

Wolverhampton City Council

OPEN DECISION ITEM

| | | | |
|--|--|------|-------------------|
| Committee / Panel | <u>PENSIONS COMMITTEE</u> | Date | 27/02/2013 |
| Originating Service Group(s) | <u>WEST MIDLANDS PENSION FUND</u> | | |
| Contact Officer(s)/ Telephone Number(s) | <u>GEIK DREVER</u> <u>2020</u> | | |
| Title/Subject Matter | <u>WMPF MEDIUM TERM FINANCIAL PLAN</u> <u>UPDATE AND 2013/14 OPERATING BUDGET</u> | | |

Recommendation

Members are requested to approve the update to the 2015 Medium Term Financial Plan and 2013/14 provisional operating budget.

PENSION SERVICES MEDIUM TERM FINANCIAL PLAN UPDATE 2011-2015

1. Recommendation

- 1.1 Members are requested to approve the update to the 2011-2015 Medium Term Financial Plan set out in Section 5 and provisional detailed Operating Budget for 2013/14 detailed in Section 6.

2. Purpose of Medium Term Financial Plan

- 2.1 The Plan provides the supporting medium-term financing statement to the Fund's Business Plan which was approved at the Committee meeting on 6 April 2011. A full copy is available on the Fund's website and senior managers have reviewed the priorities. The updated nine key priorities are:

| Priority: | Operational activity: |
|---|--|
| 1. Maintain quality procedures and practices | <ul style="list-style-type: none">• Maintain quality accreditations• Invest in leading technologies• Respond to best practice shown by others• Respond to legislative changes |
| 2. Demonstrate 'value for money' in the Fund's operations | <ul style="list-style-type: none">• Demonstrate quality of service delivery• Benchmark performance costs and service quality |
| 3. Develop, implement and maintain customer engagement strategies | <ul style="list-style-type: none">• Develop technical support for maintaining communication strategy for employing bodies• Develop communications with stakeholders and monitoring of pension provisions to individuals• Develop, consult upon and implement the Pensions Administration Strategy• Hold Employer AGM• Develop and implement customer engagement strategies |
| 4. Management of risk strategies | <ul style="list-style-type: none">• Regular risk management reviews• Review of major changes and new activities• Develop and maintain risk management approach in order to give annual assurance statement• Develop and implement business continuity planning |
| 5. Deliver the agreed investment strategy | <ul style="list-style-type: none">• Review, implement and monitor investment strategy• Communicate and consult on progress• Develop appropriate changes for approval• Monitor and highlight opportunities with due regard to risk• Explore, evaluate and consult on options to Sub-Committee and interested parties |
| 6. Active management of Environmental, Social and Governance (ESG) issues | <ul style="list-style-type: none">• Voting and engagement through partnerships• Reviewing investment processes to encourage ESG |
| 7. Triennial Actuarial Valuation | <ul style="list-style-type: none">• Engage with employing bodies and discuss any issues |

- Collect data for valuation
 - Undertake interim valuation
 - Ongoing review of investment strategy in order to maintain SIP and FSS
 - Regular monitoring of funding levels
8. Trustee and Consultative Panel training
- Maintain and expand the opportunities to build Trustee knowledge and understanding
 - Monitoring of approved policy
 - Identification of training needs and development of a training plan
9. Developing people
- Ensure a skilled and professional workforce
 - Identify and address training and development needs
 - Measure and improve competence levels

3. Background to Medium Term Financial Plan

3.1 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.

3.2 The Fund has always attempted to demonstrate value for money in the use of its operating costs. The Department for Communities & Local Government collect information for all LGPS funds on their administration and fund management costs on a yearly basis. The latest figures available are for 2011/12 and these are shown in the following comparison with the 2010/11 figures:

| | Administration Costs (£psm*) | | Fund Management Costs (£psm*) | | Total Costs (£psm*) | |
|----------------------------|------------------------------|---------|-------------------------------|---------|---------------------|---------|
| | 2011/12 | 2010/11 | 2011/12 | 2010/11 | 2011/12 | 2010/11 |
| | £ | £ | £ | £ | £ | £ |
| West Midlands Pension Fund | 21.05 | 21.76 | 61.16 | 28.93 | 82.21 | 50.69 |
| Average for LGPS: | 21.18 | 23.05 | 47.17 | 38.91 | 68.36 | 61.96 |
| - Metropolitan funds | 24.56 | 25.66 | 84.40 | 79.46 | 108.96 | 105.12 |
| - English shires | 45.56 | 50.47 | 161.77 | 159.33 | 207.33 | 209.80 |
| - Inner London | 50.01 | 61.99 | 114.19 | 120.45 | 154.56 | 182.44 |
| - Outer London | 27.82 | 29.98 | 83.03 | 75.23 | 110.15 | 105.21 |
| - All English authorities | | | | | | |

*psm = per scheme member

The Fund's overall operating costs are approximately 25% lower than that of the average fund, and similar to other large LGPS schemes in respect of administration costs. Fund management costs, whilst lower than the average fund, increased significantly during 2011/2012 due to the payment of performance related fees. It is anticipated that the level of fees will fall back again accordingly in 2012/2013 due to the limited payment of performance related fees during this period. In general, LGPS scheme operating costs have been escalating, which reflect increasing complexities and a rising workload, and very much dependent on asset allocation and portfolio structure.

4. Medium-Term Workload

4.1 Over recent years the Fund has undertaken the following:

- (i) Management of an increasing contributing members-generated workload in addition to an increasing level of employing bodies joining the Fund.
- (ii) Further development of a new investment strategy aimed at maintaining, or ideally 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.
- (iii) Training and development of Fund Trustees to further enhance their knowledge and understanding.
- (iv) Assisting in the risk management and implementation of a bulk annuity insurance buy-in for the West Midlands ITA Fund.

4.2 In looking forward over the medium-term, a number of further changes are anticipated as follows:

- i) The implementation of a new LGPS from April 2014 following the Government's decision to implement the Hutton Report recommendations on public sector pensions, the timetable is set out in Appendix A. This will be a major project and the high level project management plan is also attached in Appendix B.
- ii) Responding to the continuing implementation of auto-enrolment requirements for all significant employers starting in 2013 and managing the increasing number of employers, particularly academies.
- iii) Structural and staffing changes following approval of the proposed Fund-wide restructure and the implementation of single status outcomes.
- iv) Management of the investment strategy in an unsettled and challenging global financial environment and implementation of the approved 2012 SIAB strategy. A review of the investment strategy will be conducted in parallel with the triennial actuarial valuation in 2013/2014.
- v) The challenge of cleansing existing data and maintaining an accurate membership database with increasing numbers of deferred and part-time members. Data cleansing is being undertaken in preparation for the New LGPS 2014 and in order to continually improve data quality.

| Year | Active | Deferred | Preserved Refunds | Pensioner | Beneficiary | Totals |
|------------------|---------|----------|-------------------|-----------|-------------|---------|
| 31 March 2006 | 104,364 | 49,073 | 8,411 | 47,896 | 9,432 | 219,176 |
| 31 March 2007 | 105,512 | 53,408 | 8,324 | 49,537 | 9,766 | 226,547 |
| 31 March 2008 | 107,845 | 58,082 | 8,239 | 51,180 | 10,005 | 235,351 |
| 31 March 2009 | 108,224 | 62,472 | 8,311 | 53,576 | 10,264 | 242,847 |
| 31 March 2010 | 104,612 | 69,605 | 8,181 | 56,433 | 10,438 | 249,269 |
| 31 March 2011 | 102,011 | 73,040 | 8,121 | 59,821 | 10,700 | 253,693 |
| 31 March 2012 | 95,478 | 76,422 | 8,045 | 64,280 | 10,948 | 255,173 |
| 31 December 2012 | 95,796 | 78,293 | 7,895 | 66,065 | 11,067 | 259,116 |

Greater regular data collection accuracy will be required for the new LGPS scheme and management of larger data flows arising from the continued implementation of auto-enrolment. The active membership is currently employed by 321 employers, an increase of 90% from the 169 employers at 31 March 2010. There are also an increasing number of outsourced services with new providers maintaining LGPS membership for transferred employees.

5. Medium Term Financial Provisions

5.1 The following broad cost pressure provisions for managing these challenges until 2014/2015 were agreed in April 2012 and the projections for 2015/2016 are included below:

| | 2012/13 £000 | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 |
|-------|-----------------|-----------------|-----------------|-----------------|
| Total | 590 | 690 | 740 | 590 |

5.2 The use of this provision has been reviewed and will be broadly as follows:

| | 2013/14 £000 | 2014/15 £000 | 2015/16 £000 |
|--|-----------------|-----------------|-----------------|
| i) Development of core IT systems and data management. | 240 | 290 | 290 |
| ii) Project management costs | 350 | 350 | 200 |
| iii) Communications and training (Fund and employers) | 100 | 100 | 100 |

6. Detailed Operating Budgets

6.1 The operating service estimates for pension services charged to the West Midlands Metropolitan Authorities Pension Fund the 2012/2013 and 2013/2014 are shown below.

| Pension Fund Revenue Estimates | Notes | 2012/13 | 2013/14 | Variance |
|--|-------|-------------------|-------------------|------------------|
| Pension Services | 1 | | | |
| Employees | 2 | 4,694,783 | 4,755,005 | 60,222 |
| Premises-related | | 278,490 | 319,770 | 41,280 |
| Transport-related | | 163,350 | 110,300 | (53,050) |
| Supplies and services | | | | |
| - Communications and computing | | 1,120,110 | 941,550 | (178,560) |
| - Investment management and advice | 3 | 8,383,830 | 10,327,066 | 1,943,236 |
| - Other (including actuarial fees) | 4 | 1,757,185 | 1,617,780 | (139,405) |
| Support services (including computing) | | 698,000 | 681,500 | (16,500) |
| Service development | 5 | 590,000 | 690,000 | 100,000 |
| Total expenditure | | <u>17,685,748</u> | <u>19,442,971</u> | <u>1,757,223</u> |
| Miscellaneous income | 6 | <u>(295,100)</u> | <u>(276,460)</u> | <u>18,640</u> |
| Total Net expenditure | | 17,390,648 | 19,166,511 | 1,775,863 |

2013/2014 (2012/2013) Budgeted unit cost: Administration £24.64 (£24.20), Investments £49.33 (£43.95), Total £73.97 (£68.15)

Notes:

- The Fund, like all public sector bodies, is continually reviewing its operating costs and procedures. All key operational processes are being reviewed under the LEAN review process with the support of Midlands Excellence, the objective being to process an increasing workload with greater efficiency, and to generate savings wherever possible. Substantial costs have historically been incurred on postage, which itself is being affected by sharp price increases. Consequently, as reported to Committee in 2012, a move to reducing the frequency of issued payslips to those for core changes, such as Pensions Increases, and other significant pay variations, will be implemented in April 2013. This means that pensioners will receive at least one payslip per year, and will also have the option of requesting additional payslips. The anticipated 2013/2014 saving as a result of the changes will be in the region of £175,000 on printing costs and a further £150,000 on postage. The 2013/2014 budget represents a unit cost per member of £73.64 for operations and investments.
- Employee budgets represent approximately 25% of the operating budget. No provision has been made for pay awards. This budget heading does not include the structural changes to staffing currently being considered and referred to at 4.2 iii). Upon approval of the proposed restructure, the operating budget will be updated to reflect the changes. The variations can be analysed as follows:

| <u>Pension Administration</u> | | £ |
|--------------------------------|--|------------------|
| 2012/13 Approved Budget | | 4,694,783 |
| <u>Adjustments</u> | | |
| Staffing | | |
| Increments (inc. NI and Sup'n) | | 23,574 |
| Structure changes (Feb 2012) | | (20,261) |
| Other Minor Variations | | <u>56,909</u> |
| | | <u>60,222</u> |
| 2013/14 Budget | | <u>4,755,005</u> |

- Investment management and advice represents nearly 54% of the operating budget as the single largest item. This figure includes a projection of 6% growth in 2013/2014 along with potential payment of performance fees. In addition, costs will increase due to the planned appointment of a segregated emerging markets manager, the costs for which will be invoiced on a segregated basis, rather than deducted at source as has been the practice with a number of current managers. Actual costs will vary with market movements and the

performance of managers.

4. 'Supplies and services other' includes increases in actuarial fees of £225,000 due to increasing outsourcing work and valuation matters, arising from charging structures in employing bodies and the 2013 actuarial valuation exercise. However, there has been a reduction in custody fees and bank charges of £170,000 and a reduction in production costs associated with payslip reduction of £175,000.
5. Details are shown in paragraph 5.2.
6. Included in miscellaneous income are recharges to employers for actuarial services, along with recharges to the WMITA Fund for Investments and Administrative Services of £30,000 and £120,000 respectively.

7. Financial Implications

- 7.1 The financial implications are discussed in the body of the report.

(SH/19022013/F)

8. Legal Implications

- 8.1 There are no direct legal implications arising from this report, but there is an obligation to inform Members of the up-to-date position regarding the Medium Term Financial Plan and Operating Budget.

(MW/14022013/H)

New LGPS – Government’s High Level Timelines

The Public Service Pensions Bill will legislate for changes that aim to balance the cost risks more fairly between members and employers. New schemes will be implemented that offer a fairer distribution of benefits across scheme membership. The Bill will establish a common framework across the different public sector schemes the 2014 LGPS will be inline with these changes.

The 2014 LGPS project has been split into two workstreams

- **SCHEME DESIGN (WORKSTREAM 1)** The proposals agreed jointly by the Local Government Association (LGA) and trade unions were roundly endorsed by employers and members in a consultation exercise undertaken in the summer. The work involved in developing the details required for regulations has taken longer than initially envisaged and Draft regulations were released at the end of 2012.
- **SCHEME GOVERNANCE AND COST MANAGEMENT (WORKSTREAM 2)** The Local Government Association (LGA) and trade unions reached agreement on and submitted to government at the end of July 2012 a set of proposals covering the future governance and cost management of the scheme. Extensive and detailed discussions have since followed with the government on these proposals and a point of final sign off has not yet been reached.

Given the delays experienced and the time constraints the below diagram illustrates the revised indicative timescales for the remainder of the project.



