbr	Ra nk	Gov & Ovsh t pr mbr	Ra nk	Total mngm t cost pr mbr	Ran k	Total mng mt cost pr mbr	Ra nk
West Yorkshire Superannuation Fund	18.02	1	13.76	3	2.28	5	34.06	1	33.63	1
Nottinghamshire	36.36	2	21.63	21	10.20	34	68.19	2	60.87	2
East Riding of Yorkshire UA	41.22	3	19.03	10	8.23	22	68.48	3	80.99	3
Middlesbrough UA	69.60	5	28.45	41	5.29	9	103.34	4	101.6 4	5
Surrey	93.67	7	33.85	54	-	1	127.52	5	116.6 0	7
Bedfordshire	103.10	8	19.25	14	16.95	62	139.30	6	128.6 4	8
Islington	54.90	4	68.52	75	22.32	71	145.74	7	135.2 2	10
Lewisham	87.48	6	44.43	64	16.07	59	147.98	8	109.8 9	6
Somerset	122.42	10	19.61	16	8.39	24	150.41	9	134.5 1	9
West Sussex	124.36	11	14.74	4	12.12	46	151.22	10	471.9 7	72
Lincolnshire	154.02	18	15.01	5	10.11	33	179.14	11	150.9 4	11
Hounslow	227.72	33	42.66	61	6.65	16	277.03	34	211.5 4	29
Tameside	280.64	49	15.28	6	3.09	6	299.00	41	101.6 3	4
Merseyside Pension Fund	289.38	51	22.46	24	14.20	50	326.04	47	284.1 7	44
Barnet	396.29	69	36.01	57	25.99	75	458.29	68	421.8 9	63
England & Wales AVERAGE	282.32		26.68		11.21		320.20	117 %	274.3 4	

2.12 Based on the latest government statistics sf3 figures LGPS average cost went up by 17%, WYPF went up by 1% between 2020/21 and 2021/22. The latest Cipfa and CEM benchmarking report also confirmed WYPF to be a high performing and low cost pension fund when compared to peer organisations within LGPS and the private sector.

3 OTHER CONSIDERATIONS

The financial accounts for the Council will be approved by the Governance and Audit Committee later in the year and an update will be provided at JAG's next meeting in July 2023.

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

The WYPF accounts is normally signed and published by the due date of 1 December, however due to the need for government to provide additional statutory cover for local authorities to change accounting disclosures for infrastructure assets, signing of all LGPS accounts and local authorities accounts was delayed. The necessary statutory instruments came into force on Christmas Day, 25 December 2022. There is no statutory implication for the current delay in signing the account. Both Mazars and Bradford Council are working hard to sign the accounts as soon as possible.

7 OTHER IMPLICATIONS

None

8 RECOMMENDATION

- A. JAG note the content of the annual report and account and suggest any improvements.
- B. Note the projected outturn of £6,264k against budget of £6,254k for 2022/23, projected overspend of £9k.
- C. Approve the proposed budget of £7,302k for 2023/24.
- D. Note the WYPF total cost per member of £34.06 for 2021/22 and this is the lowest LGPS cost per member. Both Cipfa and CEM benchmark for 2021/22 confirmed that WYPF delivers high level of pension services at below average cost.

9 APPENDICES

Appendix 1 – WYPF Draft Report and Accounts 2021/22