

Subject	Pensions Authority Budget 2020/21	Status	For Publication
Report to	Authority	Date	23 January 2020
Report of	Treasurer		
Equality Impact Assessment	Not Required	Attached	No
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1 Purpose of the Report

- 1.1 To present the Authority budget proposals for 2020/21 for approval.
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2 Recommendations

- 2.1 Members are recommended to:
- a. Approve the 2020/21 budget for the Authority, a total of £5,445,600**
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3 Link to Corporate Objectives

- 3.1 This report sets out the budget for 2020/21 and the proposals are prepared on the basis of providing sufficient resources to support the delivery of all the corporate objectives set out below.
- 3.2 The budget preparation and approval process itself links to the 'Effective and Transparent Governance' objective by ensuring that the financial plans are transparent, are subject to proper scrutiny and oversight, and that the Authority is accountable for its use of resources.

Customer Focus

To design our services around the needs of our customers (whether scheme members or employers).

Listening to our stakeholders

To ensure that stakeholders' views are heard within our decision making processes.

Investment Returns

To maintain an investment strategy which delivers the best financial return, commensurate with appropriate levels of risk, to ensure that the Fund can meet both its immediate and long term liabilities.

Responsible Investment

To develop our investment options within the context of a sustainable and responsible investment strategy.

Effective and Transparent Governance

To uphold effective governance showing prudence and propriety at all times.

Valuing and engaging our Employees

To ensure that all our employees are able to develop a career with SYPA and are actively engaged in improving our services.

4 Implications for the Corporate Risk Register

- 4.1 The budget proposals outlined in this report have been prepared with the aim of ensuring that the Authority will have sufficient resources to meet its obligations and to support the risk mitigation actions being taken as set out in the Corporate Risk Register.

5 Background and Options

- 5.1 The preparation of the Authority's operating budget proposals for 2020/21 has involved a full review of the base budget following the significant amount of change that has affected the organisational context over the last two years and the impact of this on the Authority's resource needs and priorities going forward.
- 5.2 The overall aim of the budget process is to ensure that the organisation's financial resources and allocations are determined on the basis of supporting the achievement of the corporate aims and objectives set out in the Authority's Corporate Strategy. Therefore the proposals set out in this report have been shaped by the overall context and strategic direction of the organisation and some of these key factors are set out in more detail below.

Internal Operating Environment

- 5.3 During the last eighteen months, as work has taken place to strengthen the overall governance of the organisation, it has become clear that the Authority faces a range of issues that will need to be addressed in order to move forward and realise its full potential. These issues include the following:
- a. Employee learning and development – there is a need to invest further in developing individuals, in relation to management skills and practice in particular as well as a wider range of softer skills;
 - b. Corporate governance – as some of the links between the former joint secretariat and the Authority have loosened, this has resulted in a gap in relation to some elements of corporate management processes, e.g. the regular review and updating of core organisational policies. So far this has been addressed by the Fund Director carrying out the reviews needed but this is not a sustainable or cost-

effective use of resource. In addition, there is a need to ensure that appropriate levels of resource are provided to support the democratic process, in particular the on-going development of suitable programmes of training for Members and the provision of independent advice as needed;

- c. Back office – There is a need for upgrade and modernisation of systems to support the back office functions of finance, HR and staff payroll. As we continue to move forward with transition of assets to Border to Coast, there is also a need for a fundamental review of the operating model for the back office;
- d. Communications and engagement – as part of ensuring a continuing focus on the needs of our customers, we need to ensure that suitable processes, tools and technology are in place to enable a greater understanding of the quality and quantity of customer interactions, and to ensure we communicate effectively with all our stakeholders. Improvements have already started as part of the restructure of the Pensions Administration service but it is likely that further investment will be needed over time;
- e. Pensions Administration System – the current contract for “UPM”, the software system used for Pensions Administration, is due to come to an end in the summer of 2021 and this will require a major procurement exercise. Depending on the outcome of that procurement, there will be resourcing requirements relating to either the renewal or replacement of the system; and
- f. Office accommodation – The Authority will need to take a view on its approach and requirements for accommodation in advance of November 2021 when the break option in the current lease agreement may be exercised; this will require a full options appraisal supported by external specialist advice.

External Environment

5.4 The Authority does not operate in a vacuum of course and there are wider, external factors that will also influence our direction and resourcing needs. These include the following:

- a. Public Sector Pension Reform – We know that changes will be made to the Scheme following the McCloud case but as yet we do not know what these will be; the implementation of a remedy in relation to McCloud will require substantial work and potentially significant systems changes may be needed as a result of any changes made to reduce the costs of the Scheme;
- b. The Scheme Advisory Board’s Good Governance Review – the impact of the recommendations coming out of this review will result in the need for increased requirements for the maintenance of a much better documented and systematic governance process, the undertaking of regular independent reviews of governance, and learning and development for elected members;
- c. In a similar way to the Good Governance Review, the FRC’s new Stewardship Code will require changes to the way in which the Authority carries out certain aspects of its functions and there are likely to be resource implications although these are not yet known;
- d. Regulation and Audit – Increasing focus from regulators on compliance with relevant codes will mean we need to document and demonstrate compliance more effectively and the review of the Code of Audit Practice and various regulatory changes in the audit profession more generally may result in additional audit requirements;
- e. Transparency – There is a wider agenda for public services in terms of transparency and the move to ‘digital by default’ and the Authority will need to reflect this in its own plans; and

- f. Societal Change – The impact of wider societal and demographic changes on the operations of the Authority to which we will need to respond, e.g. the implications of increasing numbers of people living with dementia for the training needs of our staff in order to provide services that meet their needs.

Financial Context

- 5.5 The running costs of the Authority are met from the Pension Fund in accordance with regulations and do not therefore fall on Council Tax nor is the Authority reliant upon Government grant funding. As such, the Authority is less exposed to the wider constraints on the public sector financial environment than our colleagues in the major employing organisations within the Pension Fund. There is, however, an imperative to manage the resources for which we are responsible in such a way that our expenditure does not negatively impact on the overall performance of the Pension Fund.
- 5.6 Members will recall that the context in which the budget for 2019/20 was prepared was on the basis of 'continuation of service' and there remained uncertainty in respect of some of the effects on the cost base arising from the transition to Pooling. Since that budget was set and during the course of the 2019/20 year to date, there have been several changes and developments within the organisation and these have resulted in lower costs than anticipated in some areas.
- 5.7 Further details of variances compared to budget and the reasons for these are contained in the Corporate Performance report for Quarter 2 elsewhere on the agenda. The overall picture is that there is currently a large forecast underspend for 2019/20 that partly reflects the fact that this has been a continuing period of transition during which some of the costs relating to the previous operating model have declined in advance of the organisation incurring the full range of additional costs associated with the planned implementation of new structures, activities, systems, and so on, in line with the corporate planning framework. For example, the largest variance is in relation to staffing costs, arising from a number of factors including changes within the pensions administration service and a number of management and senior posts within the service being held vacant for the first three quarters of the year pending the restructure being implemented from December 2019.
- 5.8 This position and the background to the budget setting cycle has created the need to undertake a comprehensive and detailed review of the base budget whilst also providing the opportunity for this review to encompass a re-alignment of existing financial resources as a way of fulfilling the majority of the additional investment needed to support the Authority's corporate priorities and thereby minimising any requirement for growth in the overall quantum of resource to be requested.
- 5.9 It is essential that this re-alignment of the existing budget is set out in a transparent manner that enables Members to take a fully informed view of the changes being proposed and to make the approval decision with clear oversight of how resources will be re-directed to fund the additional investment needed in specific areas and activities, particularly where this involves the employment of additional staff resource.
- 5.10 Therefore, in the tables that follow, the proposals include detail of the 'savings' identified as well as the estimated 'growth' required, supported by a further analysis of the specific items on which this will be used.

Budget 2020/21

- 5.11 The following tables show the proposed budget for 2020/21 and the movement on this when compared to the current budget for the 2019/20 year.

Table 1: South Yorkshire Pensions Authority – Operating Budget 2020/21

South Yorkshire Pensions Authority Operational Budget	2019/20 Budget £	Reallocate Resources £	Inflation £	Savings/ Income Growth £	Growth £	2020/21 Budget £	Total Budget Movement £	Total Budget Movement %
Investment Strategy	784,900	0	6,350	(29,550)	10,000	771,700	(13,200)	(1.68%)
Pensions Administration	3,131,750	(110,885)	48,360	(336,065)	81,360	2,814,520	(317,230)	(10.13%)
Finance & Corporate Services	530,500	110,885	11,250	(78,980)	48,200	621,855	91,355	17.22%
ICT	532,950	0	6,799	(64,409)	149,465	624,805	91,855	17.24%
Management & Corporate Costs	382,650	0	5,270	(84,135)	126,850	430,635	47,985	12.54%
Democratic Representation	82,850	0	925	(4,290)	56,000	135,485	52,635	63.53%
Subtotal before transfers to reserves	5,445,600	0	78,954	(597,429)	471,875	5,399,000	(46,600)	(0.86%)
Appropriations to/ (from) Reserves	0	0	0	0	46,600	46,600	46,600	100.00%
Total Charge to the Pension Fund	5,445,600	0	78,954	(597,429)	518,475	5,445,600	0	0.00%

Total Charge to the Pension Fund comprises:	2020/21 Budget £
Administration Expenses	3,375,340
Investment Management Expenses	610,590
Oversight & Governance Expenses	1,459,670
	5,445,600

Table 2: South Yorkshire Pensions Authority – Operating Budget 2020/21: Analysed by Subjective

South Yorkshire Pensions Authority Operational Budget	2019/20 Budget	Reallocate Resources	Inflation	Savings/ Income Growth	Growth	2020/21 Budget	Total Budget Movement	Total Budget Movement
Subjective Analysis	£	£	£	£	£	£	£	%
Employees	3,830,300	(21,130)	66,669	(500,759)	175,910	3,550,990	(279,310)	(7.29%)
Running Costs	1,721,300	21,340	12,285	(87,880)	295,965	1,963,010	241,710	14.04%
Income	(106,000)	(210)	0	(8,790)	0	(115,000)	(9,000)	8.49%
Subtotal before transfers to reserves	5,445,600	0	78,954	(597,429)	471,875	5,399,000	(46,600)	(0.86%)
Appropriations to/ (from) Reserves	0	0	0	0	46,600	46,600	46,600	100.00%
Total Charge to the Pension Fund	5,445,600	0	78,954	(597,429)	518,475	5,445,600	0	0.00%

- 5.12 The overall budget requirement is for a total of £5,445,600 representing a freeze in cash terms on the 2019/20 budget.
- 5.13 The columns in Table 1 show the movement from the 2019/20 budget to the proposed 2020/21 budget analysed between the reallocation of resources, the impact of inflation, the savings identified and the growth required, as explained below.

Re-Allocation of Resources

- 5.14 This column sets out the reallocation of budgets between individual spending heads to reflect real expenditure patterns.
- 5.15 The movement of resources that is shown from Pensions Administration to Finance and Corporate Services relates to the budget for the Payroll and HR functions that have been transferred in the new organisational structure with effect from 1 January 2020.

Inflation

- 5.16 This column shows the impact of any inflationary awards on staff pay and the impact of maintaining the real value of certain budgets where prices are contractually linked to inflation.
- 5.17 The majority of the inflation cost shown in the table above, £67,000, relates to the assumption that has been used for budgeting purposes of the cost of a 2% pay award for all staff. This assumption matches the assumption used by the District Councils in calculating their budgets and reflects a consensus view amongst Treasurers. Clearly there is a risk, given the initial negotiating position stated by the Trade Unions, that this assumption will be too low. However, it is based on the best information available at this time.
- 5.18 The remaining amount relates to certain contractual costs that are expected to increase in line with the CPI rate as at September 2019, which was 1.7%.

Savings/Income Growth

- 5.19 This column shows the removal of resources not required to maintain current service levels, as well as any growth in the income resources available to the Authority.
- 5.20 The savings shown have been identified from a detailed review of budgets and these reflect changes made to remove resourcing that is no longer required – with the aim of re-directing this to invest in new and enhanced provision as shown in the ‘Growth’ section below.
- 5.21 A total saving of (£248,600) has arisen on staffing costs in relation to pension contributions as a result of the improved funding basis of the Authority’s position from the 2019 Valuation which means that instead of paying a past service deficit contribution of £206,900, we will now net off a surplus of (£41,700). There were also further savings in staffing costs arising from a realignment to actual rates for employer on-costs.
- 5.22 Savings have also been identified from a review of the actual resources now required for various areas including office accommodation, support services SLA, external audit fees, postage and printing – reflecting how the needs of the organisation have changed over the last couple of years and resetting the relevant budgets accordingly.

Growth

- 5.23 This column sets out the budget impact of additional enhancements to services proposed in line with the Corporate Strategy.

5.24 The following table provides a breakdown of the total of the budget growth shown above, providing the detail of where additional resourcing is proposed to be used and how this supports the wider corporate plans of the Authority.

Budget Head	Budget Growth Items	Detail	Total £
Investment Strategy	Bloomberg Licence	Additional licensing cost to enable access for all staff in the Investment Strategy team to this resource for analysis of investments and performance.	10,000
Investment Strategy Subtotal			10,000
Pensions Administration	Apprenticeship Programme	Formally establish an apprenticeship programme for up to three apprentices, previously funded through turnover savings. This is a specific response to workforce planning issues identified in the risk register.	26,000
Pensions Administration	Communication	Re-evaluate existing officer role to reflect increased specialism required and add a new assistant post to support increased effort in terms of scheme member communications, to enable the development of internal communications, and to improve the approach to press and media whilst keeping this low-key.	33,000
Pensions Administration	Benchmarking	To provide funding for the cost of CEM Benchmarking for Pensions Administration having taken part in this for the first time in 2019/20; the CEM benchmarking service provides a greater focus on the quality of service we provide rather than just cost and will also provide benchmarking against other pension funds both within and outside of the LGPS.	14,360
Pensions Administration	Address Tracing	To provide recurrent funding for the newly implemented address-tracing service in order to meet the expectation of the Pensions Regulator that we take actions to trace missing scheme members.	8,000
Pensions Administration Subtotal			81,360
Finance and Corporate Services	Governance, Risk and Compliance	Create a new Governance, Risk & Compliance Officer post in order to address an identified resource gap in this area.	42,500
Finance and Corporate Services	Corporate Subscriptions	Additional costs relating to subscription to CIPFA's Pensions Network and Digital Publications services - providing technical resource, advice, guidance and training.	5,700
Finance and Corporate Services Subtotal			48,200
ICT	Project Management	Creation of a new Project & Improvement Lead post in the ICT team to provide specialist resource to support various improvement projects across the organisation as part of the corporate strategy.	47,660

Budget Head	Budget Growth Items	Detail	Total £
ICT	ICT Infrastructure	Potential additional investment required for upgrading MS Office software, telephony and back-up solutions to ensure continuing suitability and security.	75,955
ICT	ICT Hardware	Additional investment for ICT hardware replacement rolling programme - with a new emphasis on enabling agile working.	25,850
ICT Subtotal			149,465
Management & Corporate Costs	Management Support	A new Management Support Officer post to provide administrative support to the Senior Management Team.	26,850
Management & Corporate Costs	Mandatory Training	Development of a bespoke Induction training package for new staff as well as development of mandatory annual training programmes for all staff through tailored e-learning in areas such as Data Protection, Counter Fraud, Health and Safety, etc.	20,000
Management & Corporate Costs	Professional Training	Increase in base provision in order to meet the increasing need for staff's professional knowledge and skills to be kept up to date. Improved record-keeping to support the monitoring of the use and efficacy of this resource.	50,000
Management & Corporate Costs	Management Development	Further investment in management development to build on the initial programme undertaken during 2019/20 and also to develop the next generation as part of succession planning.	20,000
Management & Corporate Costs	Health and Wellbeing Initiatives	To provide a dedicated Health, Safety and Wellbeing budget for the first time to support and build on the actions already being taken including workstation assessments, weekly fruit deliveries, flu vaccinations, resilience training etc.	10,000
Management & Corporate Costs Subtotal			126,850
Democratic Representation	Members Allowances	Estimated additional resource to fund the reimbursement of the cost of Members' Allowances to the district councils as part of the introduction of a new common scheme.	56,000
Democratic Representation Subtotal			56,000
Grand Total			471,875

5.25 The proposed transfer of £46,600 to earmarked reserves comprises £4,000 of ICT income from the sale of software developed in-house to be transferred to the ICT Development reserve and £42,600 to be taken from the overall savings identified and transferred into a Capital Projects Reserve, subject to the creation of this new reserve being approved by the Authority as requested in the Quarter 2 Corporate Performance report.

Workforce and Pay Policy

5.26 The proposals set out in this report have the following impacts on the Authority's workforce.

	2019-20 Funded Establishment	Miscellaneous Changes	Growth	2020-21 Funded Establishment
	FTE	FTE	FTE	FTE
Investment Strategy	4.4	0.0	0.0	4.4
Pensions Administration	68.0	(6.6)	1.0	62.4
Finance and Corporate Services	10.1	2.7	1.0	13.8
ICT	7.8	(1.0)	1.0	7.8
Management and Corporate Costs	0.0	0.0	1.0	1.0
Democratic Representation	0.0	0.0	0.0	0.0
Apprentices	1.0	0.0	2.0	3.0
Total	91.3	(4.9)	6.0	92.4

- 5.27 The Miscellaneous Changes column represents a combination of changes to hours, transfers of posts between sections, and changes as a result of small scale reorganisations on posts becoming vacant.
- 5.28 The Growth column shows the number of new posts proposed in line with the details set out in the table in paragraph 5.26 above – these are Apprenticeships, Communications Assistant, Governance, Risk & Compliance Officer, ICT Project & Improvement Lead and Management Support Officer.
- 5.29 The Authority does not budget for an assumed level of vacancies and the intention is, generally, to operate at full establishment throughout the year. The process of filling new posts approved as part of the budget will begin in the current financial year in order to have people in post at the earliest possible opportunity.
- 5.30 The Authority has previously identified a number of workforce related risks within the corporate risk register. The restructure within Pensions Administration together with the additional posts identified as growth and the very significant investment proposed in learning and development and apprentices, which will support a strengthening in succession planning, will substantially address these risks.
- 5.31 The Authority produces a Pay Policy Statement which sets out its arrangements for pay and reward. As the national pay award applicable from April 2020 has yet to be settled, it is not yet possible to update this. The pay policy statement will be updated as and when the relevant information is available.

Reserves

- 5.32 The movement and estimated balances on the Authority's earmarked reserves arising from the budget proposals are as follows.

Reserve	Forecast Balance at 01/04/2020 £	Estimated Contributions to Reserves £	Estimated Contributions from Reserves £	Estimated Balance at 31/03/2021 £
Corporate Strategy Reserve	232,831	0	0	232,831
ICT Reserve	113,633	4,000	0	117,633
Subtotal Revenue Reserves	346,464	4,000	0	350,464
Capital Projects Reserve	660,000	42,600	0	702,600
Total Earmarked Reserves	1,006,464	46,600	0	1,053,064

5.33 The 'Capital Projects Reserve' will be created in 2019/20 if approved by the Authority and, as set out in the Quarter 2 Corporate Performance report, will be used for the provision of resources to support non-recurrent costs on major projects that will be required over the period of the medium term financial strategy:

- a. New core business systems – There is a need to invest in the acquisition of new and integrated systems for Finance, HR and Staff Payroll. This will require funding for the software licence purchase, implementation costs, and procurement support.
- b. Re-procurement of Pensions Administration System – The Licence for this system will be due for renewal or replacement and a major procurement will therefore be required; funding will be needed for the procurement and evaluation support and, depending on the result of the process, acquisition and licensing costs together with implementation support.
- c. Initial scoping of the options for long-term office accommodation which will require external specialist support.

5.34 At this stage, it is not proposed to budget for any transfers from the earmarked reserves in 2020/21 because the timing of when the draw down from these reserves will be required is not yet known. This will be kept under review and reported to the Authority for approval as required via the quarterly reporting of the management accounts and financial forecasts during the year.

Local Pension Board

5.35 Included within the Democratic Representation budget shown above is the draft budget for the Local Pension Board, a total of £14,000. This was considered at their meeting on 11 December 2019 and the Board have recommended this to the Authority for approval as part of the overall Authority budget.

Report Under Section 25 of the Local Government Act 2003

5.36 Part 2 of the Local Government Act 2003 contains a series of duties and powers that give statutory support to aspects of good financial management within local government.

- 5.37 Section 25 requires the statutory chief finance officer to report to an Authority on the robustness of the estimates included in the budget and the adequacy of the proposed reserves when it is making its decision on determining the council tax. Whilst the Pensions Authority budget does not have any direct impact on council tax, it is nevertheless good practice to apply the same requirement here.
- 5.38 In considering the robustness of any estimates, the following issues are taken into account:
- a. The reasonableness of the underlying budget assumptions;
 - b. The extent to which known costs and pressures have been recognised in the proposed budget;
 - c. A review of risks associated with the budget;
 - d. The alignment of resources with the Authority's service and organisational priorities; and
 - e. The strength of financial management and reporting arrangements.
- 5.39 In preparing the budget for 2020/21, a detailed, line-by-line review of the cost base was undertaken to ensure that budgeted resources going forward are determined and allocated to reflect the actual needs of the organisation.
- 5.40 Employee costs make up two thirds of the overall budget. The budget estimates for employee costs have been calculated based on the newly implemented structure for pensions administration and include additional staffing resources as set out in paragraph 5.26 above. The Authority has budgeted on the basis of all posts being fully funded for the year; this has the advantage of allowing posts to be advertised during the notice period of any employee and replacements to come into post quickly. It also provides flexibility should temporary or agency staff be required to fill posts in the short term.
- 5.41 A vacancy allowance has not been made for any time-lag in filling vacancies; there is therefore a risk that new posts will not be filled as quickly as planned which would result in an under-spend on the budget.
- 5.42 In line with the four District Councils and as outlined in para 5.17 above, an assumption of 2% has been set for pay award inflation. The actual pay award is not yet known and will be determined by the National Joint Council for Local Government Services. The assumption for the budget is considered to be appropriate based on the best information available at this time but there is a risk that the actual pay award will be higher.
- 5.43 The estimates for running costs include uplifts for contractual inflation increases where relevant based on the terms of individual contracts – in many cases this is at the September CPI rate of 1.7%.
- 5.44 The budget growth estimates have been developed specifically to align with the Authority's corporate strategy and priorities, including additional investment in governance, risk and compliance, learning and development and ICT infrastructure.
- 5.45 The budget is monitored regularly throughout the year and forecast outturn and variances reported to the Authority every quarter.
- 5.46 The Treasurer therefore considers that the estimates included in the budget are robust.
- 5.47 The reserves held by the Authority are required to fund specific expenditure in future years or are required to provide risk finance. The proposed reserves set out in paragraph 5.32 above are considered to be adequate for the purposes outlined and to meet needs arising from any unforeseen events during the year.

Conclusion

- 5.48 The budget proposals outlined in this report are based on the results of a thorough re-assessment of resource needs in the context of the Authority's current and future requirements. The areas suggested for additional investment have been carefully identified to link to and support the achievement of the Corporate Strategy objectives.

6 Implications

- 6.1 The proposals outlined in this report have the following implications:

Financial	As set out in the body of the report.
Human Resources	The budget includes an assumption of a pay award of 2%; the actual pay award will be determined by the National Joint Council for Local Government Services. The budget proposals include the addition of staff resources in certain areas as set out in the table at paragraph 5.24 and as detailed in paragraph 5.26.
ICT	The budget proposals include specific resources for the development of the ICT infrastructure and systems available as set out in the main body of the report.
Legal	The setting and monitoring of the budget requirement ensures that the Authority complies with the Local Government Act 2003.
Procurement	The budget proposals include resources to support any procurement activity that will need to be undertaken.

Neil Copley

Treasurer

Background Papers	
Document	Place of Inspection
Budget working papers	Floor 8 Gateway Plaza, Sackville Street, Barnsley