



# Pensions Committee

16 March 2016

<b>Report title</b>	Service Plan 2016-2021	
<b>Originating service</b>	Pension Services	
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## Recommendation(s) for action or decision:

1. The Committee is recommended to approve the Service Plan 2016-2021 as appended, including:
  - a. The operating budget for 2016/17;
  - b. The medium term financial plan for the period to 2020/21.

## **1.0 Purpose**

- 1.1 The purpose of this report is to seek the Committee's approval of the Service Plan 2016-2021, which includes the operating budget for 2016/17, and medium term financial plan for the five years up to and including 2020/21.

## **2.0 Background**

- 2.1 On 18 March 2015, the Committee approved the Service Plan 2015-2020. This has formed the basis of performance and budget monitoring during the current financial year. Over the last few months, the Service Plan has been subject to a detailed review, and updated to reflect known and anticipated changes that have occurred since March 2015.
- 2.2 Producing a Service Plan is a matter of good practice, and is the key means by which the Fund can articulate and communicate its medium term strategy to stakeholders, including members, employers, and employees. This includes a full financial evaluation of the strategy, expressed as a medium term financial plan. The approved Service Plan will be published on the Fund's website.
- 2.3 LGPS regulations allow for the costs of administering the Funds to be charged to the Funds themselves, and not directly to employers. The actuary makes provision in his valuation process for such costs.
- 2.4 Being able to demonstrate value for money is crucial for the Fund, and a key measure of this is cost per scheme member. To reflect this, the budget and forecast figures quoted in this report are also expressed in terms of cost per scheme member.
- 2.5 Regular monitoring of the budget, including the preparation of a forecast outturn, will be undertaken throughout the year, and reported to Pensions Committee at quarterly intervals.

## **3.0 Service Plan 2016-2021**

- 3.1 The Service Plan for 2016-2021, which is attached at Appendix A, provides information on:
- a) the Fund's mission and core objectives;
  - b) the Fund's operating environment;
  - c) the Fund's corporate priorities for 2016/17 and beyond;
  - d) the key performance indicators (KPIs) that the Fund will use to measure its progress towards achieving its objectives and priorities;
  - e) the resourcing implications of the Service Plan, expressed in terms of both staffing and finances.
- 3.2 Through consideration of its on-going activities, and the drivers outlined at paragraph 3.3, the Fund has identified the following as its core objectives for the period 2016-2021:

- a) To be a leading performer in the LGPS sector;
- b) To achieve target investment returns;
- c) To provide excellent customer service;
- d) To ensure the solvency of the Fund and its ability to pay pensions

3.3 The Fund's operating environment continues to evolve rapidly. The Service Plan identifies eight opportunities and challenges that are anticipated to impact on the Fund over the medium term, and that have been the focus of the development of the Plan. These are discussed on pages 5 and 6 of the Plan, and are as follows:

- a) LGPS Pooling
- b) Pensions Reforms & Government Policy
- c) Funding Strategy
- d) The Impact of Changing Cash Flow Profile and Declining Market Returns
- e) Electronic Working
- f) Employer Diversity and Risk
- g) Information and Data quality
- h) Cost Control and Value-for-Money

3.4 The key performance indicators that the Fund will use to monitor its progress in achieving its core objectives and corporate priorities are set out on pages 9 to 14 of the Plan. These are in the main an evolution of those monitored and reported upon during the current financial year, cross-referenced to the updated corporate priorities.

#### **4.0 Operating Budget 2016/17**

4.1 The operating budget for 2016/17 has been developed to reflect the objectives and priorities set out in the Service Plan. All existing budgets have been subject to thorough review for on-going relevance and adequacy, and reduced or removed where appropriate.

4.2 The recommended operating budget for 2016/17 is £82.1 million. It should be noted that this budget includes, for the first time, the full value of investment management costs including fees from external managers that are deducted at source. As a result, the 2016/17 budget appears significantly higher than that which was approved for 2015/16. This report uses an in-year forecast for total external investment manager fees (£77.0 million) as a proxy for this line in the 2015/16 budget, to enable meaningful like-for-like comparison.

4.3 Of this total budget of £82.1 million, £81.3 million will be charged to West Midlands Pension Fund, with the remaining £750,000 charged to the ITA Fund.

4.4 Table 1 sets out the recommended budget by expenditure type, compared with the 2015/16 budget.

**Table 1 – Operating Budget 2016/17**

	<b>2015/16 Budget £000</b>	<b>2016/17 Budget £000</b>	<b>Net Growth/ (Saving) £000</b>
Employees	4,797	5,405	608
Premises	328	294	(34)
Transport	60	48	(12)
Other Supplies and Services	836	610	(226)
Professional Fees	1,529	1,823	294
Communications and Computing	604	591	(13)
Support Services	458	515	57
Income	(5)	(5)	-
<b>Sub Total</b>	<b>8,607</b>	<b>9,281</b>	<b>674</b>
External Investment Management Costs	77,000	72,800	(4,200)
<b>Total</b>	<b>85,607</b>	<b>82,081</b>	<b>(3,526)</b>
<b>Funded by:</b>			
West Midlands Pension Fund	84,857	81,331	(3,526)
West Midlands ITA Pension Fund	750	750	-
<b>Total</b>	<b>85,607</b>	<b>82,081</b>	<b>(3,526)</b>

4.5 The main reasons for the net reduction in the operating budget are:

- a) Savings on investment management fees resulting from portfolio restructuring and an increase in internal investment management (£4.2 million);
- b) An increase in staffing in the administration department, to manage the significant increase in workload brought about by the move to the 2014 CARE scheme (£313,000);
- c) Growth in pay costs due to pay award, increments and increases in the employer's pension contribution rate and National Insurance contributions (£196,000);
- d) Increases in the provision for professional fees (£294,000);
- e) Savings across a range of premises, transport and supplies and services budget headings (totalling £137,000);
- f) Growth to reflect the introduction of a recharge from City of Wolverhampton Council for Agresso implementation and support (£67,000).

4.6 The Fund's staffing establishment stands at 127.5 full-time-equivalent employees. This is an increase of 11 from 2014/15, of which 10 arise from the increase in the staffing of the Administration department, as referred to in the previous paragraph.

## **5.0 Medium Term Financial Plan**

- 5.1 Table 2 (following page) sets out the Funds' forecast operating budgets for the next five years. These generally assume a continuation of existing activities, plus service development initiatives, adjusted for inflation, pay awards and other anticipated changes. Tables 3 and 4 shows the forecast cost of administration, oversight and governance per member and the cost of investment management as a percentage of net assets, which are key measures of the Funds' cost efficiency, over the medium term.
- 5.2 The forecasts reflect assumed growth of 6% per year in the value of the Funds' investment assets (inclusive of income), which causes growth in investment management and advice costs.
- 5.3 It is important to note that these operating budget forecasts essentially assume that the Funds will continue to operate in their current structure throughout the medium-term. In practice, LGPS investment pooling will impact on this, most significantly from 2018 onwards. The forecasts for the later years can therefore be considered as an indication of a comparison point, against which cost savings will be required as a result of pooling. The budget does, however, make provision for the set-up costs associated with putting the pooling arrangements in place.
- 5.4 Tables 5 and 6 provide forecasts for all Fund activities from 2016/17 to 2020/21. There are some important caveats concerning these forecasts which are discussed at paragraph 5.6.

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**Table 2 – Forecast Operating Budgets 2015/16 to 2020/21**

	<b>2015/16 Budget £000</b>	<b>2016/17 Budget £000</b>	<b>2017/18 Forecast £000</b>	<b>2018/19 Forecast £000</b>	<b>2019/20 Forecast £000</b>	<b>2020/21 Forecast £000</b>
Employees	4,797	5,405	5,497	5,652	5,796	5,934
Premises	328	294	299	304	309	315
Transport	60	48	49	50	51	52
Other Supplies and Services	836	610	617	624	631	638
Professional Fees	1,529	1,823	1,605	1,637	1,935	1,708
Communications and Computing	604	591	604	617	630	643
Support Services	458	515	525	535	545	555
Income	(5)	(5)	(5)	(5)	(5)	(5)
<b>Sub Total</b>	<b>8,607</b>	<b>9,281</b>	<b>9,191</b>	<b>9,414</b>	<b>9,892</b>	<b>9,840</b>
External Investment Management Costs	77,000	72,800	76,609	80,488	84,459	88,523
<b>Total</b>	<b>85,607</b>	<b>82,081</b>	<b>85,800</b>	<b>89,902</b>	<b>94,351</b>	<b>98,363</b>
<b>Funded by:</b>						
West Midlands Pension Fund	84,857	81,331	85,050	89,152	93,601	97,613
West Midlands ITA Pension Fund	750	750	750	750	750	750
<b>Net Budget</b>	<b>85,607</b>	<b>82,081</b>	<b>85,800</b>	<b>89,902</b>	<b>94,351</b>	<b>98,363</b>

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**Table 3 – Cost per Scheme Member and Investment Costs as a Percentage of Net Assets (WMPF)**

	2015/16 Budget	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast	2019/20 Forecast
Total Administration, Oversight and Governance Costs (£000)	6,043	6,766	6,628	6,787	7,213	7,108
<b>Cost of Administration, Oversight and Governance per Member (£)</b>	<b>21.41</b>	<b>23.56</b>	<b>22.77</b>	<b>23.00</b>	<b>24.11</b>	<b>23.44</b>
Total Investment Management Costs (£000)	78,814	74,566	78,423	82,364	86,388	90,504
<b>As Percentage of Total Net Assets</b>	<b>0.69%</b>	<b>0.62%</b>	<b>0.62%</b>	<b>0.62%</b>	<b>0.62%</b>	<b>0.62%</b>

**Table 4 – Cost per Scheme Member and Investment Costs as a Percentage of Net Assets (WMITAPF)**

	2015/16 Budget	2016/17 Forecast	2017/18 Forecast	2018/19 Forecast	2019/20 Forecast	2019/20 Forecast
Total Administration, Oversight and Governance Costs (£000)	120	120	120	120	120	120
<b>Cost of Administration, Oversight and Governance per Member (£)</b>	<b>23.34</b>	<b>23.34</b>	<b>23.34</b>	<b>23.34</b>	<b>23.34</b>	<b>23.34</b>
Total Investment Management Costs (£000)	630	630	630	630	630	630
<b>As Percentage of Total Net Assets</b>	<b>0.13%</b>	<b>0.13%</b>	<b>0.13%</b>	<b>0.13%</b>	<b>0.13%</b>	<b>0.13%</b>

**Table 5 – Medium Term Forecasts (WMPF)**

	<b>2015/16 Forecast £m</b>	<b>2016/17 Forecast £m</b>	<b>2017/18 Forecast £m</b>	<b>2018/19 Forecast £m</b>	<b>2019/20 Forecast £m</b>	<b>2020/21 Forecast £m</b>
Contributions Receivable	(490.5)	(512.0)	(517.0)	(525.8)	(534.9)	(540.6)
Other Income	(15.9)	(15.9)	(16.2)	(16.5)	(16.8)	(17.1)
Benefits Payable	511.3	526.2	551.9	578.4	605.8	634.0
Other Payments	0.4	0.4	0.4	0.4	0.4	0.4
<b>Net Cost of Pensions</b>	<b>5.3</b>	<b>(1.3)</b>	<b>19.1</b>	<b>36.5</b>	<b>54.5</b>	<b>76.7</b>
Investment Income	(159.9)	(158.7)	(166.9)	(175.3)	(183.9)	(192.7)
(Gains)/Losses in Value of Investments	159.9	(521.3)	(548.4)	(576.0)	(604.3)	(633.1)
<b>Return on Investments</b>	<b>-</b>	<b>(680.0)</b>	<b>(715.3)</b>	<b>(751.3)</b>	<b>(788.2)</b>	<b>(825.8)</b>
<b>Management Expenses</b>	<b>84.9</b>	<b>81.3</b>	<b>85.1</b>	<b>89.2</b>	<b>93.6</b>	<b>97.6</b>
<b>Net (Increase)/Decrease in the Fund</b>	<b>90.2</b>	<b>(600.0)</b>	<b>(611.1)</b>	<b>(625.6)</b>	<b>(640.1)</b>	<b>(651.5)</b>
Opening Fund Balance	11,464.0	11,373.8	11,973.8	12,584.9	13,210.5	13,850.6
<b>Closing Fund Balance</b>	<b>11,373.8</b>	<b>11,973.8</b>	<b>12,584.9</b>	<b>13,210.5</b>	<b>13,850.6</b>	<b>14,502.1</b>



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**Table 6 – Medium Term Forecasts (WMITAPF)**

	<b>2015/16 Forecast £m</b>	<b>2016/17 Forecast £m</b>	<b>2017/18 Forecast £m</b>	<b>2018/19 Forecast £m</b>	<b>2019/20 Forecast £m</b>	<b>2020/21 Forecast £m</b>
Contributions Receivable	(10.2)	(10.3)	(10.4)	(10.6)	(10.8)	(10.9)
Other Income	(2.7)	(2.8)	(2.8)	(2.9)	(2.9)	(2.9)
Benefits Payable	28.7	29.0	29.9	30.8	31.7	32.7
Other Payments	0.9	-	-	-	-	-
<b>Net Cost of Pensions</b>	<b>16.7</b>	<b>15.9</b>	<b>16.7</b>	<b>17.3</b>	<b>18.0</b>	<b>18.9</b>
Investment Income	(17.1)	(16.5)	(16.9)	(17.2)	(17.6)	(18.0)
(Gains)/Losses in Value of Investments	17.1	(11.0)	(11.2)	(11.5)	(11.7)	(12.0)
<b>Return on Investments</b>	<b>-</b>	<b>(27.5)</b>	<b>(28.1)</b>	<b>(28.7)</b>	<b>(29.3)</b>	<b>(30.0)</b>
<b>Management Expenses</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>	<b>0.8</b>
<b>Net (Increase)/Decrease in the Fund</b>	<b>17.5</b>	<b>(10.8)</b>	<b>(10.6)</b>	<b>(10.6)</b>	<b>(10.5)</b>	<b>(10.3)</b>
Opening Fund Balance	474.9	457.4	468.2	478.8	489.4	499.9
<b>Closing Fund Balance</b>	<b>457.4</b>	<b>468.2</b>	<b>478.8</b>	<b>489.4</b>	<b>499.9</b>	<b>510.2</b>

5.5 Table 7 provides the key assumptions used in preparing the medium term forecasts.

**Table 7 – Key Assumptions**

	2016/17	2017/18	2018/19	2019/20	2020/21
Pay Award	1.0%	1.0%	2.0%	2.0%	2.0%
Consumer Price Inflation (September of preceding year)	0.0%	2.0%	2.0%	2.0%	2.0%
Increase in Total Number of Members	2.9%	2.8%	2.7%	2.6%	2.6%
Gross Growth in Investment Assets	6.0%	6.0%	6.0%	6.0%	6.0%

5.6 With regard to the medium term forecasts shown in Tables 5 and 6, it should be noted that these are highly subject to change, in particular because:

- a) Contributions for 2017/18 to 2020/21 will be influenced by the 2016 and 2019 actuarial valuations, and could be significantly different from the figures shown here;
- b) The local government sector has experienced, and will continue to experience for the foreseeable future, a combination of cost pressures and funding reductions, and it is not yet possible to quantify the extent to which this will translate into staffing reductions;
- c) Investment income and growth in asset value are very difficult to forecast, and are likely to demonstrate much greater year-on-year volatility than shown here.

## **6.0 Financial implications**

6.1 The financial implications are discussed in the body of the report.

## **7.0 Legal implications**

7.1 This report has no legal implications.

## **8.0 Equalities implications**

8.1 This report has no equalities implications.

## **9.0 Environmental implications**

9.1 This report has no environmental implications.

## **10.0 Human resources implications**

10.1 The report has no human resources implications.

## **11.0 Corporate landlord implications**

11.1 This report has no corporate landlord implications.

## **12.0 Schedule of appendices**

- Appendix A – Service Plan 2016-2021

## **13.0 Schedule of background papers**

- Service Plan 2015-2020, Report to Pensions Committee, 18 March 2015