

Report of the Director, West Yorkshire Pension Fund, to the meeting of Joint Advisory Group to be held on 27 July 2023

B

Subject:

West Yorkshire Pension Fund (WYPF) Finance Report.

Summary statement:

This report presents the WYPF 2022/23 financial outturn, financial and service performance and the draft 2022/23 annual report and accounts (WYPF accounts). The Local Government Pension Scheme Regulations 2013 (LGPS Reg 2013), Regulation 57 specifies that:

1. An annual report must be prepared each year ending 31 March.
2. The annual report must be published by 1st December following the yearend.
3. WYPF must also have regard to guidance from the Secretary of State and use best practice.

The WYPF accounts is part of the City of Bradford Metropolitan District Council (CBMDC) account, the WYPF accounts 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 and LGPS Regulations 2013 Regulation 56 stipulates that WYPF must supply audited accounts to all its employers. WYPF complies with this regulation by publishing the audited annual report and account on the WYPF website. 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 10 July 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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Managing Director WYPF

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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 2022/23 financial outturn, financial and service performance and the draft 2022/23 annual report and accounts (WYPF accounts) are presented to the Joint Advisory Group to note. The WYPF 2022/23 annual report and accounts will be presented to Bradford Council Governance and Audit Committee later in the year 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 2023. 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 2022/23

- 1.3 The Council's auditor Mazars will be present at this meeting to discuss their approach to the final audit for WYPF, their plan will ensure their work is completed to meet WYPF regulatory deadlines.
- 1.4 Mazars officers will give a verbal update on their work on the 2021/22 accounts, and their planned work on the 2022/23 accounts.
- 1.5 The 2022/23 and the 2021/22 WYPF Draft Report and Accounts are available and will be circulated electronically to JAG members attached as Appendix 1a and 1b to this report.

2 BACKGROUND

Net value of assets

- 2.1 The net asset value of the Fund as at 31 March 2023 is £17,952.93m, a net value reduction of £26.53m (0.15%) from 31 March 2022. This reduction is significantly less than the financial market reduction for the benchmark WYPF is tracking. The table below gives net assets values for the last ten years including 2022/23.

<u>Year to 31 March</u>	<u>Net Asset</u>	<u>Increase (Decrease)</u>	<u>Increase (Decrease)</u>
	<u>£m</u>	<u>£m</u>	
2023	17,952.93	(26.53)	(0.15%)
2022	17,979.47	4,765.17	36.06%
2021	13,214.30	(1,148.74)	(8.00%)
2020	14,363.04	796.41	5.87%
2019	13,566.63	(65.70)	(0.48%)
2018	13,632.33	2,421.35	21.60%
2017	11,210.98	(108.22)	(0.96%)
2016	11,319.20	950.40	9.17%
2015	10,368.80	428.50	4.31%
2014	9,940.30	1,155.89	13.16%

Change in net assets during the year

- 2.2 The reduction in net assets of £26.53m between 31 March 2022 and 31 March 2023 is mainly due to negative financial markets movements between January and March 2023.

Return on investment

- 2.3 The total return on investment in 2022/23 is a negative return of £26.53m. This is made up of £436.15m loss in market value, this is reduced by income of £498.92m from dividends, interest, and stock lending commission of £2.21m, less taxes on income £6.36m.

Net cashflow

- 2.4 WYPF continues to have a positive net cashflow, in 2022/23 net cash was £429.58m (2021/22 £323.27m).

£000		£000
(£103,823)	Net additions/(withdrawals) from dealing with members	(£71,547)
£425,221	Investment income	£498,917
£1,871	Stock lending	£2,210
£323,269		£429,580

Investment performance

- 2.5 In 2022/23 financial assets / investment performance was 0.6%. This is 1.7% 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 1.0% per annum. Investment returns against benchmark are as follows:

<u>31-Mar-23</u>	<u>Annualised Return</u>	<u>Fund Specific Benchmark</u>	<u>Over /(Under)</u>
	<u>%</u>	<u>%</u>	<u>%</u>
One Year	0.60	(1.10)	1.70
Three Years	11.40	9.00	2.40
Five Years	6.40	5.10	1.30
Ten Years	7.40	6.40	1.00

2022/23 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 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.
- 2.8 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.

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
WYPF PENSION ADMIN & OVERSIGHT	4,924	6,254	6,296	6,284	-30	£19.49	7,301	7,374	7,448
02 INVESTMENT MANAGEMENT	5,531	8,496	7,377	7,322	1,174	£22.92	9,308	9,401	9,495
TOTAL WYPF NET EXP	10,455	14,750	13,673	13,606	1,144	£42.41	16,609	16,775	16,943
PER MBR sf3	£34.06								
PER MBR account	£33.97	£47.58				£51.17	£51.01	£51.52	£51.02
MBR NUMBER	307,796	310,000				319,489	325,579	332,091	338,732

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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
WYPF TOTAL SERVICE EXP	13,212	17,759	16,968	16,866	893	£52.70	20,032	20,232	20,435
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
WYPF TOTAL SERVICE NET EXP	10,455	14,750	13,673	13,605	1,145	£42.41	16,610	16,776	16,944
PER MBR sf3	£34.06								
PER MBR account	£33.97	£47.58				-£5.17	£51.02	£51.53	£51.02
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2.9 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. Shared service income for 2022/23 is £3.02m and forecast to grow in future years.

WYPF 2023/24 BUDGET

- 2.10 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's 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

- 2.11 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

- 2.12 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
TOTAL COST PER MEMBER	£41.94	£33.64	£33.97	£34.06	£48.20	£42.41	£51.01
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
COST OF INVEST MANAGEMENT IN BASIS POINTS (bps)	5.08	3.15	3.11	4.78	3.48	4.09	5.17

Investment cost of management in basis points (bps)

- 2.13 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”

- 2.14 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
West Yorkshire Pension Fund	18.02	1	13.76	3	2.28	5	34.06	1	33.63	1
Nottinghamshire	36.36	2	21.63	21	10.2	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	69.6	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
England & Wales AVERAGE	282.32		26.68		11.21		320.2	1.17	274.34	

Membership numbers

- 2.15 Our membership increased from 307,796 in 31 March 2022 to 319,489 in 31 March 2023, an increase of 3.8% (2021/22 3.2%).

Number of employers

- 2.16 The number of employers as at 31 March 2023 was 394, at 31 March 2022 it was 443, a reduction of 39.

Pension admin service performance

- 2.17 The table below shows our 2022/23 performance in 18 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
	2022/23	2022/23	2022/23	2022/23	2022/23	2021/22
				%	%	%
1 Payment of pensioners (WYPF LG pensioners and beneficiaries)	2,069,184	Paid on due days	2,069,184	100	100.00	100
2 Change of address	3,508	20	3,401	85	96.95	95.77
3 Change to bank details	1,574	20	1,539	85	97.78	94.24
4 Death grant payments	3,036	10	2,757	85	90.81	91.76
5 Death in retirement	265	10	156	85	88.64	81.59
6 Deferred benefits	3,737	35	3,087	85	82.61	90.93
7 Deferred Benefits Into Payment Actual	2,874	5	2,836	90	98.68	95.32
8 Divorce quote	467	40	460	85	98.50	90.93
9 Monthly posting	5,366	10	5,096	95	95.00	94.19
10 Payroll changes	2,256	20	2,246	85	99.56	97.68
11 Pension estimate	2,654	10	2,056	90	77.47	83.06

Work type	Total cases 2022/23	Target days 2022/23	Target cases met 2022/23	KPI target 2022/23 %	Actual KPI 2022/23 %	Actual KPI 2021/22 %
12 Refund payment	2,194	10	2,177	90	99.23	99.41
13 Refund quote	3,963	35	3,627	85	91.52	99.73
14 Retirement actual	2,937	10	2,927	90	99.66	97.20
15 Transfer out payment	195	35	171	85	87.69	86.98
16 Transfer-in payment	467	35	434	85	92.93	94.48
17 Transfer-in quote	763	35	762	85	99.87	99.29
18 Transfer-out quote	2,107	35	2,042	85	96.92	92.44

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 January 2024.

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 have to be approved and signed by the Chair of Governance and Audit Committee on or before 1 December 2022. There are no other legal issues.

7 OTHER IMPLICATIONS

None

8 RECOMMENDATION

A. JAG note the content of the annual report and account and suggest any improvements.

B. JAG note the financial and service performance.

9 APPENDICES

Appendix 1a – WYPF Draft Report and Accounts 2022/23, circulated electronically.

Appendix 1b – WYPF Draft Report and Accounts 2021/22, circulated electronically.