

CITY OF
WOLVERHAMPTON
COUNCIL

Pensions Committee

25 March 2020

Report title	Budget 2020-2021 and Financial Plan to 2024-2025	
Originating service	Pension Services	
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Recommendation(s) for decision:

The Committee is recommended to approve:

1. The Operating Budget for 2020-2021
2. The Medium-Term financial plan for the period to 2024-2025.

1.0 Purpose

- 1.1 The purpose of this report is to seek the Committee's approval of the Operating Budget for 2020-2021 and the Medium-Term financial plan for the five years up to and including 2024-2025.

2.0 Background

- 2.1 The operating budget for 2020-2021 has been developed to reflect the objectives and priorities set out in the Fund's Service Plan, developed in response to growing service demand, changing regulation including standards of governance and ongoing service transformation through investment pooling and digital transformation. All existing budgets have been subject to thorough review for on-going relevance and adequacy and adjusted where appropriate.
- 2.2 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 the Actuarial Valuation for such costs.
- 2.3 The budget and forecast figures quoted in this report whilst expressed in terms of cost per scheme member it is recognised that this is often a blunt but widely used measure of pension schemes cost-effectiveness.
- 2.4 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 Operating Budget 2020-2021

- 3.1 The recommended Operating Budget for 2020-2021 is £96.4 million. It should be noted that this budget includes the full value of investment management costs i.e. in addition to invoiced management fees, estimates have been made for fees being deducted at source by external managers.
- 3.2 Following the merger of the West Midlands Integrated Transport Authority Pension Fund (WMITA PF) with the main Fund, all costs are now charged to WMPF, with appropriate amounts allocated to the newly created Admitted Body Separate Funds, established within WMPF.

- 3.3 Table 1 sets out the proposed budget analysed by expenditure type with comparison to the 2019-2020 budget.

Table 1 – Operating Budget 2019-2020

	2019-2020 Budget £000	2020-2021 Budget £'000	Net growth/ (saving) Budget £'000
Employees	7,358	8,975	1,617
Premises	302	300	(2)
Transport	37	38	1
Other Supplies and Services	430	437	7
Service Development <i>Including -Regulatory Compliance - Targeted service initiatives</i>	949	1,127 <i>320 807</i>	178
Professional Fees	1,483	1,452	(31)
Communications and Computing	585	613	28
Support Services	634	723	89
Miscellaneous Income	(584)	(595)	(11)
Contingency for 2020/21 Pay award		91	91
Net Expenditure	11,195	13,161	1,966
External Investment Management Costs	73,836	77,970	4,134
LGPS Central Charges	4,669	4,949	280
Total	89,700	96,080	6,380
		-	
Funded by:		-	
West Midlands Pension Fund	88,950	96,080	6,380
West Midlands ITA Pension Fund	750	0	0
Net Budget	89,700	96,080	6,380

- 3.4 The main reasons for the net increase in the operating budget are:

- a) Increased staffing structure to reflect demand for face-to face-member services, support implementation of the Fund's revised investment and risk strategies, additional pensions administration roles to support high volumes of processing and data cleansing work, building capacity for succession planning, together with support to assist with the delivery of the programme of service development initiatives identified. This has been developed following a review of requirements in response to service benchmarking and emerging regulatory change, this element of the budget will see an increase of £1.6m (around half of which incorporates allowances for pay increments and a 2% national pay awards). Increases in computing and support services largely reflect increasing employee numbers.

Given the ongoing negotiations surrounding the 2020-2021 pay deal, in order to be prudent, it is proposed that a pay award contingency totalling £91k is held which would allow for a further 1% pay award should this be agreed. This is in line with the approach taken by the City of Wolverhampton Council.

- b) Service development has been considered both in the context of work required to meet the demand of regulatory changes (including allowance to complete GMP reconciliation work and review the implications of the McCloud ruling and remedy for the LGPS) and identified service improvement initiatives, focused on continuing to improve information management tools and ongoing support for a number of National LGPS Frameworks to ensure the Fund is able to operate and access relevant supplier services as efficiently as possible.
 - c) A net decrease in professional fees for 2020-2021 (£31,000) is largely due to reduced actuarial and covenant fees reflecting that 2020/21 is not a valuation year. Allowance has incorporated for ongoing funding risk management discussions with employers, which have progressed during the 2019 actuarial valuation, together with ongoing covenant monitoring work.
 - d) Investment management costs can be difficult to forecast with a high level of dependency on the underlying value of assets under management and also changes to asset allocation mix e.g. moving to more expensive asset classes for risk management and investment return purposes. During 2019-2020 the Committee noted and approved at its meeting on 25 September 2019 an increase in the total budget to £89.7 million to reflect £7.9 million of increased investment cost disclosure on transition to new industry standard cost reporting templates. The projected increase in investment management fees for 2020/21 results from assumed growth in assets under management, together with known changes in investment management arrangements (and associated costs) and incorporating an allowance of £4 million for the cost of transition to new products launched by the LGPS Central pool. The Fund is in the process of collating annual investment data from all its investment managers for the purpose of the 2019-2020 accounts and will use this, together with updated Fund cost share information from the LGPS Central pool, to update the fee projections for the Committee during the first quarter of monitoring. At time of writing it is recognised that current volatility in markets forecasting investment management fees is even more difficult and transition costs are highly uncertain. The Committee are asked to note these figures are highly indicative at this stage.
- 3.5 The Fund's staffing establishment stands at 184 employees (and includes interim support providing specialist skill and resource to support workload demands), together with the Fund's graduate and industrial placement programme.

4.0 Medium Term Financial Plan

- 4.1 Table 2 sets out the Fund's 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.
- 4.2 Table 3 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 measures of the Fund's cost efficiency over the medium term.
- 4.3 The forecasts reflect assumed growth of 4.6% per year in the value of the Fund's investment assets (inclusive of income), which links through to growth in investment management costs, being based largely on assets under management.
- 4.4 It is important to note that these operating budget forecasts assume that the Fund will continue to have growth in investments and costs of management and administration throughout the medium-term. Whilst savings in fees are expected to flow through from the roll out of LGPS Central Ltd as the Fund transitions assets, some of this may be offset by wider asset allocation changes. The forecasts for the later years can be considered as an indication of the level of costs based on the current service model. Where cost savings are made through transition to lower cost investment management arrangements available through the pool, these will be reflected within the investment cost forecasts.
- 4.5 Table 4 provides forecasts for all Fund activities from 2020-2021 to 2024-2025. There are some important caveats concerning these forecasts which are discussed at paragraph 4.6.

Table 2 – Forecast Operating Budgets 2019-2020 to 2024-2025

	2019-2020 Budget £'000	2020-2021 Forecast £'000	2021-2022 Forecast £'000	2022-2023 Forecast £'000	2023-2024 Forecast £'000	2024-2025 Forecast £'000
Employees	7,358	8,975	9,154	9,337	9,524	9,714
Premises	302	300	307	313	319	325
Transport	37	38	39	40	41	42
Other Supplies and Services	430	437	446	455	464	473
Service Development	949	1,127	1,127	1,127	1,127	1,127
Professional Fees	1,483	1,452	1,481	1,511	1,541	1,572
Communications and Computing	585	613	625	638	651	664
Support Services	634	723	737	752	767	782
Miscellaneous Income	(584)	(595)	(607)	(619)	(631)	(644)
Contingency for 2020/21 Pay award		91				
Net Expenditure	11,195	13,161	13,309	13,554	13,803	14,055
External Investment Management Costs	73,836	77,970	81,557	85,309	89,233	93,338
LGPS Central Charges	4,669	4,949	5,246	5,661	5,895	6,054
Total	89,700	96,080	100,112	104,524	108,931	113,447
Funded by:						
West Midlands Pension Fund	88,950	96,080	100,112	104,524	108,931	113,447
West Midlands ITA Pension Fund	750					
Net Budget	89,700	96,080	100,112	104,524	108,931	113,447

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

	2019-2020 Budget £000	2020-2021 Forecast £000	2021-2022 Forecast £000	2022-2023 Forecast £000	2023-2024 Forecast £000	2024-2025 Forecast £000
Number of Members*	329,746	340,903	349,801	358,930	368,298	377,911
Total Administration, Oversight and Governance Costs (£000)	10,445	11,900	13,309	13,554	13,803	14,055
Total Administration, Oversight and Governance cost per Member (£)	31.68	34.91	38.05	37.76	37.48	37.19
Total Investment Management Costs (£000)	78,506	84,180	88,052	92,103	96,339	100,771
Investment Management Cost per Member (£)	238.08	246.93	251.72	256.60	261.58	266.65
Investment Management Costs as a Percentage of Forecast Net Assets	0.52%	0.50%	0.50%	0.50%	0.50%	0.50%

(*) Growth in membership is projected based on review of experience in recent years.

Table 4 – Medium Term Forecasts (WMPF)

	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m	2022/23 Forecast £m	2023/24 Forecast £m	2024/25 Forecast £m
Contributions Receivable**	(350)	(1,046)	(265)	(285)	(571)	(592)
Other Income	(16)	(17)	(17)	(17)	(17)	(16)
Benefits Payable	610	577	585	633	646	659
Other Payments				0		
Net Cost of Pensions	244	(486)	303	331	58	51
Investment Income	(219)	(221)	(224)	(226)	(228)	(230)
(Gains)/Losses in Value of Investments*	(720)	(746)	(773)	(800)	(829)	(859)
Return on Investments	(939)	(984)	(1,039)	(1,026)	(1,057)	(1,089)
Management Expenses	90	96	100	105	109	113
Net (Increase)/Decrease in the Fund	(605)	(1,373)	(635)	(591)	(889)	(924)
Opening Fund Balance	16,015	16,620	17,994	18,629	19,220	20,109
Closing Fund Balance	16,620	17,994	18,629	19,220	20,109	21,033

* Note: for 2018/19 to 2022/23, investment assets are forecast to grow by 4.6% per annum, with investment income growing at 1% per annum.

** Note: the contributions receivable figures for 2021/22 to 2022/23 reflect agreements with some individual employers to pay contributions in advance in 2020/21.

4.6 Table 5 provides the key assumptions used in preparing the medium-term forecasts.

Table 5 – Key Assumptions

	20/21	21/22	22/23	23/24	24/25
Pay Award	2.0%	2.0%	2.00%	2.0%	2.0%
Consumer Price Inflation (December of preceding year)	2.0%	2.0%	2.00%	2.0%	2.0%
Increase in Total Number of Members *	2.6%	2.6%	2.6%	2.6%	2.6%
Gross Growth in Investment Assets	4.6%	4.6%	4.6%	4.6%	4.6%

* Note: this projection is based on changes in membership numbers over the last five years.

4.7 The medium-term forecasts shown in Table 4 are subject to change, in particular because:

- a) Contributions for 2023/24 to 2024/25 will be influenced by the 2022 actuarial valuation 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, significant changes in the way it operates including ongoing cost pressures and service restructuring, and it is not yet possible to quantify the extent to which this will translate into a long-term reduction in the number of active scheme members.
- c) Investment income and growth in asset values are very difficult to forecast and are likely to demonstrate much greater year-on-year volatility than shown here.
- d) The impact of the transfer of funds to the LGPS Central, both in terms of growth and costs is estimated based on assumptions on future investment management costs and investment pool operational costs.

5.0 Financial implications

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

6.0 Legal implications

6.1 This report has no direct legal implications.

7.0 Equalities implications

7.1 This report has no direct equalities implications.

8.0 Environmental implications

8.1 This report has no direct environmental implications.

9.0 Human resources implications

9.1 This report has no direct human resources implications.

10.0 Corporate landlord implications

10.1 This report has no direct corporate landlord implications.

11.0 Schedule of background papers

11.1 Service Plan 2020-2025, Report to Pensions Committee, 25 March 2020

12.0 Schedule of appendices

12.1 None.