



# Pensions Committee

18 March 2015

<b>Report title</b>	Service Plan 2015-2020	
<b>Originating service</b>	Pension Services	
<b>Accountable employee(s)</b>	David Kane	Head of Finance
	Tel	01902 554423
	Email	<a href="mailto:david.kane@wolverhampton.gov.uk">david.kane@wolverhampton.gov.uk</a>
<b>Report to be/has been considered by</b>	Geik Drever	Director of Pensions
	Tel	01902 552020
	Email	<a href="mailto:geik.drever@wolverhampton.gov.uk">geik.drever@wolverhampton.gov.uk</a>

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## Recommendation(s) for action or decision:

1. The Committee is recommended to approve the Service Plan 2015-2020 as appended, including:
  - a. The operating budget for 2015/16;
  - b. The medium term financial plan for the period to 2019/20.

## 1.0 Purpose

- 1.1 The purpose of this report is to seek the Committee's approval of the Service Plan 2015-2020, which includes the operating budget for 2015/16, and medium term financial plan for the five years up to and including 2019/20.

## 2.0 Background

- 2.1 On 26 March 2014, the Committee approved the Service Plan 2014-2019. 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 2014.
- 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 Fund to be charged to the Fund itself, 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 Table 1 provides cost per scheme member for the Fund for 2013/14, compared to the averages for other metropolitan funds and all LGPS funds in England, and demonstrates that the Fund's management costs are significantly lower than both of these.

**Table 1 - Cost per Scheme Member 2013/14**

	Administration (£/member)	Investment Management (£/member)	Total Management Costs (£/member)
West Midlands Pension Fund	19.21	39.91	59.12
Other LGPS Funds:			
- Metropolitan Funds	22.38	47.74	70.12
- All English Funds	34.52	123.94	158.46

- 2.6 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 2015-2020

- 3.1 The Service Plan for 2015-2020, which is attached at Appendix A, provides information on key achievements during the current financial year, the key objectives and priorities for 2015/16 and beyond, the key performance indicators (KPIs) that the Fund will use to measure its progress towards achieving those objectives, and the most significant risks presently facing the Fund. It also provides further information about the Fund, its structure, and its approach to skills and knowledge, customer care and investment management.
- 3.2 The Fund has had a number of significant successes during the last year, which are highlighted on page 5 of the Service Plan. These include:
- a) Reducing the administration cost per member from £20.48 to £19.21;
  - b) Maintaining high levels of customer satisfaction;
  - c) Introducing the LGPS 2014 scheme changes, including the move to calculating benefits on a career-average re-valued earnings (CARE) basis;
  - d) Implementing the outcome of the triennial actuarial review for 2013, which set employer contribution rates for the period from 2014/15 to 2016/17;
  - e) Achieving Investors in People Silver and Customer Service Excellence accreditations;
  - f) Winning the Local Government Chronicle Investment Award for Skills and Knowledge in recognition of the Fund's trustee training programme, and being shortlisted for Best Public Sector Communications and Best Innovation in the Pension Age Awards;
  - g) Preparing for the forthcoming reforms to LGPS governance;
  - h) Introducing a new financial system, Agresso, in conjunction with Wolverhampton City Council, from 1 April 2014;
  - i) Achieving a return on investments of 3.5%, beating the benchmark return of 3%;
  - j) Reviewing and simplifying the Fund's investment portfolio, achieving cost savings;
  - k) Continuing the move towards electronic working for dealing with members and employers.
- 3.3 The Fund's operating environment continues to present a number of significant challenges. The Service Plan identifies eight key drivers of change that will impact on the Fund over the medium term, and that have been the focus of the development of the Plan. These are discussed on page 7 of the plan, and are as follows:
- a) Governance reforms
  - b) Actuarial valuation 2016
  - c) The impact of declining cash flow on investment strategy
  - d) Implementing an electronic business model
  - e) The effect of declining returns on the Fund's pensions liability
  - f) Risk management
  - g) Data quality
  - h) Employer base expansion

3.4 Through consideration of its ongoing activities, and the drivers for change outlined at paragraph 3.3, the Fund has identified the following as its key objectives for the period 2015-2020:

**Short-term (next year)**

- a) Continue to develop and implement revised investment strategy.
- b) Implement new LGPS governance structure and prepare for future LGPS reforms.
- c) Develop the Fund's operational flexibility to enable staff and the Fund to meet the changing needs of our industry.
- d) Begin the process of GMP reconciliation.
- e) Implement risk-based investment strategy.
- f) Embed LEAN ways of working across the Fund
- g) Work with employers to improve data cleanliness.

**Medium-term (next three years)**

- h) Prepare for actuarial valuation 2016
- i) Explore opportunities to generate revenue to reduce net administrative costs
- j) Segregate employers based on covenant strength for the purposes of investment strategy
- k) Continue to develop the Fund's electronic business model to continually improve data quality and ensure continued cost efficiencies.
- l) Reduce the cost of investment management, through a mix of investment strategy and increasing in-house management.

**Long-term (next five years)**

- m) Continue to develop Fund strategies that are affordable for employers, and continue to work with employers to ensure that they understand their liabilities.
- n) Develop the investment strategy and returns expectations of the Fund to reflect the maturity of the Fund's membership.

**4.0 Operating Budget 2015/16**

- 4.1 The operating budget for 2015/16 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 ongoing relevance and adequacy, and reduced or removed where appropriate.
- 4.2 The recommended operating budget for 2015/16 is £18.0 million, a decrease of £1.5 million from the 2014/15 budget. Table 2 sets out the recommended budget by expenditure type, compared with the 2014/15 budget.

**Table 2 – Operating Budget 2015/16**

	<b>2014/15 Budget £000</b>	<b>2015/16 Budget £000</b>	<b>Net Growth/ (Saving) £000</b>
Employees	4,513	4,797	284
Premises	344	328	(16)
Transport	69	60	(9)
Other	1,967	1,923	(44)
Investment Management and Advice	11,133	9,559	(1,574)
Service Development	350	350	-
Communications and Computing	719	702	(17)
Support Services	523	454	(69)
Miscellaneous Income	(150)	(155)	(5)
<b>Net Budget</b>	<b>19,468</b>	<b>18,018</b>	<b>(1,450)</b>
<b>Cost per scheme member</b>	<b>70.22</b>	<b>63.84</b>	<b>(6.38)</b>

- 4.3 The main reasons for the net reduction in the operating budget are:
- Savings on investment management fees resulting from portfolio restructuring and an increase in internal investment management (£1.6 million);
  - Growth in pay costs due to pay award, increments and increases in the employer's pension contribution rate, net of savings on National Insurance (£264,000);
  - Growth due to the inclusion of investment advisors for the new Investment Strategy Panel (£48,000);
  - Savings on the custodian budget following the agreement of a new contract (£131,000);
  - Savings on accountancy services previously provided by the council, due to those functions transferring in their entirety to the Fund's own Finance team (£89,000).
- 4.4 The budget includes provision of £350,000 for service development activities. For 2015/16, these include GMP reconciliation with HMRC, wider data quality work, and the implications for administration of pensions freedoms introduced by the Chancellor of the Exchequer's 2014 Budget Statement. The level of this budget will be reviewed annually.
- 4.5 The Fund's staffing establishment stands at 116 full-time-equivalent employees. This is an increase of one from 2014/15.
- 4.6 A charge of £150,000 for the administration of the West Midlands Integrated Transport Authority Pension Fund is included in miscellaneous income.

## **5.0 Medium Term Financial Plan**

- 5.1 Table 3 (following page) sets out the Fund's forecast operating budgets for the next five years. These generally assume a continuation of existing activities, plus the service development initiatives outlined above, adjusted for inflation, pay awards and other anticipated changes.
- 5.2 The forecasts reflect assumed growth of 6% per year in the value of the Fund's investment assets (inclusive of income), which causes growth in investment management and advice costs. They also reflect the increased cost of the next triennial actuarial valuation to be carried out in the 2016/17 financial year (and the following one, in 2019/20).
- 5.3 Table 4 (page after next) provides forecasts for all Fund activities from 2014/15 to 2019/20. There are some important caveats concerning these forecasts which are discussed at paragraph 5.5.

**Table 3 – Forecast Operating Budgets 2014/15 to 2019/20**

	<b>2014/15 Budget £000</b>	<b>2015/16 Budget £000</b>	<b>2016/17 Forecast £000</b>	<b>2017/18 Forecast £000</b>	<b>2018/19 Forecast £000</b>	<b>2019/20 Forecast £000</b>
Employees	4,513	4,797	5,067	5,196	5,314	5,420
Premises	344	328	325	331	337	343
Transport	69	60	61	62	63	64
Other	1,967	1,923	2,211	2,000	2,039	2,339
Investment Management and Advice	11,133	9,559	10,133	10,741	11,385	12,068
Service Development	350	350	350	350	350	350
Communications and Computing	719	702	716	730	744	758
Support Services	523	454	463	472	481	490
Miscellaneous Income	(150)	(155)	(155)	(155)	(155)	(155)
<b>Net Budget</b>	<b>19,468</b>	<b>18,018</b>	<b>19,171</b>	<b>19,727</b>	<b>20,558</b>	<b>21,677</b>
<b>Cost per scheme member</b>	<b>70.22</b>	<b>63.84</b>	<b>66.45</b>	<b>66.93</b>	<b>68.30</b>	<b>70.45</b>
<i>Cost per scheme member (excluding impact of growth in investment assets)*</i>	70.22	63.84	64.46	62.92	62.24	62.30

\* Note: the medium term forecasts assume that investment assets will increase in value by 6% per year. This causes increases in investment managers' fees, which distorts comparison of cost per member between years. The figure shown on this line excludes the impact of growth in investment assets after 2015/16, in order to enable like-for-like comparison.

**Table 4 – Medium Term Forecasts**

	<b>2014/15 Forecast £m</b>	<b>2015/16 Forecast £m</b>	<b>2016/17 Forecast £m</b>	<b>2017/18 Forecast £m</b>	<b>2018/19 Forecast £m</b>	<b>2019/20 Forecast £m</b>
Contributions Receivable	(450.3)	(447.1)	(467.0)	(477.2)	(485.8)	(494.5)
Other Income	(16.6)	(16.8)	(17.1)	(17.4)	(17.7)	(18.1)
Benefits Payable	496.6	520.0	548.1	577.1	607.1	638.1
Other Payments	0.3	0.3	0.3	0.3	0.3	0.3
<b>Net Cost of Pensions</b>	<b>30.0</b>	<b>56.4</b>	<b>64.3</b>	<b>82.8</b>	<b>103.9</b>	<b>125.8</b>
Investment Income	(141.2)	(148.9)	(156.6)	(164.6)	(172.8)	(181.1)
Gains in Value of Investments	(464.0)	(489.4)	(514.5)	(540.9)	(567.7)	(595.0)
<b>Return on Investments</b>	<b>(605.2)</b>	<b>(638.3)</b>	<b>(671.1)</b>	<b>(705.5)</b>	<b>(740.5)</b>	<b>(776.1)</b>
<b>Management Expenses (Operating Budget)</b>	<b>19.4</b>	<b>18.0</b>	<b>19.2</b>	<b>19.7</b>	<b>20.6</b>	<b>21.7</b>
<b>Net Increase in the Fund</b>	<b>(555.8)</b>	<b>(563.9)</b>	<b>(587.6)</b>	<b>(603.0)</b>	<b>(616.0)</b>	<b>(628.6)</b>
Opening Fund Balance	10,144.4	10,700.2	11,264.1	11,851.7	12,454.7	13,070.7
<b>Closing Fund Balance</b>	<b>10,700.2</b>	<b>11,264.1</b>	<b>11,851.7</b>	<b>12,454.7</b>	<b>13,070.7</b>	<b>13,699.3</b>



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

**Table 5 – Key Assumptions**

	2015/16	2016/17	2017/18	2018/19	2019/20
Pay Award	2.2%	2.0%	2.0%	2.0%	2.0%
Consumer Price Inflation (September of preceding year)	1.2%	2.0%	2.0%	2.0%	2.0%
Increase in Total Number of Members	2.3%	2.2%	2.2%	2.1%	2.1%
Gross Growth in Investment Assets	6.0%	6.0%	6.0%	6.0%	6.0%

5.5 With regard to the medium term forecasts shown in Table 4, it should be noted that these are highly subject to change, in particular because:

- a) Contributions for 2017/18 to 2019/20 will be influenced by the 2016 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 staffing reductions;
- 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 background papers**

- Pension Fund Business Plan 2014-2019, Report to Pensions Committee, 26 March 2014
- WMPF Medium Term Financial Plan Update and 2014/15 Operating Budget, Report to Pensions Committee, 26 March 2014

## **13.0 Schedule of Appendices**

13.1 Appendix A: Service plan for 2015 - 2020