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|--------------------------------------|--|---|
| Report title | Budget 2021/2022 and Financial Plan to 2025/2026 | |
| Originating service | Pension Services | |
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Recommendations for decision:

The Pensions Committee is recommended to:

1. Approve the Operating Budget for 2021/2022.
2. Approve the Medium-Term financial plan for the period to 2025/2026.

1.0 Purpose

- 1.1 The purpose of this report is to seek the Committee's approval of the Operating Budget for 2021/2022 and the Medium-Term financial plan for the five years up to and including 2025/2026.

2.0 Background

- 2.1 The operating budget for 2021/2022 has been developed to reflect the objectives and priorities set out in the Fund's Corporate Plan, developed in response to growing service demand, changing regulatory requirements impacting Scheme administration, investment and changing standards of governance together with the Fund's own ongoing service 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 the Administering Authority or other participating employers. The actuary makes provision in the Actuarial Valuation for such costs.
- 2.3 The budget and forecast figures quoted in this report are also expressed in terms of cost per scheme member a widely used though often a blunt measure of pension schemes costs.
- 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 2021/2022

- 3.1 The recommended Operating Budget for 2021/2022 is £102 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 Table 1 sets out the proposed budget analysed by expenditure type with comparison to the 2020/21 budget.

Table 1 – Operating Budget 2021/2022

| | 2020/21 | 2021/22 | Net growth / (saving) |
|--------------------------------------|---------------|----------------|-----------------------|
| | Budget | Budget | Budget |
| | £'000 | £'000 | £'000 |
| Employees | 8,975 | 9,607 | 632 |
| Premises | 300 | 700 | 400 |
| Transport | 38 | 40 | 2 |
| Other Supplies and Services | 437 | 488 | 51 |
| Service Development | 1,027 | 1,054 | 27 |
| Professional Fees | 1,552 | 1,499 | (53) |
| Communications and Computing | 613 | 627 | 14 |
| Support Services | 723 | 733 | 10 |
| Miscellaneous Income | (595) | (590) | 5 |
| Contingency for 2021/22 Pay award | 91 | 93 | 2 |
| Net Expenditure | 13,161 | 14,251 | 1,090 |
| External Investment Management Costs | 77,970 | 82,539 | 4,569 |
| LGPS Central Charges | 4,949 | 5,225 | 276 |
| Total | 96,080 | 102,015 | 5,935 |

- 3.3 The main drivers for the net increase in the operating budget are:

- a) An increase of £0.6m on employee expenditure as the Fund seeks to increase capacity in pension services, benefit operations and data management services, to enable further development of customer facing activity and recruitment of additional resource to implement statutory changes to the Scheme and member benefits impacting all public sector pension schemes as a result of the McCloud remedy. Increases in computing and support services largely reflect increasing employee numbers.

In line with the approach taken by the City of Wolverhampton Council for 2021/22 budgets the Fund proposes setting aside £93k (equal to a 1% pay award) as a pay award contingency. Within the Spending Review 2020, government announced that public sector pay would be frozen over 2021/22 in response to the economic impacts of the pandemic, with an exception for employees who earn below £24,000 who would receive a pay increase of at least £250. Local government pay awards are still be determined but this minimum level of provision is also allowed for in these budget estimates.

- b) The budget includes allowance for an increase in premises cost from 2021/2022 reflecting plans for the Fund to transition to new offices during the year. This allowance is based on an estimate of the cost of works and rent which is currently subject to more detailed development and review. Any revisions to this estimate will be reported to the Pensions Committee in June 2021.
- c) Budgets for service development and other ancillary costs reflect some deferred spending from 2020/2021 and further projects planned to develop customer facing services including the website, support for benefit processing and investment operations and to continue to develop automation and self-service facilities to increase efficiencies for members and employers.
- d) Investment management costs can be difficult to forecast with a high level of dependency on the underlying value of assets under management and changes to asset allocation mix, for example, moving to more expensive asset classes for risk management and investment return purposes. The projected increase (£4.5m) in investment management fees for 2021/2022 results from growth in assets under management, together with known changes in asset allocation and management arrangements (and associated costs), with the estimate incorporating an allowance for the cost of transition to new products including those launched by the LGPS Central pool. The Committee are asked to note these figures are highly indicative at this stage.

Following approval of the LGPS Central Limited 2021/2022 budget by shareholders, the Fund projects an increase in its share of the Company's recharges to £5.2m, with an increase in investment management services projected during the year.

- 3.4 The Fund currently has 174 employees including those in the Fund's graduate and industrial placement programmes, a net increase of 12 since 31 March 2020. Targeted recruitment continues across service areas. An update on the developing Fund structure will be provided to the Committee in June 2021.

4.0 Medium Term Financial Plan

- 4.1 Table 2 sets out the Fund's forecast operating budgets for the next five years. These 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 expected cost development 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 is assumed to follow

through to growth in investment management costs, where most are based on assets under management.

- 4.4 It is important to note that these operating budget forecasts assume that the Fund will continue to see growth in membership and investment management and administration costs linked to growth in invested assets and inflation respectively. In practice however, costs will also be impacted by investment strategy and scheme change with development of Fund implementation and operational practices providing opportunity for some efficiencies as scale (assets and membership) increases. LGPS Central recharges are assumed to be inflation linked with further investment pooling expected to incur additional management costs on transition in year, with cost savings for economies of scale emerging over time.
- 4.5 Table 4 provides forecasts for all Fund activities from 2021/2022 to 2025/2026. There are some important assumptions underlying these forecasts which are discussed at paragraph 4.6.

These forecasts are for illustration only.

Table 2 – Forecast Operating Budgets 2021-2022 to 2025-2026

| | 2021-2022 | 2022-2023 | 2023-2024 | 2024-2025 | 2025-2026 |
|--------------------------------------|------------------|------------------|------------------|------------------|------------------|
| | Budget | Forecast | Forecast | Forecast | Forecast |
| | £'000 | £'000 | £'000 | £'000 | £'000 |
| Employees | 9,607 | 9,703 | 9,800 | 9,898 | 9,997 |
| Premises | 700 | 650 | 657 | 663 | 670 |
| Transport | 40 | 40 | 41 | 41 | 42 |
| Other Supplies and Services | 488 | 493 | 498 | 503 | 508 |
| Service Development | 1,054 | 1,054 | 1,054 | 1,054 | 1,054 |
| Professional Fees | 1,499 | 1,514 | 1,529 | 1,544 | 1,559 |
| Communications and Computing | 627 | 633 | 639 | 645 | 651 |
| Support Services | 733 | 741 | 748 | 755 | 763 |
| Miscellaneous Income | (590) | (596) | (602) | (608) | (614) |
| Contingency for Pay award | 93 | | | | |
| Net Expenditure | 14,251 | 14,232 | 14,363 | 14,495 | 14,629 |
| External Investment Management Costs | 82,539 | 97,039 | 101,769 | 106,720 | 111,899 |
| LGPS Central Charges* | 5,225 | 5,282 | 5,341 | 5,399 | 5,459 |
| Total | 102,015 | 116,553 | 121,473 | 126,614 | 131,987 |

*LGPS Central charges assumed 1.1% p.a. increase

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

| | 2021/22 Budget | 2022/23 Forecast | 2023/24 Forecast | 2024/25 Forecast | 2025/26 Forecast |
|---|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Number of Members* | 342,684 | 349,538 | 354,781 | 358,329 | 360,120 |
| Total Administration, Oversight and Governance Costs (£000) | 12,278 | 12,450 | 12,581 | 12,713 | 12,847 |
| Total Administration, Oversight and Governance cost per Member (£) | 35.83 | 35.62 | 35.46 | 35.48 | 35.67 |
| Total Investment Management Costs (£000) | 89,737 | 104,103 | 108,892 | 113,901 | 119,140 |
| Investment Management Cost per Member (£) | 261.87 | 297.83 | 306.93 | 317.87 | 330.83 |
| Investment Management Costs as a Percentage of Forecast Net Assets | 0.46% | 0.51% | 0.51% | 0.51% | 0.51% |

* Growth in membership is projected based on review of experience in recent years and assumption of future growth at the same rate.

Table 4 – Medium Term Forecasts (WMPF)

| | 2021/22 | 2022/23 | 2023/24 | 2024/25 | 2025/26 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| | Forecast | Forecast | Forecast | Forecast | Forecast |
| | £m | £m | £m | £m | £m |
| Contributions Receivable** | 538 | 556 | 576 | 599 | 620 |
| Other Income | 17 | 17 | 17 | 17 | 17 |
| Benefits Payable | (585) | (633) | (646) | (659) | (672) |
| Other Payments | | 0 | | | |
| Net Cost of Pensions | (30) | (60) | (53) | (43) | (35) |
| Return on Investments * | 1,011 | 1,058 | 1,107 | 1,158 | 1,211 |
| Management Expenses | (102) | (117) | (121) | (127) | (132) |
| Net Increase / (Decrease) in the Fund | 879 | 881 | 933 | 988 | 1,044 |
| Opening Fund Balance | 18,672 | 19,551 | 20,432 | 21,365 | 22,353 |
| Closing Fund Balance | 19,551 | 20,432 | 21,365 | 22,353 | 23,397 |

* Note: for 2021/22 to 2025/26, return on investments (and the associated investment costs based on assets under management) is forecast to grow by 4.6% per annum.

** Note: the contributions receivable figures for 2021/22 and 2022/23 reflect agreements with some individual employers who have already paid those 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

| | 21/22 | 22/23 | 23/24 | 24/25 | 25/26 |
|---|--------------|--------------|--------------|--------------|--------------|
| Pay Award | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% |
| Consumer Price Inflation (December of preceding year) | 1.0% | 1.0% | 1.0% | 1.0% | 1.0% |
| Increase in Total Number of Members * | 0.5% | 2.0% | 1.5% | 1.0% | 0.5% |
| Growth in Investment Assets | 4.6% | 4.6% | 4.6% | 4.6% | 4.6% |

* Note: this projection is based on experience of recent years.

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

- a) Contributions for 2023/2024 to 2025/2026 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, as such, it is not yet possible to quantify the extent to which this will translate and change the growth and level of active memberships.
- c) Investment income and growth in asset values and investment costs are very difficult to forecast and could reasonably be expected to exhibit much greater year-on-year volatility than shown here.
- d) The impact of the transfer of funds to the LGPS Central pool, both in terms of timing and costs is estimated based on assumptions regarding 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 The report has no direct legal implications.

7.0 Equalities implications

7.1 The report has no direct equalities implications.

8.0 Environmental implications

8.1 The report has no direct environmental implications.

9.0 Human resources implications

9.1 The report has no direct human resources implications.

10.0 Corporate landlord implications

10.1 The report has no direct corporate landlord implications.

11.0 Schedule of background papers

11.1 Pensions Committee, Corporate Plan 2021-2026, 24 March 2021.

12.0 Schedule of appendices

12.1 None.