

Pensions Committee

22 March 2017

Report title	Service Plan 2017-2022	
Originating service	Pension Services	
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Recommendation(s) for action or decision:

The Committee is recommended to approve the Service Plan 2017-2022 as appended, including:

- a. The operating budget for 2017/18;
- b. The medium term financial plan for the period to 2021/22.

1.0 Purpose

- 1.1 The purpose of this report is to seek the Committee's approval of the Service Plan 2017-2022, which includes the operating budget for 2017/18, and medium term financial plan for the five years up to and including 2021/22.

2.0 Background

- 2.1 On 16th March 2016, the Committee approved the Service Plan 2016-2021. This has formed the basis of performance and budget monitoring during the current financial year. Over the last few months, the Service Plan has been subject to a detailed review, and updated to reflect known and anticipated changes that have occurred since March 2016.
- 2.2 Producing a Service Plan is a matter of good practice, and is the key means by which the Fund can articulate and communicate its medium term strategy to stakeholders, including members, employers, and employees. This includes a full financial evaluation of the strategy, expressed as a medium term financial plan. The approved Service Plan will be published on the Fund's website.
- 2.3 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 his valuation process for such costs.
- 2.4 Being able to demonstrate value for money is crucial for the Fund, and a key measure of this is cost per scheme member. To reflect this, the budget and forecast figures quoted in this report are also expressed in terms of cost per scheme member.
- 2.5 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 Service Plan 2017-2022

- 3.1 The Service Plan for 2017-2022, which is attached at Appendix A, provides information on:
 - a) the Fund's mission and core objectives;
 - b) the Fund's operating environment;
 - c) the Fund's corporate priorities for 2017/22 and beyond;
 - d) the key performance indicators (KPIs) that the Fund will use to measure its progress towards achieving its objectives and priorities;
 - e) the resourcing implications of the Service Plan, expressed in terms of both staffing and finances.

3.2 Through consideration of its on-going activities, and the drivers outlined at paragraph 3.3, it is proposed that the Fund retains its core objectives for the period 2017-2022:

- a) To be a leading performer in the LGPS sector;
- b) To achieve target investment returns;
- c) To ensure the solvency of the Fund and its ability to pay pensions;
- d) To provide excellent customer service.

3.3 The Fund's operating environment continues to evolve rapidly. The Service Plan identifies eight opportunities and challenges that are anticipated to impact on the Fund over the medium term, and that have been the focus of the development of the Plan. These are discussed on pages 5 and 6 of the Plan, and are as follows:

- a) LGPS Pooling
- b) Pensions Reforms and Government Policy
- c) Funding Strategy
- d) The Impact of Changing Cash Flow Profile and Declining Market Returns
- e) Electronic Working
- f) Employer Diversity and Risk
- g) Information and Data quality
- h) Cost Control and Value-for-Money

3.4 The key performance indicators that the Fund will use to monitor its progress in achieving its core objectives and corporate priorities are set out on pages 9 to 14 of the Plan. These are in the main an evolution of those monitored and reported upon during the current financial year, cross-referenced to the updated corporate priorities.

4.0 Operating Budget 2017/18

4.1 The operating budget for 2017/18 has been developed to reflect the objectives and priorities set out in the Service Plan. All existing budgets have been subject to thorough review for on-going relevance and adequacy, and adjusted where appropriate.

4.2 The recommended operating budget for 2017/18 is £80.1 million. It should be noted that this budget includes the full value of investment management costs including fees from external managers that are deducted at source.

4.3 Of this total budget of £80.1 million, £79.3 million will be charged to West Midlands Pension Fund, with the remaining £750,000 charged to the ITA Fund.

4.4 Table 1 sets out the recommended budget by expenditure type, compared with the 2016/17 budget.

Table 1 – Operating Budget 2017/18

	2016/17 Budget £000	2017/18 Budget £000	Net Growth/ (Saving) £000
Employees	5,405	6,270	865
Premises	294	300	6
Transport	48	83	35
Other Supplies and Services	610	640	30
Professional Fees	1,823	1,410	(413)
Communications and Computing	591	639	48
Support Services	515	558	43
Income	(5)	(5)	-
Sub Total	9,281	9,895	614
External Investment Management Costs	72,800	70,200	(2,600)
Total	82,081	80,095	(1,986)
Funded by:			
West Midlands Pension Fund	81,331	79,345	(1,986)
West Midlands ITA Pension Fund	750	750	-
Total	82,081	80,095	(1,986)

4.5 The main reasons for the net reduction in the operating budget are:

- a) Savings on investment management fees resulting from portfolio restructuring and an increase in internal investment management (£2.6 million);
- b) A net increase in the staffing budget to allow for temporary expansion to enable planned service transformation (£451,000);
- c) Growth in pay costs due to pay award, increments and increases in the employer's pension contribution rate and National Insurance contributions (£414,000);
- d) Net decreases in the provision for professional fees (£413,000);
- e) Other net increases across a range of budget headings (£162,000).

4.6 The Fund's staffing establishment stands at 134 full-time-equivalent employees. This is an increase of 6.5 from 2016/17. In addition, provision has been made for 6 temporary posts to accommodate a temporary expansion to support service transformation, as referred to in the previous paragraph.

5.0 Medium Term Financial Plan

5.1 Table 2 (following page) sets out the Funds' 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.

Tables 3 and 4 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 key measures of the Funds' cost efficiency, over the medium term.

- 5.2 The forecasts reflect assumed growth of 6% per year in the value of the Funds' investment assets (inclusive of income), which causes growth in investment management costs.
- 5.3 It is important to note that these operating budget forecasts essentially assume that the Funds will continue to operate in their current structure throughout the medium-term. In practice, LGPS investment pooling could have a significant impact on this from April 2018 onwards. The forecasts for the later years can therefore be considered as an indication of the level of costs based on the current service model, and further savings to reduce costs will be required as a result of pooling. The budget does, however, make provision for the set-up costs associated with putting the pooling arrangements in place.
- 5.4 Tables 5 and 6 provide forecasts for all Fund activities from 2016/17 to 2021/22. There are some important caveats concerning these forecasts which are discussed at paragraph 5.6.

Table 2 – Forecast Operating Budgets 2016/17 to 2021/22

	2016/17 Budget £000	2017/18 Budget £000	2018/19 Forecast £000	2019/20 Forecast £000	2020/21 Forecast £000	2021/22 Forecast £000
Employees	5,405	6,270	6,313	6,500	6,654	6,688
Premises	294	300	305	310	315	320
Transport	48	83	85	87	89	91
Other Supplies and Services	610	640	647	654	661	673
Professional Fees	1,823	1,410	1,438	1,466	1,496	1,526
Communications and Computing	591	639	652	666	680	694
Support Services	515	558	569	580	591	602
Income	(5)	(5)	(5)	(5)	(5)	(5)
Sub Total	9,281	9,895	10,004	10,258	10,481	10,589
External Investment Management Costs	72,800	70,200	74,412	78,877	83,610	88,627
Total	82,081	80,095	84,416	89,135	94,091	99,216
Funded by:						
West Midlands Pension Fund	81,331	79,345	83,666	88,385	93,341	98,466
West Midlands ITA Pension Fund	750	750	750	750	750	750
Net Budget	82,081	80,095	84,416	89,135	94,091	99,216

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

	2016/17 Budget	2017/18 Budget	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast
Total Administration, Oversight and Governance Costs (£000)	6,766	7,069	7,096	7,275	7,432	7,479
Cost of Administration, Oversight and Governance per Member (£)	23.56	23.20	22.65	22.60	22.49	22.06
Total Investment Management Costs (£000)	74,566	72,275	76,570	81,110	85,909	90,986
As Percentage of Total Net Assets	0.54%	0.47%	0.48%	0.49%	0.50%	0.50%

Table 4 – Cost per Scheme Member and Investment Costs as a Percentage of Net Assets (WMITAPF)

	2016/17 Budget	2017/18 Budget	2018/19 Forecast	2019/20 Forecast	2020/21 Forecast	2021/22 Forecast
Total Administration, Oversight and Governance Costs (£000)	120	120	120	120	120	120
Cost of Administration, Oversight and Governance per Member (£)	23.34	23.58	23.58	23.58	23.58	23.58
Total Investment Management Costs (£000)	630	630	630	630	630	630
As Percentage of Total Net Assets	0.13%	0.13%	0.12%	0.12%	0.12%	0.12%

Table 5 – Medium Term Forecasts (WMPF)

	2016/17 Forecast £m	2017/18 Forecast £m	2018/19 Forecast £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m
Contributions Receivable**	(514.8)	(1,089.2)	(334.5)	(349.9)	(659.7)	(674.2)
Other Income	(15.5)	(15.7)	(16.0)	(16.3)	(16.6)	(16.9)
Benefits Payable	534.1	555.2	582.3	610.3	639.2	669.0
Other Payments	0.3	0.3	0.3	0.3	0.3	0.3
Net Cost of Pensions	4.1	(549.4)	232.1	244.4	(36.8)	(21.8)
Investment Income	(162.7)	(198.0)	(211.0)	(219.1)	(229.5)	(242.3)
(Gains)/Losses in Value of Investments*	(2,161.9)	(650.6)	(693.2)	(719.9)	(754.1)	(796.3)
Return on Investments	(2,324.6)	(848.6)	(904.2)	(939.0)	(983.6)	(1,038.6)
Management Expenses	74.0	79.3	83.7	88.4	93.3	98.5
Net (Increase)/Decrease in the Fund	(2,246.5)	(1,318.7)	(588.4)	(606.2)	(927.1)	(961.9)
Opening Fund Balance	11,662.0	13,908.5	15,227.2	15,815.6	16,421.8	17,348.9
Closing Fund Balance	13,908.5	15,227.2	15,815.6	16,421.8	17,348.9	18,310.8

* Note: for 2017/18 to 2021/22, investment assets are forecast to grow by 6% per year. The figure for 2016/17 is an estimate based on investment performance for the year to date.

** Note: the contributions receivable figures for 2017/18 to 2019/20 reflect agreements with some individual employers to pay contributions in advance.

Table 6 – Medium Term Forecasts (WMITAPF)

	2016/17 Forecast £m	2017/18 Forecast £m	2018/19 Forecast £m	2019/20 Forecast £m	2020/21 Forecast £m	2021/22 Forecast £m
Contributions Receivable	(10.6)	(11.8)	(11.8)	(11.9)	(11.9)	(11.9)
Other Income	(2.8)	(2.8)	(2.9)	(2.9)	(3.0)	(3.1)
Benefits Payable	29.1	29.7	30.6	31.5	32.5	33.5
Net Cost of Pensions	15.7	15.1	15.9	16.7	17.6	18.5
Investment Income	(17.6)	(18.8)	(19.3)	(19.8)	(20.3)	(20.8)
(Gains)/Losses in Value of Investments*	(28.5)	(10.7)	(11.0)	(11.3)	(11.6)	(11.9)
Return on Investments	(46.1)	(29.5)	(30.3)	(31.1)	(31.9)	(32.7)
Management Expenses	0.8	0.8	0.8	0.8	0.8	0.8
Net (Increase)/Decrease in the Fund	(29.6)	(13.6)	(13.6)	(13.6)	(13.5)	(13.4)
Opening Fund Balance	460.9	490.5	504.1	517.7	531.3	544.8
Closing Fund Balance	490.5	504.1	517.7	531.3	544.8	558.2

* Note: for 2017/18 to 2021/22, investment assets are forecast to grow by 6% per year. The figure for 2016/17 is an estimate based on investment performance for the year to date.

5.5 Table 7 provides the key assumptions used in preparing the medium term forecasts.

Table 7 – Key Assumptions

	2017/18	2018/19	2019/20	2020/21	2021/22
Pay Award	1.0%	2.0%	2.0%	2.0%	2.0%
Consumer Price Inflation (September of preceding year)	1.0%	2.0%	2.0%	2.0%	2.0%
Increase in Total Number of Members *	2.9%	2.8%	2.7%	2.7%	2.6%
Gross Growth in Investment Assets	6.0%	6.0%	6.0%	6.0%	6.0%

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

5.6 With regard to the medium term forecasts shown in Tables 5 and 6, it should be noted that these are highly subject to change, in particular because:

- a) Contributions for 2020/21 to 2021/22 will be influenced by the 2019 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, a combination of cost pressures and funding reductions, 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 value are very difficult to forecast, and are likely to demonstrate much greater year-on-year volatility than shown here.

6.0 Financial implications

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

7.0 Legal implications

7.1 This report has no legal implications.

8.0 Equalities implications

8.1 This report has no equalities implications.

9.0 Environmental implications

9.1 This report has no environmental implications.

10.0 Human resources implications

10.1 The report has no human resources implications.

11.0 Corporate landlord implications

11.1 This report has no corporate landlord implications.

12.0 Schedule of appendices

- Appendix A – Service Plan 2017-2022

13.0 Schedule of background papers

- Service Plan 2016-2021, Report to Pensions Committee, 16 March 2016