

Report of the Managing Director, West Yorkshire Pension Fund (WYPF), to the meeting of WYPF Joint Advisory Group 25 January 2024.

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Subject:

West Yorkshire Pension Fund (WYPF) Finance Report.

Summary statement:

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. Cost of services in this report will be charged to WYPF accounts. The budget proposals in this report will deliver pension administration, oversight and governance for over 500,000 (WYPF 323,000) pension members, 900 (WYPF 400) employers, and 26 shared service partners - pension administering organisations. The governance element covers investment governance for £18 billion of financial assets. Our service strategy is to maintain service performance, service quality and cost performance within the LGPS. It is considered good governance for those charged with oversight of services to consider the financial resources available for all aspects of service delivery, compliance and governance.

The latest investment management expenditure forecast for 2023/24 is £6.91m against a budget of £7.26m. The result is a net underspend of £0.35m, mainly due to underspend from staff vacancies, actuary costs, use of contingency to support overspend on computer costs, and support services costs in providing critical project support across pension administration.

The proposed budget for 2024/25 is £8.32m, additional budget of £1.06m (14.56%). The budget increase addresses cost price pressures, increased staffing, and projected increase central support charges from Bradford Council.

Further to discussions at the Panels meeting of 26 October 2023, the WYPF 2021/22 Report and Accounts is still not signed due to delays in finalising the account of the Council.

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Portfolio:

Overview & Scrutiny Area:

1 SUMMARY

- 1.1 Budget and expenditure are monitored every month and reported across WYPF, this process 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 to review our financial activities each month. The resulting monthly financial reports are used to inform management reports, policies, and decisions across WYPF.

There are two significant operations for pension funds, these are:

- a) Investment management and
- b) Pension administration, governance, and oversight

The latest 2023/24 WYPF finance report and 2024/25 budget proposal for pension administration, oversight and governance is provided in this report. The investment management version of the same report will be provided to the WYPF Investment Advisory Panel for the 25 Jan 2024 meeting.

External Auditor work 2022/23

- 1.2 The Council's auditor Mazars have completed their work on the WYPF final audit of the 2022/23 accounts. We are currently waiting for the WYPF 2021/22 and 2022/23 accounts to be signed. I can report that significant progress has been made by Bradford in working with Mazars to sign the 2021/22 accounts.

Until the accounts are signed it is a reportable item for this Group. The final audit work on the 2022/23 Report and Accounts is now completed, both 2021/22 and 2022/23 WYPF report and accounts are waiting to be signed.

Mazars officers will be present at the Bradford Council Governance and Audit Committee meeting on the 25 Jan 2024 to discuss progress in signing the 2021/22 Bradford accounts and the work they have carried out on the Bradford accounts for 2022/23. Further update will be provided to JAG at the meeting on 25Jan2024.

2 BACKGROUND

Pension administration, oversight and governance latest expenditure forecast 2023/24.

WYPF PENSION ADMIN & OVERSIGHT	22/3 BDGT	22/3 FINAL	22/3 PER MBR	23/4 BDGT	23/4 FRCST	23/4 VAR	23/4 PER MBR	24/5 BDGT	23/4 VAR 24/5	% Incrs 24/5 vs 23/4	24/5 PER PMBR
	£000	£000		£000	£000	£000		£000	£000		
Accommodation	125	189	£0.59	171	217	-46	£0.67	227	-56	32.75%	£0.70
Actuary	350	317	£0.99	301	200	101	£0.62	200	101	-33.55%	£0.62
CBMDC Support Services	323	382	£1.20	396	412	-16	£1.28	594	-198	50.00%	£1.84
Computer	216	750	£2.35	688	847	-159	£2.63	923	-235	34.16%	£2.86
Contingency - Invest to save	500	0	£0.00	250	0	250	£0.00	250	0	0.00%	£0.78
Employees	4,257	4,439	£13.90	5,304	5,033	271	£15.60	5,807	-503	9.48%	£18.00
Other Running Costs	704	811	£2.54	726	854	-128	£2.65	859	-133	18.32%	£2.66
Printing & stationery	295	403	£1.26	346	368	-22	£1.14	368	-22	6.36%	£1.14
WYPF Support Services	2,275	2,054	£6.43	2,304	2,462	-158	£7.63	2,576	-272	11.81%	£7.99
WYPF TOTAL SERVICE EXP	9,045	9,345	£29.25	10,486	10,393	93	£32.22	11,804	-1,318	12.57%	£36.59
Other Income	0	-42	-£0.13	0	-74	74	-£0.23	-74	74	0.00%	-£0.23
Shared Service Income	-2,790	-3,024	-£9.47	-3,222	-3,408	186	-£10.56	-3,408	186	5.77%	-£10.56
WYPF TOTAL SERVICE NET EXP	6,255	6,279	£19.65	7,264	6,911	353	£21.43	8,322	-1,058	14.56%	£25.80
PER MBR			£19.65	£22.31			-£4.38	£25.80			
MBR NUMBER		319,489		325,630			322,581	322,581			322,581

Latest 2023/24 expenditure forecast.

- 2.1 Net expenditure projection is £6.91m against £7.26m budget, net underspend of £0.35m. This is mainly due to underspend from staff vacancies, actuary costs, use of contingency to support overspend on computer costs, and support services costs in providing critical project support across pension administration. We have delivered a number of invest to save service improvements for pension administration – pension data posting system refresh, system procurement for pension dashboard, disaster recovery, cyber security testing, improved external and internal audit processes, and improved financial processes.

Proposed budget for 2024/25.

- 2.2 The 2024/25 proposed budget was compiled using a zero-base budget approach. Every line of budget, expenditure and income were reviewed, and cost calculated to reflect current costs of services. This approach results in a base budget requirement of £8.32m an increase of £1.06m (14.56%) compared to 2023/24 budget of £7.26m.

WYPF pension administration, oversight and governance use a number of commercial contracts (Civica, HSBC, Aon, Hyman Robertson and a range of legal service providers) as expected the current RPI high rate has a significant impact on our cost of services. In addition, we are increasing service scope to address significant pension legislative change, compliance and best practice.

Inflation adjustment to 2024/25 budget.

The 2023/24 budget was based on mid 2022 prices of 5%. Since the budget build up for 2023/24 prices have increased significantly, comparing December 2022 to a year earlier December 2021, prices went up by RPI of 13.44% (317.70 to 360.40). The RPI December 2022 to November 2023 is 5.30% (360.40 to 377.30).

2.3 Detail commentary on 2023/24 latest forecast and 2024/25 proposed budget:

- a) Accommodation – this is the charge for the office space occupied by investment teams in Aldermanbury House. WYPF purchased the building in 2014 as an investment, WYPF use the ground floor and all other floors are let out to commercial tenants. We charge a market rent for any use by WYPF. The rent is reviewed every year by professional valuers and St Brides Property Managers.

Latest 2023/24 forecast is £46k overspend due to increased numbers of staff working in pension admin compared to investment management this year. This is reduced by lower utility charges.

Proposed budget for 2024/25 is £227k, £56k more than latest forecast for 2023/24. WYPF has grown significantly and the need for more space is being considered. In the second part of 2024/25 there may be an opportunity to take up the 4th floor of the current office, or some part of the 4th floor should this not be re-let in full when the current tenant vacates. If we do take up additional space, we will look to fund the extra cost from savings elsewhere.

- b) Actuary cost - the net cost of services provided by Aon, this supports a number pension compliance activities – employers contribution certificates, pension liability valuations, employers admissions and exit, deficit payments and surplus refunds to employers, above all essential support in managing employers covenants and due diligence activities.

Over the years we have improved our works order protocol with Aon, all works ordered for WYPF and our employers are recorded and costs are pre authorised by WYPF. Any variation on cost requires approval. Work progress is reported and only completed work is paid for. We have seen significant savings from this process. We have implemented a robust monthly unitisation data process that allows work to be carried out seamlessly by Aon – data required to carry out actuarial work is provided monthly. This means less time spent by WYPF and Aon in chasing data.

Latest 2023/24 forecast is £101k underspend due to reduced activities and moving related activities to bulk work processes..

Proposed budget for 2024/25 is £200k, this is the same as the latest forecast for 2023/24.

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

Latest 2023/24 forecast is £16k overspend, this is due to a small increase in allocated cost from Bradford, we also increased our staff numbers compared to 2022/23.

Proposed budget for 2024/25 is £594k. we are expecting a complete review of the central support service cost from Bradford. This will increase our payment based on three facts – a) operational costs has gone up, b) reduced volume of frontline services – less base to share cost to, c) WYPF operations and staff numbers have grown.

We are working with Bradford to review this cost line. Our view is that cost is more likely to go up by £101k (50.00%).

- d) Computer – this is the total cost of pension administration systems and maintenance.

Latest 2023/24 forecast is £159k overspend. The overspend is expected due to general price increases, contractual RPI increases and increased number of pension administration staff. Please note we are renegotiating prices where we can.

Proposed budget for 2024/25 is £923k. This is the impact of contract cost increases and RPI, we have increased this budget line by £235k (34.16%). We may need to increase the budget provision due to expected terms changing regulations for pension administration, dashboard, McCloud and pension cost management.

- e) Invest to save resources – This is to support ongoing review of pension administration, oversight and governance service operations, staff, systems and processes. This is a contingent provision, and none is being used currently.

Latest 2023/24 forecast is £0. This may change as we make structural changes across the organisation.

Proposed budget for 2024/25 is £500k and will be released to fund specific projects after review by management.

- f) Employees – Direct cost of pension administration staff.

Latest 2023/24 forecast is £271k underspend. Whilst, we have made steady improvements in recruiting staff, we still have 8.0 FTE vacancies to fill, hence the underspend.

Proposed budget for 2024/25 is £5,807k, £503k increase (9.48%). The budget is based on a full staffing structure and increased for a relative 6.5% pay award + 2.98% incremental salary drift for staff moving up within their pay grade. All current approved staffing posts for 2023/24 have been included in the base budget for 2024/25 and there is 5 FTE (3 FTE ICT) new posts requested for 2024/25, these will be funded out of savings elsewhere.

- g) Other running costs – this is the cost of professional fees, banking charges for pension admin payroll payments, ISO 27001 quality audit, LGPS framework consultancy and subscriptions.

Latest 2023/24 forecast is £128k overspend, mainly due to increased tax reclaim activities, WYPF governance review and service quality audits.

Proposed budget for 2024/25 is £859k. An increase of £133k (18.32%) to address inflation cost increases.

- h) Printing and stationery – This covers postage, printing and courier services.

Latest 2023/24 forecast is £22k overspend, due to increased printed communications for new shared service partners' members. We expect this forecast to go down – we are pushing our services to use emails, electronic processes, and documents when communicating with members and clients.

- i) 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). Charge to investment management is based on specific usage factors.

Latest 2023/24 forecast is £158k overspend, increase operational costs – system operational costs.

Proposed budget for 2024/25 is £2,576k. An increase of £272k (11.81%) compared to 2023/24 budget, this is mainly due to increased contractual costs, staff pay and central support costs.

- j) Other income – this is for services provided to a number of pension services across the UK for pension independent dispute resolution – we charge a minimal fee to support the LGPS and fire authorities.

Latest 2023/24 forecast is £74k underspend, no budget was set for 2023/24, because activities in this area reduced significantly during the pandemic.

Proposed budget for 2024/25 is £74k. same projected for 2023/24.

- k) Shared service income – this is income from recharge of costs to pension shared service partners. We charge the actual total cost of providing pension administration to all partners including WYPF based on the total member number within the group. This ensures we share cost savings across the group, keeping our cost low and bringing in more business.

Latest 2023/24 forecast is £186k underspend, this is due to increased number of partners, however total member numbers across all pension partners has stagnated, We forecast over 511k member for end of March 2024, when compiling the budget

in December 2023 for the financial 2023/24, the current count is just below 504k members.

Proposed budget for 2024/25 is £3,408k the same as the latest projection.

WYPF total service expenditure.

2.4 This is made up of pension administration, oversight and investment management.

WYPF TOTAL SERVICE	22/3	22/3	22/3	23/4	23/4	23/4	23/4	24/5	23/4	% Incrs	24/5
	BDGT	FINAL	PER MBR	BDGT	FRCST	VAR	PER MBR	BDGT	VAR	24/5 vs 23/4	PER PMBR
	£000	£000		£000	£000	£000		£000	£000		
01 PENSION ADMINISTRATION	5,250	5,270	£16.49	6,265	5,970	295	£18.50	7,307	1,042	16.63%	£22.65
03 OVERSIGHT	1,004	1,009	£3.16	998	942	56	£2.92	1,017	-19	1.90%	£3.15
WYPF PENSION ADMIN & OVERSIGHT	6,254	6,279	£19.65	7,263	6,912	351	£21.42	8,324	1,061	14.61%	£25.80
02 INVESTMENT MANAGEMENT	8,496	7,322	£22.92	9,346	7,669	1,677	£23.77	10,174	-828	8.86%	£31.54
TOTAL WYPF NET EXP	14,750	13,601	£42.57	16,609	14,581	2,028	£45.20	18,498	1,889	11.37%	£57.34
PER MBR		£42.68		£51.01			-£12.15	£57.34			
MBR NUMBER		319,489	319,489	325,630			322,581	322,581			322,581

Latest 2023/24 forecast is £2.03m underspend, made up of investment management £1.68m underspend and pension admin and oversight & governance £0.35m overspend. Latest 2023/24 forecast for total cost per member is £45.20.

Proposed budget for 2024/25 is £18.50m. Budget increased in total by £1.89m (11.37%) compared to 2023/24 budget.

Cost performance 2022/23

2.5 Based on the latest government statistics - sf3, result for 2022/23. The table below gives a snapshot of funds ranked 1 to 10. We have also included a few funds we work with, and we are closely aligned in terms of management.

WYPF annual cost per member:

Pension administering pension members is	£16.55 (4 th)
Investment management	£22.97 (2 nd)
Oversight & Governance	£3.17 (2 nd)
Total management cost per member	£42.68 (1st).

East Riding is 2nd in terms of total costs with £74.60 and this is 74.8% more than WYPF. The average for LGPS is £310.08 and this is 626.53% more than WYPF.

Local Authority SF3 2022/23 (RANK 1 TO 10) + PARTNERS TOTAL NUMBER OF LGPS 87	2022/23										2021/22					
	Invst	Rn k	bps	Rn k	Admi n	Rn k	O&G	Rn k	Tot	Rn k	Tot	Rn k				
West Yorkshire Superannuation Fund	22.97	2	4.08	2	16.55	4	3.17	2	42.68	1	34.06	1				
East Riding of Yorkshire UA	40.49	3	7.92	3	24.73	24	9.38	21	74.60	2	68.48	3				
Environment Agency Closed Fund	4.49	1	1.68	1	51.82	69	29.8 5	72	86.16	3	287.9 9	0				
Middlesbrough UA	90.33	6	14.4 8	5	26.08	30	7.85	14	124.2 6	4	103.3 4	4				
Cardiff UA	96.44	8	18.8 8	8	27.38	32	3.82	4	127.6 4	5	192.9 4	15				
Bedfordshire	94.52	7	24.4 4	12	21.23	15	17.5 6	52	133.3 1	6	139.3 0	6				
Lewisham	101.5 9	9	16.4 7	7	32.05	49	19.5 4	61	153.2 2	7	147.9 8	8				
Lincolnshire	138.2	8	37.8	3	29	16.75	5	11.0	4	31	166.0	7	8	179.1	4	11
Somerset	137.3 8	14	34.8 2	24	20.29	12	9.18	19	166.8 6	9	150.4 1	9				
Nottinghamshire	139.7 4	17	33.7 7	21	17.19	6	10.8 8	29	167.8 2	10	68.19	2				
Hounslow	191.2	7	38.3	2	30	47.38	65	9.18	18	247.8	3	30	277.0	3	34	
Tameside	231.5	8	32.7	7	19	17.47	7	4.89	6	253.9	5	32	299.0	0	41	
Merseyside Pension Fund	270.0	8	38.6	8	34	21.62	16	16.1	8	47	307.8	8	46	326.0	4	47
Barnet	450.6	9	88.3	3	78	33.19	51	30.4	4	74	514.3	1	72	458.2	9	68
England & Wales AVERAGE	268.1	0	49.4	5	27.43			14.5	5		310.0	-	3%	320.2	0	

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 the WYPF Joint Advisory Group as part of the regular finance update.

4 FINANCIAL & RESOURCE APPRAISAL

Financial resources presented in this paper will be charged to the WYPF accounts.

5 RISK MANAGEMENT AND GOVERNANCE ISSUES

The finance report is a key element of WYPF financial risk management and governance, it is used to monitor and financial activities and performance of key financial controls in operation during the financial year.

6 LEGAL APPRAISAL

There are no other legal issues.

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 TACKLING THE CLIMATE EMERGENCY IMPLICATIONS

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 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 balance service, we have moved to a hybrid operation on a mixture of two or three days office working, depending on business needs. This approach is supported by most staff members.

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

None.

7.7 AREA COMMITTEE LOCALITY PLAN IMPLICATIONS

None.

7.8 IMPLICATIONS FOR CHILDREN AND YOUNG PEOPLE

None.

7.9 ISSUES ARISING FROM PRIVACY IMPACT ASSESSMENT

None.

8 NOT FOR PUBLICATION DOCUMENTS

No.

9 OPTIONS

The WYPF Joint Advisory Group note the contents of this report and may make additional recommendations to WYPF management on any part of this report.

10 RECOMMENDATION

That the WYPF Joint Advisory Group:

- A. Note the latest expenditure forecast of £6.91m against a budget of £7.26m for 2023/24, net underspend of £0.35m.
- B. Approve the proposed budget of £8.32m for 2024/25, with inflation increase of £1.06m (14.56%).
- C. Note the WYPF total cost per member of £42.68 is the lowest within LGPS (2nd £74.60). Projected total cost per member for 2024/25 of £57.34 will maintain our cost performance going forward.
- D. Note that at the time of writing this report Bradford accounts for 2021/22 and 2022/23 are delayed. Therefore, the WYPF accounts are also delayed.

11 APPENDICES

None.

12 BACKGROUND DOCUMENTS

None.