

SOUTH YORKSHIRE PENSIONS AUTHORITY

22 November 2018

Report of the Treasurer

REVENUE BUDGET FOR 2019/20 AND REVISED BUDGET FOR 2018/19

1 Matter for consideration

To secure approval of the Authority's draft revenue budget for 2019/20, and to approve the levy under the Levying Bodies (General) Regulations 1992.

2 Recommendations

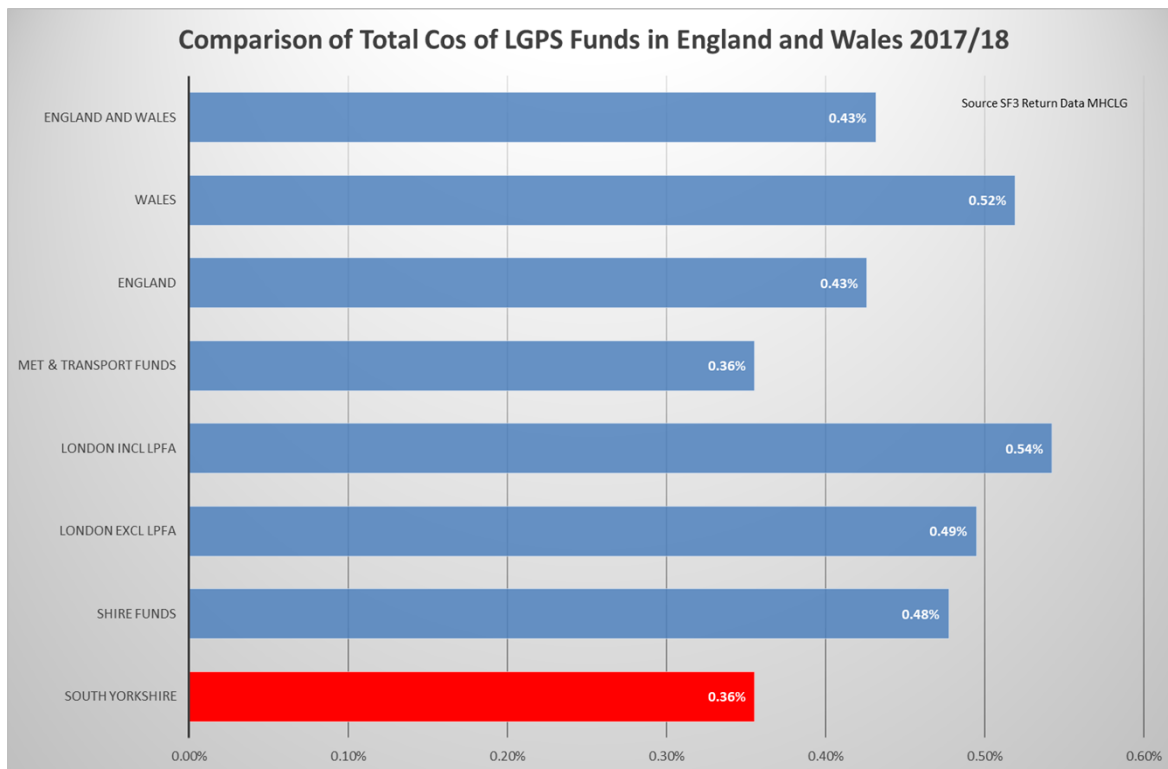
Members are asked to:

- (i) Approve the revised budget for 2018/19 in the sum of £5,336,300**
 - (ii) Approve a total levy of £436,000 for 2019/20 in accordance with The Levying Bodies (General) Regulations 1992, allocated to the District Councils as set out in para 5.1.**
 - (iii) Note the draft budget for 2019/20, and refer it to the District councils for comment.**
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STRATEGIC PLANNING

3 Background and Context

- 3.1** The Pension Fund's costs do not fall directly on Council Tax. Expenses are met from the Fund, in accordance with the Regulations. Employers contributions include an allowance for the costs of administering the Fund (at the 2016 valuation, this has been estimated at 0.4% of Pensionable Pay) which is reassessed at each valuation, while investment expenses are allowed for implicitly in determining the discount rates.
- 3.2** One of the Authority's key strategic objectives is to operate cost effectively. Published data which are summarised in the graph below show that the South Yorkshire Fund's total costs fall below the average despite there being considerable inconsistencies in the reporting of investment costs which SYPA fully accounts for.



- 3.3 A low cost starting point does not absolve the Authority from maintaining its focus on controlling costs in order to demonstrate some solidarity with many of the Fund's employers who are facing very significant financial pressures.
- 3.4 In the long run, the Authority can assist employers to cut budget requirements in two ways. Firstly and by some margin most significantly by delivering investment returns that exceed the assumptions made by the actuary in setting contributions. This is a matter for the valuation and the investment strategy review. Secondly, by minimising its own running costs which is the subject of this report.
- 3.5 As Members are aware this report is presented against a background of the transfer of more than 50% of the fund's assets into the pooling structures provided by Border to Coast. The remaining assets to transfer will do so over the period to 2020. The previous budget (for 2018/19) had to be set based on a number of assumptions about the costs which SYPA would see transferred to Border to Coast and the charges which we would receive from them. The details of the new costs resulting from the transition of assets are now clearer and will become clearer still once Border to Coast has finalised its budget for the next year in the coming months. However, while the transfer of the Investment Team and associated changes result in reduced costs within the Authority's budget the fees which come back to us from Border to Coast are a direct charge to the Pension Fund, thus there appears to be a significant reduction in the Authority's budget.
- 3.6 The Authority has always sought to manage within its budget and, as shown in the table below, has consistently achieved underspends over the last few years. These underspends have, where possible within the policy on reserves been added to reserves in order to provide resources for investment and to meet one off costs such as the changes to accommodation in the current year.

Year	Original Budget £000	Revised Budget £000	Outturn £000	Variance £000	Original Use of Reserves £000	Actual Use of Reserves £000
2013/14	5,418	5,381	5,297	-84	60	0
2014/15	5,434	5,437	5,238	-199	46	0
2015/16	5,761	6,120	5,908	-212	50	0
2016/17	6,337	6,503	6,376	-126	50	0
2017/18	7,173	7,277	7,134	-143	0	0
2018/19	8,981 restated to 5,317	5,336				

- 3.7 The Authority has already agreed to adapt both its organisation and its governance arrangements to respond to the advent of pooling, the new Corporate Strategy which will be presented for agreement in the New Year will also reflect a significant change agenda to both manage the key risks that we face and to ensure a focus on customer service. Where possible, as can be seen in the commentary on the 2018/19 revised estimates in year variations and reserves will be used to fund activity of this sort. However, the Authority is likely over the planning period to have to consider providing some one off investment in order to support the delivery of its objectives. Such investment will need to be considered within the context of a framework of rules which will be contained in the Medium Term Financial Strategy which will accompany the Corporate Strategy.

4 Preliminary financial forecasts

This report sets out the detailed revenue estimates on a 'continuation of service' basis for 2019/20 together with a revised estimate (or probable outturn) for 2018/19 (Appendix A). A forecast for the Fund Account for 2018/19 and 2019/20 is also provided which shows how the Authority's costs together with those charged directly to the Fund are forecast to change over the period (Appendix B).

The Budget is presented in a new cost centre format which more clearly aligns budgets with individual managerial responsibilities.

The Authority is also asked to approve the levy for 2018/19 in respect of expenditure which is not borne by the Pension Fund (see Para 5.1).

The following are attached in support of the above:-

Appendix A - summary of the revised 2018/19 estimates and 2019/20 estimates set out in the new format to align with management responsibilities

Appendix B - Fund account forecasts for 2018/19 and 2019/20 giving estimates of all costs charged to the Fund.

4.1 2018/19 Revised Estimates and Probable Outturn

The original budget for 2018/19 was approved in January 2018 at £8,981,300. This budget included no provision for use of reserves, but subsequently the use of up to £75,000 of reserves in relation to the move to Gateway was approved, along with costs of some other management changes to allow for a reorganisation within the management team following the flexible retirement of the Head of Finance.

The revised estimates for 2018/19 show a change in resources required to fund the Authority's activities of £21,400 as shown in the table below:

	£000	£000
2018/19 Original Budget	8,981	
Adjustments		
Add District Office costs	449	
Less Costs charged directly to Fund	-4,113	
2018/19 Restated original budget		5,317
Variations		
Employees - Administration	-64	
Employees – Investment / Finance (originally approved from reserves)	101	
Employees – relocation costs	20	57
Printing costs	-20	
New member web functionality UPM	83	63
Extra income generated from sales / strategy	-39	
Reduced recharge income for network	15	-24
Reduced system costs for Fund managers	-103	
Work on corporate strategies including Procurement	25	-78
Other minor changes	1	1
2018/19 Probable Outturn		5,336

The main variations being the restatement of the original budget to include the costs of the district offices and to remove the costs which are now directly charged to the fund (custody, external managers and BCPP costs). This change places SYPA's operating budget on a comparable basis with those of other administering authorities. The other significant variations are:

- Changes to the structure of the investment team (approved by the Authority in March) to enable management of legacy assets and performance monitoring and asset allocation.
- Changes to the management structure, approved in October to accommodate the flexible retirement of the Head of Finance.
- New functionality on UPM to improve communication with members, this being funded from savings within Administration turnover and extra income generated through software sales.
- One off costs such as relocation associated with recent recruitment.
- A significant saving in system costs following the transfer of investment staff to Border to Coast.

The Authority has a corporate strategy reserve which at 1.4.18 stood at £217,735. The above figures assume the use of up to £75,000 from this reserve to support the move to Gateway. As the move has not yet taken place there are still costs to be determined but they are not expected to amount to the full £75,000. Other costs had been approved to

come from the reserve but have actually been included in the figures above, in order to maintain the level of reserves to deal with the wider change agenda likely to flow from the Corporate Strategy.

It is anticipated that the final outturn for 2018/19 could actually still give a small saving against the budget above in which case this could be used to fund some of the costs of the accommodation move and further reduce pressure on the Corporate Strategy reserve.

5 2019/20 Levy

- 5.1 The levy for 2019/20 is calculated at £436,000 to be charged across the 4 lead district councils based on the Council Tax Base for each district as shown in the table below:

Council	Levy forecast 2019/20 £
Barnsley MBC	78,650
Doncaster MBC	100,850
Rotherham MBC	86,600
Sheffield CC	169,900
Total	436,000

6 2019/20 Original Budget

- 6.1 The initial planning guideline for 2018/19 was a 'continuation of service' budget based on maintaining current levels of service. This includes provision for the nationally agreed 2% pay award (at the lower end of the pay scales this actually amounts to over 7%) and restructuring of the pay spine together with inflation specifically provided for in contracts.
- 6.2 The budget for 2019/20 to maintain the current level of service is shown in Appendix A at £5,445,600 against the restated base 2018/19 budget of £5,317,000. The main changes are summarised in the table below:

	£000	£000
Original Budget 2018/19 (restated see 4.1)		5,317
Inflation – Pay	146	
Non Pay	28	
		174
Employees - Increments	43	
Increased Pension conts/ NI	25	
Increased professional training	8	76
Reduced recharge income for network	15	
Actuarial costs	25	
UPM services	16	56
Reduced investment systems and information services	-180	-180
Other minor changes	3	3
Original Budget 2019/20		5,446

- 6.3 As can be seen at paragraph 3.6 the Authority has consistently managed to underspend its annual budget. This has enabled a small Corporate Strategy Reserve to be established for the purpose of 'smoothing' cost impacts as far as possible. This Contingency Reserve is to be used for the cost of moving offices and to fund further costs relating to GDPR up to agreed levels. The budget proposed for 2019/20 does not assume any further use of this reserve at this stage.

7 Implications of making further changes to the budget

- 7.1 The budget has been produced on a standstill basis, and continues to make assumptions about the impact of pooling on elements of the cost base. As indicated above the Corporate Strategy (at least in draft form) will come forward in time for the final approval of the budget providing members with the opportunity to consider whether they wish to make further changes to the budget. In the meantime members are asked to indicate whether they wish any specific area to be explored to achieve reductions as part of this budget round.
- 7.2 The impact of the standstill budget on the overall cost ratio illustrated in the graph above would be to move it from 0.36% to 0.38% bearing in mind that this includes all management costs for the fund including external management fees and charges linked with alternative investments which are not always consistently reported across funds. Changes to reporting standards which will be introduced from 2018/19 are likely to see a very significant increase in the costs reported by other funds while the change for SYPA will be fairly small, thus we are likely to continue to be one of the lower cost funds.

8 Other Implications

- 8.1 Legal
There are no legal implications.
- 8.2 Diversity
There are no specific diversity implications.
- 8.3 Risk
The Authority is the formal decision-making body for all matters regarding the LGPS and needs to be in a position to monitor and respond to changes that affect the working of the Scheme. There is an unquantifiable reputational risk associated with failing to do so.

N Copley
Treasurer

Officer responsible: Bev Clarkson, Head of Finance, South Yorkshire Pensions Authority
Background papers used in the preparation of this report are available for inspection at the South Yorkshire Pensions Authority.

Other sources and references: none