

<b>Subject</b>	<b>Pensions Authority Budget 2021/22</b>	<b>Status</b>	For Publication
<b>Report to</b>	Authority	<b>Date</b>	21 January 2021
<b>Report of</b>	Treasurer		
<b>Equality Impact Assessment</b>	Not Required	<b>Attached</b>	No
<b>Contact Officer</b>	Gillian Taberner Head of Finance & Corporate Services	<b>Phone</b>	01226 772850
<b>E Mail</b>	<a href="mailto:gtaberner@sypa.org.uk">gtaberner@sypa.org.uk</a>		

## **1 Purpose of the Report**

- 1.1 To present the Authority budget proposals for 2021/22 for approval.
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## **2 Recommendations**

- 2.1 Members are recommended to:
- a. Approve the 2021/22 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 2021/22 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 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.

### *Financial Context*

- 5.2 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.
- 5.3 Members will recall that the budget for 2020/21 was prepared on the basis of a detailed review of resource requirements and this enabled the budget to be set at the same level in cash terms as the prior year but encompassed a re-alignment of financial resources in order to provide the required investment in a range of areas to support delivery of the Authority's corporate priorities.
- 5.4 As reported during the course of the year to date, the impact of the COVID-19 global pandemic has slowed some of the progress in these areas resulting in under-spends on the current year budget. Therefore, as set out in the Corporate Strategy report elsewhere on this agenda, many of these priorities remain to be carried forward into 2021/22 and the budget underpinning this therefore retains the appropriate resources required.
- 5.5 The budget for the year ahead also includes the effects from implementation of further restructuring – in Finance & Corporate Services and re-organisation of business support activities, the revenue effects of the planned change of office accommodation, continued investment in technology and the impact of acceleration that has taken place in regards to the agile working programme. It also supports the continued emphasis on supporting people and learning & development with an additional training officer

post (by virement from the training budget) and the three additional pension officers previously approved by the Authority to address the McCloud implementation included within the employee costs budget.

*Budget 2021/22*

- 5.6 The table on the following page shows the proposed budget for 2021/22 and the main changes within this when compared to the current budget for the 2020/21 year.

Table 1: South Yorkshire Pensions Authority – Operating Budget 2021/22

Operational Budget	2020/21 Budget	Employee Costs				Other Running Costs	2021/22 Budget
		Pay Award Inflation	Homework Allowance	Other Employee Costs Changes	Finance Restructure & Business Support Review		
	£	£	£	£	£	Net Impact of Miscellaneous Changes	£
Investment Strategy	<b>771,700</b>	5,100	700	(21,410)	0	(71,300)	<b>684,790</b>
Pensions Administration	<b>2,814,520</b>	45,200	18,950	20,000	(77,050)	(31,670)	<b>2,789,950</b>
Finance & Corporate Services	<b>621,855</b>	9,400	4,520	16,545	56,000	2,300	<b>710,620</b>
ICT	<b>624,805</b>	7,150	2,100	18,190	0	14,955	<b>667,200</b>
Management & Corporate Costs	<b>430,635</b>	1,500	230	(35,465)	0	5,750	<b>402,650</b>
Democratic Representation	<b>135,485</b>	1,275	0	0	0	5,860	<b>142,620</b>
<b>Subtotal before transfers to reserves</b>	<b>5,399,000</b>	69,625	26,500	(2,140)	(21,050)	(74,105)	<b>5,397,830</b>
Appropriations to/ (from) Reserves	<b>46,600</b>	0	0	0	0	1,170	<b>47,770</b>
<b>Total Charge to the Pension Fund</b>	<b>5,445,600</b>	69,625	26,500	(2,140)	(21,050)	(72,935)	<b>5,445,600</b>

Total Charge to the Pension Fund comprises:	2021/22 Budget £
Administration Expenses	3,252,985
Investment Management Expenses	581,185
Oversight & Governance Expenses	1,611,430
	<b>5,445,600</b>

5.7 The overall budget requirement is for a total of £5,445,600 representing a freeze in cash terms on the 2020/21 budget.

5.8 The table provides an overall summary of the main changes proposed within the budgets for employee costs and running costs; the details of which are explained below.

*Pay Award Inflation £69,625*

5.9 This column shows the impact of potential inflationary awards on staff pay. The assumption that has been used for budgeting purposes is for a 2% pay award for all staff. There is a degree of uncertainty over this assumption given the announcement of a 'public sector pay freeze' for 2021/22 in the Spending Review 2020 published in November 2020. This does not directly affect the Authority as pay awards for local government workers are agreed through the National Joint Council for Local Government Services. The Local Government Association, which represents the employer side in the National Joint Council, has said that it is not bound by this pay policy but that pay awards will depend on the funding that local government receives through the financial settlement. At the time of preparing the budget, no further information is available and therefore an assumption of 2% for budgeting purposes was considered to be the most reasonable and prudent approach.

*Homework Allowance £26,500*

5.10 The impact of the COVID-19 pandemic and subsequent lockdowns resulted in the introduction of a new homeworking allowance that has been paid to staff since April 2020. The allowance is paid at the limit set by HMRC of £26 per month exempt from tax and national insurance. The cost of providing this allowance was not previously in the budget and was funded from employee cost underspends in the current financial year. For 2021/22 it is proposed to budget for this allowance, as it is likely that a requirement for homeworking will continue for several months at least. The budgeted amount has therefore been estimated on a pro-rata basis.

*Other Employee Costs (£2,140)*

5.11 The column for other changes to employee costs includes the effect of changes such as staff incremental progression, grade changes arising from job evaluations on a small number of posts that have taken effect since the 2020/21 budget was approved, changes in individual staff hours and staff turnover. In addition to these changes, the following two items of growth are also included.

5.12 A transfer of £35k from the organisational development budget into the employee costs budget for Pensions Administration in order to fund the introduction of a new training officer post which will be offered as an internal secondment for an experienced pensions officer in line with the objective set out in the Corporate Strategy.

5.13 Additional resources of £72k for up to 3 extra pension officers as approved at the 30 September 2020 Authority meeting in order to equip the service for dealing with forthcoming changes including those arising from McCloud remedy implementation, other age discrimination cases and GMP reconciliation.

*Finance Restructure & Business Support Review (£21,050)*

5.14 This shows the net effects on the budget of re-organisations as follows.

5.15 As Members are aware, the restructure of Finance & Corporate Services was approved in September 2020 and the budget for 2021/22 now includes the costs based on the new structure.

- 5.16 During 2020, a review and re-organisation of business support resourcing was also undertaken and this resulted in some posts moving from within Pensions Administration to Finance & Corporate Services.

*Other Running Costs – Miscellaneous Changes*

- 5.17 This column sets out the net budget impact of various specific changes to individual budget items – details of which are set out in the following table.

Budget Head	Item of Expense	Detail	Total £
Investment Strategy	Various	Over the course of the last year, continued review has been undertaken of the resource requirements within the investment strategy team budget which has identified additional scope for removal of resources where not required to maintain service levels.  This has resulted in reduced budget requirements for corporate subscriptions and professional fees in particular.	(64,000)
Pensions Administration	Printing & Postage	The increasing use of technology and a diverse range of communication channels has resulted in recurrent savings on the budgets for printing and postage and the proposed budget includes the effect of this as well as further targeted savings to be achieved.	(55,000)
Pensions Administration	Project Management	As Members will recall, the budget for the current financial year included additional funding for a new Project & Improvement Lead post and there remains a significant commitment to ensuring appropriate resources are allocated for supporting the delivery of improvement projects and change in line with the Corporate Strategy.  Consequently, an additional £28k is being proposed in the 2021/22 budget for this purpose.	28,000
ICT	Agile Working – Hardware Replacement	Similarly, the ICT budget for the current year included growth for investment in a programme of work to enable more agile working on a phased basis over 3 years.  The COVID impact from March 2020 meant that this programme was accelerated and laptop equipment was purchased for all staff instead of being phased.  Going forward, the laptop equipment will require replacement approximately every three years. Consequently it is proposed to transfer the associated budget for this in 2021/22 out of the ICT departmental budget and to transfer this instead into the ICT Reserve in order to set it aside to fund the next replacement programme in three years' time.	(35,000)
ICT	ICT Infrastructure	A range of smaller increases to the budget requirements for various network infrastructure costs including servers, data back-up solutions, pension administration software system developments and contractual uplifts.	31,000

Budget Head	Item of Expense	Detail	Total £
Management & Corporate Costs	External Audit Fees	<p>The proposed budget allows for a potential increase to the external audit fees which is expected to be required as the auditor has incurred additional costs in delivering the audit arising from increasing auditing requirements – generally as a result of auditing standards and guidance and also in relation to additional work required in assessing the impact of COVID-19 on the Pension Fund's assets and liabilities.</p> <p>The auditor will be discussing the fees with officers and further detail is anticipated in their report to the Audit Committee in March. This is a national rather than a local issue and the figure included is regarded as very much a worst case.</p>	7,500
Democratic Representation	Members Allowances	<p>The Members' Allowances scheme was introduced with effect from 1 April 2020. This was included in the budget based on the estimated likely costs prior to the full scheme details being known and the actual costs have been slightly higher than estimated due to the impact of the inflationary increase during the year in line with the 2020/21 Local Government pay increase for staff of 2.75%.</p> <p>The budget now proposed includes the impact of this as well as an estimated 2% increase in line with the assumption used for the staff pay budgets.</p>	5,860
Apportioned across service departments	Office Accommodation	<p>The corporate strategy includes plans to deliver the move to new office accommodation during 2021 as approved by the Authority in Dec 2020. The implementation of this will result in longer term savings for the Authority as set out in the December report. The capital costs of the project for the fitting out and infrastructure implementation will be met from the Capital Projects Reserve.</p> <p>However, during the 2021/22 financial year, there will be some overlap of premises costs that affects the revenue budget. This has resulted in an increase of £30k for this year only. The on-going revenue savings achieved will be reflected in budgets from 2022/23 onwards.</p>	30,000
All	Various	The overall net effect of a number of other minor changes reflecting the actual resourcing requirements within each departments for the 2021/22 financial year.	(21,295)
<b>Total Changes to Running Costs Budgets</b>			<b>(72,935)</b>

5.18 The proposed transfer of £47,770 to earmarked reserves comprises £35,000 for the ICT – Agile Programme as outlined in the table above to be transferred to the ICT Development Reserve and £12,770 to be taken from the remaining savings identified and transferred into the Capital Projects Reserve.

*Workforce and Pay Policy*

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

	2020-21 Funded Establishment	Miscellaneous Changes	Growth	2020-21 Funded Establishment
	FTE	FTE	FTE	FTE
Investment Strategy	4.4	(0.4)	0.0	4.0
Pensions Administration	62.4	(1.8)	4.0	64.6
Finance and Corporate Services	13.8	2.4	0.0	16.2
ICT	7.8	0.0	(0.5)	7.3
Management and Corporate Costs	1.0	0.0	0.0	1.0
Democratic Representation	0.0	0.0	0.0	0.0
Apprentices	3.0	0.0	1.0	4.0
<b>Total</b>	<b>92.4</b>	<b>0.2</b>	<b>4.5</b>	<b>97.1</b>

- 5.20 The Miscellaneous Changes column includes the following.
- 5.21 A reduction of 0.4 FTE in Investment Strategy following the retirement of the Head of Transition.
- 5.22 An increase of 2.4 FTE in Finance & Corporate Services comprising 1.6 FTE transferred from Pensions Administration following the re-organisation of business support posts, and an increase of 0.8 FTE arising from the restructure of Finance & Corporate Services.
- 5.23 A reduction of 1.8 FTE in Pensions Administration comprising the business support transfer outlined above and other small changes to individual staff hours.
- 5.24 The Growth column includes the additional 3 FTE Pensions Officers and 1 Training Officer as set out in paragraphs 5.12 and 5.13 above.
- 5.25 In addition, the ICT department are proposing to reallocate a vacant 0.5 FTE post in order to create 1 FTE Apprentice post within the ICT team.
- 5.26 The Authority does not budget for an assumed level of vacancies and the intention is, generally, to operate at full establishment throughout the year. As far as possible, 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.
- 5.27 The Authority produces a Pay Policy Statement (available on the website) which sets out its arrangements for pay and reward. As any national pay award applicable from April 2021 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*

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



Reserve	Forecast Balance at 01/04/2021 £	Estimated Contributions to Reserves £	Estimated Contributions from Reserves £	Estimated Balance at 31/03/2022 £
Corporate Strategy Reserve	238,831	0	0	238,831
ICT Reserve	116,383	35,000	0	151,383
<b>Subtotal Revenue Reserves</b>	<b>355,214</b>	<b>35,000</b>	<b>0</b>	<b>390,214</b>
Capital Projects Reserve	1,111,160	12,770	0	1,123,930
<b>Total Earmarked Reserves</b>	<b>1,466,374</b>	<b>47,770</b>	<b>0</b>	<b>1,514,144</b>

- 5.29 As Members are aware, the funds in the Capital Projects Reserve are earmarked for the funding of projects including the Long Term Accommodation project and the replacement of Business Systems, as well as for potential costs that may arise in relation to Pension Administration software system subject to the outcome of the procurement exercise. It is expected that funds will be required from this reserve in 2021/22 but at this stage, the detail of the amounts required and timing are as yet uncertain and therefore this has not been included in the budget forecast for the earmarked reserves.
- 5.30 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*

- 5.31 Included within the Democratic Representation budget shown above is the draft budget for the Local Pension Board, a total of £14,000. The detail of this budget will be presented to the Board at their meeting on 28 January. In future years, the Board's draft budget will be considered and approved by them at their December meeting prior to it being included in the annual budget report to the Authority.

*Report Under Section 25 of the Local Government Act 2003*

- 5.32 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.
- 5.33 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.
- 5.34 In considering the robustness of any estimates, the following issues are taken into account:
- The reasonableness of the underlying budget assumptions;
  - 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.
- 5.35 The preparation of the 2021/22 budget builds on the comprehensive review undertaken last year and the detailed budget monitoring carried out throughout the year and reported on quarterly. This ensures that budgeted resources going forward are determined and allocated to reflect the actual needs of the organisation.
- 5.36 Employee costs make up two thirds of the overall budget. The budget estimates for employee costs have been prepared based on the new structures within the organisation and include additional staffing resources as set out 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.
- 5.37 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.
- 5.38 As outlined in para 5.9 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 and prudent based on the best information available at this time. In light of the wider public sector pay policy and the pressures on Local Government finances, the risk that the pay award will be higher than this is considered minimal. There is a risk that it could be lower in which case this would result in an under-spend.
- 5.39 The budget estimates have been developed specifically to align with the Authority's corporate strategy and priorities.
- 5.40 The budget is monitored regularly throughout the year and forecast outturn and variances reported to the Authority every quarter.
- 5.41 The Treasurer therefore considers that the estimates included in the budget are robust.
- 5.42 The reserves held by the Authority are required to fund specific expenditure in future years or are required to provide risk finance. As set out in the Medium Term Financial Strategy, our policy is to limit the total amount held in the revenue earmarked reserves to no more than 7.5% of the total budget. The proposed revenue reserves total of £390k as set out in paragraph 5.28 above is within this self-imposed limit and is considered to be adequate for the purposes outlined and to meet needs arising from any unforeseen events during the year.
- 5.43 Additionally, the Capital Projects Reserve will provide adequate level of resources required for the major projects to be undertaken as set out in paragraph 5.29.

### *Conclusion*

- 5.44 The budget proposals outlined in this report are based on a continued approach of comprehensively reviewing the 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 5.19.
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**

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