

Wolverhampton City Council

**OPEN EXECUTIVE  
DECISION ITEM (AMBER)**

Cabinet / Cabinet Panel

**INVESTMENT ADVISORY  
SUB-COMMITTEE**

Date **20.01.2010**

Portfolio(s)

**PENSION SERVICE AND  
CUSTOMER AND SHARED SERVICES**

Originating Service Group(s)

Contact Officer(s)/

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Title

**PENSION FUND MEDIUM TERM  
FINANCIAL PLAN AND REVENUE BUDGET 2010/11**

KEY DECISION: YES  
IN FORWARD PLAN: YES

1. **Recommendation**

- 1.1. To approve the Pension Service Medium Term Financial Plan for its operating activities and revenue budget for 2010/2011.

## **PENSION FUND MEDIUM TERM FINANCIAL PLAN**

### **1. PURPOSE OF REPORT**

- 1.1 This report gives details of
- (i) the Fund's current operating costs relative to other funds
  - (ii) medium term financial plan
  - (iii) the forecast outturn for 2009/2010 and the revenue budget for 2010/2011 in respect of pensions administration and investment expenses relating to the West Midlands Metropolitan Authorities Pension Fund and West Midlands Integrated Transport Authority.

### **2. BACKGROUND**

- 2.1. In accordance with the Local Government Pension Scheme Regulations 2000, the costs relating to general administration and investments functions are allowable charges to the Fund and are not a direct charge on employing bodies and organisations. The Fund's Actuary makes provision in his valuation process for administration and investment expenses.
- 2.2. The Fund has always attempted to demonstrate value for money in the use of its operating costs.
- 2.3. CLG collect information from all LGPS funds on their administration and fund management costs on a yearly basis. The latest figures available are for 2008/09 and these show the following comparison:

	Administration Costs (£ psm*)	Fund M/ment Costs (£ psm*)	Total Costs (£ psm*)
West Midlands Pension Fund	18.17	30.57	48.74
Average for LGPS:			
- Metropolitan Funds	20.75	29.99	50.74
- English Shires	26.45	64.09	90.54
- Inner London	47.78	142.11	189.90
- Outer London	51.10	102.57	153.67
- All Authorities	29.08	63.35	92.43

\*psm = per scheme member

The Fund's operating costs are approximately half of the average fund and similar to the very large LGPS schemes.

### 3. **MEDIUM TERM FINANCIAL PLAN**

3.1. The Fund has over recent years managed four major changes:

- (i) The introduction of the 'new look' scheme from April 2008 moving to a 1/60<sup>th</sup> scheme from a 1/80<sup>th</sup> with lump sum
- (ii) An expansion of the marketing of the LGPS and supporting arrangements (e.g. AVCs) together with raising awareness on retirement planning. This is aimed at assisting employers with the management of their workforce at a time of major change.
- (iii) An increasing member generated work load.

Year	Active	Deferred	Preserved Refunds	Pensioner	Beneficiary	Totals
31/03/05	100,897	45,187	8,501	46,647	9,243	210,475
31/03/06	104,364	49,073	8,411	47,896	9,432	219,176
31/03/07	105,512	53,408	8,324	49,537	9,766	226,547
31/03/08	107,845	58,082	8,239	51,180	10,005	235,351
31/03/09	108,224	62,472	8,311	53,576	10,264	242,847

- (iv) The development of a new investment strategy aimed at improving investment returns with reduced volatility. This has led to staff developing new skills and potentially higher costs if performance payments for external managers are achieved.

3.2. In looking forward over the medium term a number of changes are anticipated as follows:-

- (i) The Fund's main benefits operating system for member record keeping, calculation and payment of benefits will need upgrading to reflect regulatory changes and enhancing to assist in containing the costs of the increasing workloads.
- (ii) The refresh and update of the IT operating infrastructure and back-up facilities.
- (iii) Continued expansion of the marketing and communication initiative
- (iv) Full implementation of the investment strategy
- (v) Responding to CLG requirements for provision of up-to-date accounts information on membership movements for cost sharing and other purposes
- (vi) The challenge of monitoring an accurate membership database with increasing numbers of deferred and part-time members
- (vii) The increasing number of outsourced services with new providers maintaining LGPS membership for transferred employees
- (viii) Expected new scheme regulations in respect of benefit entitlements following the next General Election
- (ix) The changing terms and conditions of staff where single status is implemented.

3.3 The above will lead to the following broad cost pressures:-

	2009/10 £ 000	2010/11 £ 000	2011/12 £ 000	2012/13 £ 000	2013/14 £ 000
(i) Development of Benefits IT System	225	250	140	90	90
(ii) IT Infrastructure	-	150	150	-	-
(iii) Data Management	225	180	180	50	50
(iv) Contingency for pay awards, single status, etc.	50	150	150	200	250
	500	730	620	340	390

The total of these costs in 2010/11 represent less than £3 per scheme member currently and if scheme membership rises by the historical 3% over the next few years the 2008/09 costing position will be maintained.

#### 4. **FORECAST OUTTURN 2009/2010 AND BUDGET 2010/2011**

4.1. The forecast outturn for the pension administration and investment expenses for 2009/2010 and the budget for 2010/2011 are shown in Appendix A. The budget has been calculated on the key assumptions around pay and price increases set out below:-

	<u>2010/11</u> %
Pay Awards	1.0
Price Inflation (excl. Gas and Electricity)	1.5
Price Inflation (Gas and Electricity)	0.0
Employers' Pension Contributions	17.7

Recharges for support services provided by the council have been set for 2010/2011 and actual charges will be equal to the budget.

4.2. The approved 2009/2010 estimates for pensions administration and investments proposed charging £15.8M to the West Midlands Metropolitan Authorities Fund which is the same as the forecast outturn. The charge for 2010/2011 is estimated at £16.7M.

#### 4.3. **Pension Administration**

4.3.1. The net expenditure for 2009/2010 is estimated at £4,940,600 while the estimate for 2010/2011 of £5,602,140 which shows an increase of £661,540 as compared with the approved estimate for 2009/2010. The variations can be analysed as follows:

**Table 1 – Pensions Administration: Summary of Changes from 2009/2010 Approved Budget**

	<b><u>2010/2011 Budget £000</u></b>
<u>Inflation</u>	
Pay Awards	50
General Prices	20
<u>Real Terms Variations</u>	
Staffing	
Increments	30
Staff Turnover	320
Revaluation of Pension Fund Contributions	20
<u>Other</u>	
Service Development	<u>230</u>
	<u>670</u>

4.4. Pensions Investments

4.4.1. The net expenditure for 2009/2010 is now estimated at £11,041,540 while the estimate for 2010/2011 of £11,329,760 shows an increase of £288,220 over the 2009/2010 approved estimate. The variations are analysed in the table below:

**Table 2 – Pensions Investments: Summary of Changes from 2009/2010 Approved Budget**

	<b><u>2010/2011 Budget £000</u></b>
<u>Inflation</u>	
Pay Awards	20
General Prices	150
<u>Real Terms Variations</u>	
Staffing	
Increments	20
Staff turnover	90
Revaluation of Pension Fund Contributions	10
Other	-
	<u>290</u>

4.4.2. The revised investment strategy following the triennial actuarial review requires a number of new external managers and new asset classes to be implemented aimed at increasing the overall returns and reducing the risk on the Fund's investments. This has led to an increase in fees compared with earlier years. The Investment Advisory Sub-Committee carefully considered the fees of managers when interviewing and appointing the new managers. The relationship between fees and enhanced investment returns will be reported upon in the April annual report on return.

4.5. West Midlands Integrated Transport Authority (ITA) Pension Fund

- 4.5.1. Wolverhampton City Council carries out day-to-day oversight of the ITA Pensions Fund as agent for West Midlands Integrated Transport Authority. Costs are recharged in respect of administration and investment management expenses. The costs recharged are subject to the agreement of the ITA. The investment costs recharged shown in Appendix A do not include the costs of the external investment management of the WMITA Fund or the costs of external advice to that Fund. These are charged direct to the WMITA Fund.

5. **ENVIRONMENTAL IMPLICATIONS**

- 5.1. There are no direct environmental implications.

6. **EQUAL OPPORTUNITIES POLICY**

- 6.1. This report has no direct implications for the Fund and Council's Equal Opportunities Policy.

**PENSION FUND REVENUE ESTIMATES**  
**2009/10 AND 2010/11**

	<b><u>2009/10</u></b> <b><u>Estimate</u></b>	<b><u>2009/10</u></b> <b><u>Revised</u></b> <b><u>Estimate</u></b>	<b><u>2010/11</u></b> <b><u>Estimate</u></b>
	£	£	£
<b>(A) <u>Pensions Administration</u></b>			
Employees	2,658,690	2,658,690	3,076,410
Premises Related	223,740	223,740	221,030
Transport Related	22,210	22,210	22,510
Supplies and Services			
- Communications and Computing	561,080	561,080	569,490
- Other (including Actuarial Fees)	675,360	675,360	684,490
Support Services (including Computing)	380,310	380,310	380,210
Capital Financing Charges	0	0	0
Service Development	<u>500,000</u>	<u>500,000</u>	<u>730,000</u>
TOTAL EXPENDITURE	5,021,390	5,021,390	5,684,140
Miscellaneous Income	<u>(80,790)</u>	<u>(80,790)</u>	<u>(82,000)</u>
NET EXPENDITURE	<u>4,940,600</u>	<u>4,940,600</u>	<u>5,602,140</u>
<b>(B) <u>Pensions Investments</u></b>			
Employees	991,810	991,810	1,130,610
Transport Related	191,430	191,430	194,000
Supplies and Services			
- Communications and Computing	607,570	607,570	617,130
- Property and Legal Fees	149,600	149,600	152,600
- Investment Management and Advice	8,110,250	8,110,250	8,232,000
- Safe Custody Expenses	532,740	532,740	540,730
- Other	243,050	243,050	246,540
Support Services	<u>215,190</u>	<u>215,190</u>	<u>216,250</u>
TOTAL EXPENDITURE	11,041,640	11,041,640	11,329,860
Miscellaneous Income	<u>(100)</u>	<u>(100)</u>	<u>(100)</u>
NET EXPENDITURE	<u>11,041,540</u>	<u>11,041,540</u>	<u>11,329,760</u>
<b>(C) <u>WMITA Direct Costs</u> (including bank charges, audit, actuarial fees etc.)</b>	107,900	107,900	109,170
<b>(D) <u>Charge to WMITA for Services</u> (including direct costs at (C))</b>	349,120	349,120	354,010
<b>(E) <u>Stocklending Fees</u></b>	(1,320,000)	(1,320,000)	(1,500,000)