

Report title	Operational Budget (2024) and 5-year Financial Plan	
Originating service	Pension Services	
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Recommendations for decision:

The Pensions Committee is recommended to approve:

1. The Operating Budget for 2024/25.
2. The Medium-Term financial plan for the period to 2028/29.

1.0 Purpose

- 1.1 The purpose of this report is to outline to the Committee the proposed Fund Operating Budget for 2024/25 and the Medium-Term financial plan for the five years up to and including 2028/29, noting areas of development since 2023/24.

2.0 Background

- 2.1 The operating budget for 2024/25 has been developed in conjunction with the Fund's Corporate Plan to support the delivery and achievement of its objectives both in the short and long term. These include continuing to enhance the operational resilience of the Fund and its service delivery to members and employers, as well as responding to changing regulatory requirements and governance standards. All budgets have been subject to thorough review in the context of the programme of work required by the Fund, tested for adequacy and adjusted where appropriate.
- 2.2 LGPS regulations allow for the costs of administering the Pension Fund to be charged to the Pension Fund; costs do not flow directly to the Administering Authority or any other participating employers. The actuary makes provision in the triennial Actuarial Valuation for Fund administration and governance costs, with investment return targets and monitoring established net of investment management 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 blunt measure of pension schemes costs. These indicators vary year-on-year and will increase over time as the Pension Fund matures, due to slowing membership growth, changing investment strategy and general inflationary price increases (including salaries). As such the Fund has a focus on overall value for money and undertakes annual independent benchmarking of both its administration and investment activities which are reported on to the Committee.
- 2.4 Regular monitoring of the operating budget, including the preparation of a forecast outturn, will be undertaken throughout the year, and reported to Pensions Committee at quarterly intervals. Investment management costs are assessed and reported in detail on an annual basis, as the Fund collates and reviews Cost Transparency templates incoming from investment managers as part of the year end accounts and audit timetable.

3.0 Operating Budget 2024/25

- 3.1 The recommended Operating Budget for 2024/25 is £126.9 million. This includes Net Expenditure of £18.6 million, with the balance relating to estimated total investment management costs. Investment management costs are reported and included on a fully transparent basis (i.e. in addition to invoiced management fees, estimates have been made for fees being deducted at source by external

managers). These costs are calculated on the basis of the value of assets held by the Fund with the value as at 31 December 2023 used for budget purposes.

- 3.2 Table 1 sets out the proposed budget analysed by expenditure type with comparison to the 2024/25 budget.

Table 1 – Operating Budget 2024/25

£000	2024/25 Budget	2023/24 Budget	Net growth / (saving)
Employees	12,927	12,773	154
Professional Fees	2,057	1,921	136
Service Development	673	1,653	(980)
Communications and Computing	844	924	(80)
Premises	825	757	68
Support Services	924	860	64
Other Supplies and Services	983	746	237
Transport	30	47	(17)
Miscellaneous Income	(627)	(681)	54
Net Expenditure	18,636	19,000	(364)
External Investment Management Costs	101,826	97,558	4,268
LGPS Central Charges	6,428	6,181	247
Total	126,890	122,739	4,151

- 3.3 The main drivers for the increase in the Net Expenditure are:

3.3.1 Employees

The Fund's employee base continues to evolve and grow, as service areas are regularly reviewing resourcing requirements in response to service demand, capacity and the changing volume and skills sets required to support Scheme change and Fund service and operational development.

- 3.3.2 The budgeted Fund headcount for 2024/25 stands at 276, reflecting an increase of 4 from the 2023/24 budget. This reflects an increase in resource in the operations team to support benefit processing, with the additional capacity for front-facing services as we continue to improve our services following the change in pension administration system.

- 3.3.3 As has been previously reported to Committee, recruitment remains a significant challenge for the Fund, particularly in the specialist areas of investments and pension administration, as such whilst the budget remains consistent with the previous year a substantial amount of recruitment is planned during the year to reduce current vacancies and achieve the budgeted headcount.

3.3.4 Allowance has been made within the budget for a general increase in the local government pay scales. At this point in time the increase is aligned to the assumptions made by the wider City of Wolverhampton Council for budgetary purposes.

3.3.5 Service development

Service development represents an estimate of in-year costs to support targeted development activity. The budget for 2024/25 includes allowance for the continued development of the Pension Administration System. Also reflected is budget for the work required to continue to implement the McCloud remedy and prepare for pension dashboards. These are carried forward from budgeted amounts unspent from 2023/24, with delay due to the relevant legislation not being finalised to the timescales originally anticipated and Fund priorities.

3.3.6 All activity is subject to programme development and oversight, taking a proportionate and well managed approach to change to ensure initiatives deliver value for money to the Fund.

3.3.7 Professional Fees

The budget for professional fees has been developed to reflect the scope of work the Fund will undertake in partnership with its advisers over 2024/25, including actuarial, legal, advisory and assurance fees.

3.3.8 Other Supplies and Services

The increased expenditure classified as Other Supplies and Services relates to the continued increase in cost of communications with members and employers partially driven by a focus on increased communications as part of ongoing development in the Fund's approach to customer engagement. Additional communication costs were included within the Service Development budget in 2023/24 as part of the transition project.

3.3.9 These costs will continue to be reviewed over the coming periods.

3.4 The operating budget includes estimates for external investment management costs and LGPS Central charges, which have been revised as follows:

- External investment costs have been estimated based on reported costs for the prior year and the current value of fund assets. The budget is driven by the value of the assets with actual costs reviewed via the annual monitoring process.

3.5 As noted in the quarterly monitoring papers, actual cost can be variable and will depend on manager reporting, investment performance, changing asset allocation together with movements in market conditions and asset values during the year.

- The budget also reflects specific recognition of investment property management costs. In using our advisers efficiently and for targeted activities it enables the Fund to continually evolve through innovation and appropriate challenge, delivering value for money alongside the Fund’s own resources.
- At the time of producing this report, the budget for the LGPS Central pool had not been agreed. Consequently, recharges from the LGPS Central pool have been estimated based on 2023/24 budget, with an allowance for an inflationary increase. This budget includes the costs of governance, operations and investment management of assets by the pool company, determined in accordance with the cost sharing model and covering the products and services envisaged for the following year. Actual costs and recharges are monitored quarterly during the year.

4.0 Medium Term Financial Plan

4.1 Table 2 sets out the Fund’s forecast budgets for the next five years. These assume a continuation of existing activities, plus service development initiatives, adjusted for assumed inflation, employee cost (general pay award) and growth in membership and asset values. It should be noted that these assume a cessation of temporary roles and service development costs allowed for in 2024/25, in line with the one-off nature of the expenditure. In practice, budget requirements will continue to be reviewed and presented to Committee for review and approval each year.

Table 2 – Forecast Operating Budgets 2024-2025 to 2028-2029

£'000	2024/25 Budget	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
Employees	12,927	13,481	13,912	14,301	14,673
Professional Fees	2,057	2,046	2,128	2,294	2,238
Service Development	673	187	195	201	205
Communications and Computing	844	878	913	940	959
Premises	825	730	759	782	798
Support Services	924	961	999	1,029	1,050
Other Supplies and Services	983	1,022	1,063	1,095	1,117
Transport	30	31	32	33	34
Miscellaneous Income	(627)	(652)	(678)	(699)	(712)
Net Expenditure	18,636	18,684	19,323	19,976	20,362
External Investment Management Costs	101,826	106,205	110,771	115,534	120,502
LGPS Central Charges*	6,428	6,685	6,953	7,161	7,304
Total	126,890	131,574	137,047	142,671	148,168

*LGPS Central charges assumed to increase in line with inflation

- 4.2 Table 3 shows the forecast cost of administration, oversight and governance per scheme member and the cost of investment management as a percentage of net assets which provide a measure of the Fund's potential cost development over the medium term. As noted above, these are relatively blunt measures, and the Fund continues to commission independent benchmarking of its administration and investment activities to better inform the value of services offered to members and employers and the effectiveness of implementation of investment strategy. The classification of costs for reporting purposes is in line with The Chartered Institute of Public Finance and Accountancy (CIPFA) guidance, with a broad definition applied for "administration" costs such that it includes most of the Fund's day-to-day operational costs including premises and support services for all Fund service areas.
- 4.3 The forecasts reflect assumed growth of 4.3% per year in the return on the Fund's investment assets (inclusive of income), with indicative projection of investment management costs, where most are based on assets under management, projected based on expected longer term cost as a percentage of assets, taking into account the Fund's long term asset allocation target.
- 4.4 It is important to note that these operating budget forecasts assume that the Fund will continue to see growth in membership and invested assets, with elements of administration and governance costs as well as future benefit payments linked to inflation which has increased substantially over the last year. No allowance has been made for changes in membership (including increase in members drawing pension), with the overall projected increase in membership reflecting the lower level of increase observed in recent years. In practice, investment management costs will be materially impacted by changing market conditions, asset values and changing asset allocation over time.

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

	2024/25 Budget	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
Number of Members	358,371	362,672	367,024	371,428	375,885
Total Administration, Oversight and Governance Costs (£000)	16,998	16,872	17,438	18,034	18,367
Total Administration, Oversight and Governance cost per Member (£)	47.43	46.52	47.51	48.55	48.86
Total Investment Management Costs (£000)	109,892	114,702	119,609	124,639	129,801
Investment Management Cost per Member (£)	306.64	316.27	325.89	335.57	345.32
Investment Management Costs as a Percentage of Forecast Net Assets	0.57%	0.57%	0.57%	0.57%	0.57%

- Growth in the Fund's membership has reduced in recent years, with an observed rate of 6.2% p.a. over 2014-2019, reducing to 1.2% p.a. 2019-2023. The growth rate during 2023/24 rose to 2.5% however, the membership projection assumes the lower level of increases continues over the medium term, reflecting the overall rate over the last 5 years. The rate of growth will continue to be monitored for planning purposes.
- Investment management costs as a percentage of forecast net assets are expected to increase to around 0.57% as a result of implementation of ongoing changes to the Fund's strategic asset allocation. This will be revisited over 2024/25 to continue to review and update the outlook as the implementation of changes in the most recent Investment Strategy Statement moves to completion. The Fund's long term strategic asset allocation aims to balance cost and risk whilst ensuring the Fund is positioned to achieve the required return over the long term, to meet its obligations of benefits payments to members. The increase in management cost is predominantly driven by increasing asset values over the projection period.

- The allocation of costs between administration, governance and oversight and investment management is in line with guidance published by CIPFA (accounting for local government pension scheme management expenses – 2016 edition). Investment costs include third party custody and Fund accounting costs.

4.5 Table 4 provides forecasts for all Fund activities from 2024/25 to 2028/29. The assumptions underlying these forecasts are outlined in Table 5.

These forecasts are for illustration only.

Table 4 – Medium Term Forecasts (WMPF)

£m	2024/25 Forecast	2025/26 Forecast	2026/27 Forecast	2027/28 Forecast	2028/29 Forecast
Contributions Receivable	694	715	736	751	766
Other Income	13	13	13	13	13
Benefits Payable	(758)	(798)	(839)	(875)	(903)
Net Cost of Pensions	(51)	(70)	(90)	(111)	(124)
Return on Investments *	790	823	859	896	935
Management Expenses	(127)	(132)	(137)	(143)	(148)
Net Increase/ (Decrease) in the Fund	612	621	632	642	663
Opening Fund Balance	20,394	21,006	21,627	22,259	22,901
Closing Fund Balance	21,006	21,627	22,259	22,901	23,564

* Note: for 2024/25 to 2028/29, return on investments is forecast to grow by 4.3% per annum.

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

Table 5 – Key Assumptions (annual growth)

	2024/25	2025/26	2026/27	2027/28	2028/29
Employee costs (general pay award)*	3.00%	3.00%	3.00%	2.00%	2.00%
Consumer Price Inflation (December of preceding year)	4.00%	4.00%	4.00%	3.00%	2.00%
Increase in Total Number of Fund Members	1.20%	1.20%	1.20%	1.20%	1.20%
Growth in Investment Assets	4.30%	4.30%	4.30%	4.30%	4.30%

*For the purpose of this projection estimates have been made pending NJC award.

[Note for all tables- All totals are subject to rounding]

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

- a) Contributions for 2026/27 to 2028/29 will be influenced by the 2025 actuarial valuation and could be significantly different from the figures shown here.
- b) The local government employers (and many other employers in the Fund) have experienced and will continue to experience for the foreseeable future, significant changes in the way they operate including ongoing cost pressures and service restructuring and, as such, it is not possible to quantify the extent to which this will translate and change the Fund's total membership, including active memberships and members moving to deferred or retired status.
- c) Inflation-linked costs and benefits will be materially impacted by the changing outlook and long-term rate of inflation.
- d) Investment income and growth in asset values (and in turn investment costs) are difficult to forecast and could reasonably be expected to exhibit much greater year-on-year volatility than shown here.

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 Other Potential Implications

8.1 There are no other potential implications.

9.0 Schedule of Background Papers

9.1 [Corporate Plan 2023-2028, Report to Pensions Committee, 22 March 2023](#)

10.0 Schedule of appendices

10.1 None.