

# Report of the Managing Director, West Yorkshire Pension Fund, to the meeting of West Yorkshire Pension Fund Pension Board to be held on 20 July 2023.

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**Subject: WYPF 2022/23 FINAL SPEND & 2023/24 BUDGET ESTIMATES.**

## **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 year-end.

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 were delayed due to a new Statutory Instrument (SI) No1232 on Council accounts that came into force on 25/12/22. Whilst this issue has been resolved, there are two new developments, that caused further delays:

- a. By the time the issues raised by SI No1232 were resolved in January 2023. The pension triennial valuation has been completed, as such auditors across the country needed the impact of the completed pension valuation to be reflected in the 2021/22 pension accounts. CBMDC auditors (Mazars LLP) work was also delayed, due to NHS audit commitments.
- b. A number of local authorities including Bradford are also reviewing their accounts to find ways of maximising revenue resources.

As of 30 June 2023, the two issues above are unresolved. Both Mazars and Bradford are working very hard to resolve these issues, with the aim to resolve by end of July 2023.

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**Portfolio:**

**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 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.

The 2022/23 WYPF total cost per member is £42.41, latest LGPS 2021/22 published statistics for WYPF is £34.06. WYPF retained 1st position 2021/22, with the lowest cost. The second placed fund's cost is £68.19. Our target cost per member for 2022/23 is £45 and for 2023/24 £51.

Budgets 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, investment management improvements and governance across WYPF. Shared services continued to expand, with increased shared service income of £3,073k in 2022/23, our forecast increases this to £3,222k in 2023/24.

## 2. BACKGROUND

- 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 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. This detailed process is also known as activity or 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 in this report.

### **WYPF total service cost**

**2.2** The table below gives a summary of WYPF total budget and cost for 2022/23, the approved budget for 2023/24, forecast for 2024/25 and 2025/26. The information in this report is informed by a detailed 10yr financial plan. The services covered are pension administration, oversight and investment management.

WYPF TOTAL SERVICE	21/22 FINAL	22/23 BDGT	22/23 FRCST MAR	22/23 ACT YREND	22/23 VAR YREND	22/23 PER MBR	23/24 ORG BDGT	24/25 FRCST YR2	25/26 FRCST YR3
	£000	£000	£000	£000	£000		£000	£000	£000
01 PENSION ADMINISTRATION	4,225	5,250	5,267	5,270	-20	£16.54	6,303	6,366	6,430
03 OVERSIGHT	699	1,004	1,029	1,009	-5	£2.95	998	1,008	1,018
<b>WYPF PENSION ADMIN &amp; OVERSIGHT</b>	<b>4,924</b>	<b>6,254</b>	<b>6,296</b>	<b>6,284</b>	<b>-30</b>	<b>£19.49</b>	<b>7,301</b>	<b>7,374</b>	<b>7,448</b>
<b>02 INVESTMENT MANAGEMENT</b>	<b>5,531</b>	<b>8,496</b>	<b>7,377</b>	<b>7,322</b>	<b>1,174</b>	<b>£22.92</b>	<b>9,308</b>	<b>9,401</b>	<b>9,495</b>
<b>TOTAL WYPF NET EXP</b>	<b>10,455</b>	<b>14,750</b>	<b>13,673</b>	<b>13,606</b>	<b>1,144</b>	<b>£42.41</b>	<b>16,609</b>	<b>16,775</b>	<b>16,943</b>
PER MBR sf3	£34.06								
PER MBR account	£33.97	£47.58				-£5.17	£51.01	£51.52	£51.02
<b>MBR NUMBER</b>	<b>307,796</b>	<b>310,000</b>				<b>319,489</b>	<b>325,579</b>	<b>332,091</b>	<b>338,732</b>

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	£000	£000	£000	£000	£000		£000	£000	£000
Accommodation	301	261	350	345	-84	£1.08	371	375	378
Actuary	189	350	300	317	33	£0.86	301	304	307
CBMDC Support Services	459	463	559	559	-96	£1.75	567	573	578
Computer	1,351	1,216	1,914	1,902	-686	£5.95	1,893	1,912	1,931
Contingency - Invest to save	0	1,000	0	0	1,000	£0.00	750	758	765
Employees	8,199	10,643	9,903	9,842	801	£30.81	12,240	12,362	12,486
Other Running Costs	1,007	1,027	1,218	1,179	-152	£3.73	1,060	1,071	1,081
Printing & stationery	373	299	403	402	-103	£1.26	350	354	357
Transaction Costs	1,333	2,500	2,321	2,320	180	£7.26	2,500	2,525	2,550
<b>WYPF TOTAL SERVICE EXP</b>	<b>13,212</b>	<b>17,759</b>	<b>16,968</b>	<b>16,866</b>	<b>893</b>	<b>£52.70</b>	<b>20,032</b>	<b>20,232</b>	<b>20,435</b>
Other Income	-214	-179	-260	-237	58	-£0.74	-200	-202	-204
Shared Service Income	-2,543	-2,830	-3,035	-3,024	194	-£9.55	-3,222	-3,254	-3,287
<b>WYPF TOTAL SERVICE NET EXP</b>	<b>10,455</b>	<b>14,750</b>	<b>13,673</b>	<b>13,605</b>	<b>1,145</b>	<b>£42.41</b>	<b>16,610</b>	<b>16,776</b>	<b>16,944</b>
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**2.3** The 2022/23 yearend net expenditure is £13.61m against a net budget of £14.75m, underspend of £1.14m. Cost per member is currently £42.41. Commentary on yearend spend against budget are provided below:

- a. **Accommodation** - overspend of £0.08m – planned repairs and cost of utilities, however there is reduced foot fall in the building, with resulting reduction in cleaning and general maintenance.
- b. **Actuary cost** - underspend of £0.03m actuarial work increased in March as result of increased accounting and employer triennial engagement work, on a positive note we still manage to bring spend to below budget.
- c. **CBMDC support service cost** - overspend of £0.10m, expected review of central support charges was delivered in October22 resulting in increased charges, this is against the background of increased service take up and staff increase in WYPF, whilst staff numbers in the Council has reduced.
- d. **Computer costs / IT** – overspend of £0.69m, mainly due to provisions made for future costs of McCloud system development, pension dashboard, network servers, disaster recovery and digital services. Most of these are being funded by increase charges per member for shared service. The aim is to keep our investment in IT systems constant, by anticipating IT costs and planning for IT projects.
- e. **Invest to save** – The full £1m provision has been released to support expenditure across the fund and additional IT projects.
- f. **Employees** – underspend of £0.80m, mainly due to vacancies in investments and WYPF support services, there is a £0.18m overspend in pension admin. In the next few years we are looking at increased staffing resources to address increased workload and regulations.
- g. **Other running costs** overspend of £0.15m, mainly on cost of performance measurement, planned reduction in discount received from NT for financial asset custody, projected increase in Northern LGPS Pool share of costs and miscellaneous adjustments for cost of services.
- h. **Printing and stationery** overspend of £0.10m, increased printed communications for new shared service members. We expect this forecast to go down as a direct savings from increased uptake of digital services.
- i. **Investment transaction** underspend of £0.18m, increased investment activities in recent months has reduced underspends to a moderate level.
- j. **Other income** £0.06m more income collected than planned – treasury recharged to Bradford and stock lending activities; there is a noted reduction in recharge to Northern LGPS - GLIL.

- k. **Shared service income** £0.19m more income collected due to increased number of shared service partners.

### WYPF 2023/24 BUDGET

- 2.4 The budget for 2023/24 was approved by both the WYPF Joint Advisory Group (JAG) and the WYPF Investment Advisory Panel (IAP) in January 2023. The budget 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 £16.61m. The final net expenditure for 2022/23 is £13.61m. All financial summaries are 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 £0.75m for 2023/24. Most of this is funded from increased income from shared service recharges, efficiencies and saving activities already delivered.

### Inflation and specific cost increase impacts

- 2.5 Using activity costing we have looked at the cost of each contract with managers and consider a minimal cost increase for staff cost inflation of 5%, this will be adjusted once pay awards are confirmed. With continuing national and global inflation and supply cost pressures we are expecting more costs pressures across our services and these are being factored into the medium and long term budget projections. The latest forecast for 2023/24 indicates we are spending within the total budget, however there are small overspends across a number of service areas and equally various compensating underspends.

### WYPF cost performance

- 2.6 Based on the latest (2021/22) government statistics “sf3” result annual total cost per member of management for WYPF is £34.06 (1st), pension administration £13.76 (3rd), investment management £18.02 (1st) and oversight and governance £2.28 (5th). 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 Sf3	2020/21 Sf3	2021/22 ACTUAL	2021/22 Sf3	2022/23 BUDGET	2022/23 ACTUAL	2023/24 BUDGET
MEMBER NUMBER	295,366	298,317	307,796	307,796	310,000	319,489	325,579
WYPF PENSION ADMIN	£16.23	£13.46	£13.73	£13.76	£16.82	£16.53	£19.36
WYPF INVEST MANAGEMENT	£22.83	£17.25	£17.97	£18.02	£28.29	£22.92	£28.59
WYPF OVERSIGHT	£2.88	£2.93	£2.27	£2.28	£3.09	£2.95	£3.06
<b>TOTAL COST PER MEMBER</b>	<b>£41.94</b>	<b>£33.64</b>	<b>£33.97</b>	<b>£34.06</b>	<b>£48.20</b>	<b>£42.41</b>	<b>£51.01</b>
INVESTMENT VALUE (000)	£13,180,582	£16,267,534	£17,760,000	£17,760,000	£17,500,000	£17,895,705	£18,000,000
COST OF INVEST MANAGEMENT	£6,697	£5,129	£5,531	£8,496	£6,090	£7,322	£9,308
<b>COST OF INVEST MANAGEMENT IN BASIS POINTS (bps)</b>	<b>5.08</b>	<b>3.15</b>	<b>3.11</b>	<b>4.78</b>	<b>3.48</b>	<b>4.09</b>	<b>5.17</b>

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

- 2.7** 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 2022 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.

**UK LGPS management cost - latest (2021/22) government statistics “sf3”**

- 2.8** 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.

Local Authority SF3 2021/22 (RANK 1 TO 10, PARTNERS) TOTAL NUMBER OF LGPS 85	Invst Mngmt Cost per mbr		Pension Admin Cost per mbr		Ovsht & Gov Cost per mbr		Total Mngmt Cost per mbr		2020/21 Total	
		Rank		Rank		Rank		Rank		Rank
<b>West Yorkshire Pension Fund</b>	<b>18.02</b>	<b>1</b>	<b>13.76</b>	<b>3</b>	<b>2.28</b>	<b>5</b>	<b>34.06</b>	<b>1</b>	<b>33.63</b>	<b>1</b>
<b>Nottinghamshire</b>	<b>36.36</b>	<b>2</b>	<b>21.63</b>	<b>21</b>	<b>10.2</b>	<b>34</b>	<b>68.19</b>	<b>2</b>	<b>60.87</b>	<b>2</b>
East Riding of Yorkshire UA	41.22	3	19.03	10	8.23	22	68.48	3	80.99	3
Middlesbrough UA	69.6	5	28.45	41	5.29	9	103.34	4	101.64	5
Surrey	93.67	7	33.85	54	-	1	127.52	5	116.6	7
Bedfordshire	103.1	8	19.25	14	16.95	62	139.3	6	128.64	8
Islington	54.9	4	68.52	75	22.32	71	145.74	7	135.22	10
Lewisham	87.48	6	44.43	64	16.07	59	147.98	8	109.89	6
Somerset	122.42	10	19.61	16	8.39	24	150.41	9	134.51	9
West Sussex	124.36	11	14.74	4	12.12	46	151.22	10	471.97	72
Lincolnshire	154.02	18	15.01	5	10.11	33	179.14	11	150.94	11
Hounslow	227.72	33	42.66	61	6.65	16	277.03	34	211.54	29
Tameside	280.64	49	15.28	6	3.09	6	299	41	101.63	4
Merseyside Pension Fund	289.38	51	22.46	24	14.2	50	326.04	47	284.17	44
Barnet	396.29	69	36.01	57	25.99	75	458.29	68	421.89	63
<b>England &amp; Wales AVERAGE</b>	<b>282.32</b>		<b>26.68</b>		<b>11.21</b>		<b>320.2</b>	<b>1.17</b>	<b>274.34</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 used to determine the financial resources available to WYPF to deliver operational services for the 2023/24 and future financial years. As the lowest cost LGPS fund, the level of resources within this report 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 allow management to planned expenditure and income, report on service and financial performance, strategic activities and risk control measures to the Local Pension Board.

## **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 local Pension Board to note 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 waste.

### **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.

In order to maintain a balance 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 welcome by the majority of staff.

### **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 support pension members and 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 Local Pension Board should note the original estimate for 2023/24, note the actual spend outturn for 2022/23, or may make recommendations to management on any part of this report.

**10. RECOMMENDATIONS**

That the Local Pension Board:

- A. Note the WYPF total net expenditure actual spend of £13.61m for 2022/23.
- B. Note the WYPF approved net expenditure budget of £16.61m for 2023/24.
- C. Note the latest Government statistics “Sf3” showed WYPF total cost per member of £34.06 for 2021/22 as the lowest LGPS cost per member, this is also supported by strong service performance and quality.