

Subject	Pensions Authority Budget 2022/23	Status	For Publication
Report to	Authority	Date	10 February 2022
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 2022/23 for approval.
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2 **Recommendations**

- 2.1 Members are recommended to:
- a. **Approve the 2022/23 budget for the Authority, a total of £5,830,000.**
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3 **Link to Corporate Objectives**

- 3.1 This report sets out the budget for 2022/23 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.

Scheme Funding

To maintain a position of full funding (for the Fund as a whole) combined with stable and affordable employer contributions on an ongoing basis.

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 be aware that the budgets for the last three years have been held at the same level in cash terms, enabled by 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 The budget setting and medium-term financial strategy (MTFS) preparation for 2022/23 to 2024/25 has taken place in the context of a number of drivers for growth in cost that are explained in further detail below. Having retained the budget at the same cash level throughout the period from 2019/20 to 2021/22 has allowed us to take the time necessary to examine all the resourcing requirements and clarify the base position before allowing for any budget growth. This aligns with the wider objectives of how the organisation is to be run and now that this work has been undertaken, we have a sound and clear basis to justify the increased budget requirement.
- 5.5 The budget for the year ahead reflects continued emphasis on equipping the organisation for meeting the challenges expected in the next three years as detailed

in the Corporate Strategy elsewhere on the agenda. Additional resources are included for four new posts to be established to support various specific areas of the planned work. The budget also includes the impact of some significant savings that have been achieved following completion of previous corporate objectives in respect of business systems and procurement of a new contract for actuarial services.

Budget 2022/23

- 5.6 The table on the following page shows the proposed budget for 2022/23 and the main changes within this when compared to the original budget for the 2021/22 year (prior to one-off virements relating to the capital budget and financing for the Oakwell House office refurbishment).

Table 1: South Yorkshire Pensions Authority – Operating Budget 2022/23

Operational Budget	2021/22 Original Budget	Transfers Between Budget Heads	Salaries Budget Movement	Other Budget Movements	2022/23 Budget for Approval
Cost of Services					
1) Pensions Administration	2,789,950	(145,200)	136,970	(63,870)	2,717,850
2) Investment Strategy	684,790	(9,710)	1,330	(103,660)	572,750
3) Finance & Corporate Services	710,620	(40,400)	150,390	(1,810)	818,800
4) ICT	667,200	(17,200)	(43,520)	132,230	738,710
5) Management & Corporate	402,650	212,510	61,050	234,950	911,160
6) Democratic Representation	142,620	0	290	(5,820)	137,090
Subtotal before transfers to / (from) reserves	5,397,830	0	306,510	192,020	5,896,360
Appropriations to / (from) Reserves Total	47,770	0	0	(114,130)	(66,360)
Grand Total	5,445,600	0	306,510	77,890	5,830,000

2021/22 Budget £	Total Charge to the Pension Fund comprises:	2022/23 Budget £
3,252,985	Administration Expenses	3,962,670
581,185	Investment Management Expenses	372,630
1,611,430	Oversight & Governance Expenses	1,494,700
5,445,600		5,830,000

- 5.7 The overall budget requirement is for a total of £5,830,000 representing an increase of £384,400 (7%) on the previous annual budget of £5,445,600 held since 2019/20.
- 5.8 For context, the rate of inflation during the same period is 7.7% (CPI) and 11.7% (RPI). The Authority's own financial objectives focus on achieving an appropriate level of financial constraint to ensure that the amounts drawn from the pension fund for the organisation's running costs are no more than necessary. The objective set out in our Medium-Term Financial Strategy is as follows:
The annual increase in the total budgeted cost per member will be limited to an index made up of 70% local government pay and 30% August CPI.
- 5.9 This limits the rate of increase in costs, while allowing the benefits of any increase in productivity to be re-invested in the quality of the service provided to members, which is broadly in line with the Authority's overall objectives. Such an approach also provides some buoyancy in the level of resources available in order to address the rising number of members and employers within the Fund.
- 5.10 The proposed increase in the budget for 2022/23 has been confirmed to meet this objective, as shown in the tables below.

Budget Increase Limit	Weighting	Apr 2020	Apr 2021 (TBC)	Apr 2022 (Estimate)
Local Government Pay	70.0%	2.75%	1.75%	2.25%
		Aug 2019	Aug 2020	Aug 2021
August CPI Inflation	30.0%	1.7%	0.2%	3.2%
Weighted Increase Limit Per Year		2.4%	1.3%	2.5%
Overall Increase Limit from 2019/20 to 2022/23				6.3%

Actual Budget Increase	Base Year			
	2019/20	2020/21	2021/22	2022/23
Budget Total	£5,445,600	£5,445,600	£5,445,600	£5,830,000
	At 31/03/2020	At 31/03/2021	Forecast 31/03/2022	Estimated 31/03/2023
Membership Totals	161,477	166,869	168,000	169,680
Total Cost Per Member	£33.72	£32.63	£32.41	£34.36
Increase / (Decrease) Per Year as %		(3.2%)	(0.7%)	6.0%
Overall Increase from 2019/20 to 2022/23				1.9%

Transfers Between Budgets

- 5.11 The transfers between budget heads summarised in Table 1 represent the transfer of corporate overheads for office accommodation and premises-related costs, and occupational health costs from the individual service area budgets to the Management and Corporate budget. This is to streamline and improve the clarity of the budget reporting only. The calculations used to allocate overheads to Administration, Investment Management and Oversight & Governance required for statutory returns and management expenses analysis are not affected.

5.12 The rest of the table provides a high-level summary of the main changes proposed within the budgets for salary costs and other costs; the details of which are explained below.

Salaries Budget Movement

5.13 The total increase of £306,510 on salaries budgets is analysed in the table below:

Employee Budget (Salary + On-costs)	Further Details	
	£	
2021/22 Original Budget	3,567,610	
<u>Newly Established Posts:</u>		
Corporate Manager - Governance	78,670	Transfer of statutory role of Monitoring Officer from BMBC. This will be offset by a reduction to the budget for the corporate SLA with BMBC from 1 April 2023.
Project Management Support Officer	40,460	To strengthen resources for corporate plan delivery; partly financed from re-allocation of £28k included as growth for this purpose in the 2021/22 budget.
ICT & Systems Senior Officer (SQL Analyst)	40,460	To meet the need for additional resource with specific skills in SQL to support the continued investment in digital, and the pensions administration software in particular.
Benefits Team Senior Practitioner	36,890	Additional senior practitioner post created to support the new Benefits Project Team to tackle outstanding aggregation cases and other pieces of work such as data improvement plan.
Finance Team Leader Changes	13,990	The current finance team leader has decided to retire in August 2022 and to ensure an effective transition to a new post-holder, there will be a period of up to 3 months for handover with two team leaders in post.
Changes from job evaluations / honoraria	26,990	Increased costs for two posts arising from a re-grade following evaluation and an addition of honoraria payments reflecting additional responsibilities.
Other Changes	43,830	Net total increase arising as a result of career grade progression, standard incremental progression, and other changes to hours worked.
National Insurance Increase	25,220	Increase to employer NI cost arising from the introduction of the Health & Social Care levy of 1.25% which in 2022/23 will be added to the NI rate.
Total Movement	306,510	
2022/23 Budget	3,874,120	

5.14 The changes summarised in the total shown above do not include an allowance for pay inflation in 2022/23. At the time of writing, the pay award for 2021/22 has not yet been agreed by the National Joint Council for Local Government Services (the NJC). The final offer confirmed by the employer side was 1.75% which was rejected by the unions who have balloted their members for strike action, the results of which are awaited. The salaries budget for 2022/23 as shown in the table above includes a 1.75% increase in the base budget. For 2022/23 pay inflation, it is not yet known what level

the national pay award may be agreed, and separately the Authority have committed to undertake an independent review of pay and benefits. Given the uncertainty of the outcomes from this, a prudent provision of £193,000 (approximately 5% of the salaries budget) has been separately included as a corporate contingency in the total budget for Management & Corporate, as outlined below. Should the 2021/22 pay award be agreed at a higher rate than 1.75%, the difference in the effect of this on 2022/23 salaries will also be funded from this corporate contingency budget.

- 5.15 The process of filling new posts approved as part of the budget will, as far as possible, begin in the current financial year with the aim of ensuring the posts are filled at the earliest opportunity. Whilst the Authority's intention is generally to operate at full establishment throughout the year, experience has shown that the time taken to recruit can often result in periods of posts being vacant and therefore the 2022/23 budget includes a (£40,000) vacancy allowance – this has also been included within the Management & Corporate budget outlined below.

Workforce and Pay Policy

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

	2021/22 Funded Establishment	Miscellaneous Changes	Growth	2022/23 Funded Establishment
	FTE	FTE	FTE	FTE
Pensions Administration	66.6	(0.2)	2.0	68.4
Investment Strategy	3.3	-	-	3.3
Finance and Corporate Services	18.2	0.1	1.0	19.3
ICT	8.3	(1.0)	-	7.3
Management and Corporate Costs	0.4	1.0	1.0	2.4
Democratic Representation	0.3	-	-	0.3
Total	97.1	(0.1)	4.0	101.0

- 5.17 The miscellaneous changes shown above include the transfer of 1.0 FTE from ICT to Management & Corporate – this is to reflect the change from what was a Project & Improvement Lead post, to a new Programme Manager post that will operate across the organisation and report to the Director. The other changes in this column reflect small increases or reductions in the hours of established posts, a net total impact of - 0.1 FTE.
- 5.18 The increase of 4.0 FTE shown in the column for growth comprises the addition of the newly established posts of Benefits Team Senior Practitioner, ICT & Systems Senior Officer in Pensions Administration, Corporate Manager – Governance in Finance & Corporate Services, and Project Management Support Officer in Management & Corporate. Further details concerning the addition of these new posts are provided in the table in paragraph 5.13 above.
- 5.19 The Authority produces a Pay Policy Statement which sets out its arrangements for pay and reward. As any national pay award applicable from April 2022 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.

Other Budget Movements

5.20 This column in the table at paragraph 5.6 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 £
Pensions Administration	Actuarial Fees	Following a procurement exercise in 2021/22, a new contract is in place for actuarial services, and this has resulted in significant forecast savings compared to the previous year.	(80,000)
Pensions Administration	Income from Fees Charged to Employers	The change in the actuary contract as outlined above, means that the actuarial costs recharged to employers will also reduce. This results in an associated reduction to the income from the fees charged to employers for the administration of this work.	10,000
Pensions Administration	Professional Services / Consultancy	This budget has been increased in 2022/23 to provide for the costs of GMP rectification work.	36,620
Pensions Administration	Other Expenditure	In 2021/22, this budget included £28,340 as additional resource to be used for project management activity. In the 2022/23 budget, this has been transferred to the salaries budget in Management & Corporate to be used for a new Project Management Support Officer.	(28,340)
Investment Strategy	Investment Accounting System	This is the saving achieved from the change to a more basic software system for investment accounting, reflecting the change in requirements now that the majority of investment assets are managed by Border to Coast. The cost and budget for the new investment accounting system (at £8k per annum) has also been transferred to the ICT budget head – as this is where all ICT infrastructure and systems budgets are held and managed.	(172,000)
Investment Strategy	Professional Services / Consultancy	The 2022/23 budget includes an additional allowance for the cost of the triennial investment strategy review as well as an increase to meet the costs for the further work required relating to development of impact investing reporting. The investment strategy review will be financed by a transfer from earmarked reserves.	65,000
ICT	Pensions Administration System	Following a procurement exercise, the new contract for the pensions administration system commences from February 2022. The budget reflects the new annual support and maintenance costs, including increases in respect of new items such as a release delivery service, payroll browser automation, and potential developments required to deliver McCloud related administration. The total increase shown here will be partly financed by a transfer of £77,000 from earmarked reserves.	133,300

Budget Head	Item of Expense	Detail	Total £
Management & Corporate	Corporate Contingency	Allowance for potential costs increases in respect of pay award for 2022/23, impact of a review of pay and benefits (including the cost of the review itself) – see details in paragraph 5.14 above.	193,000
Management & Corporate	Vacancy Allowance	Allowance for under-spends arising from staff turnover and periods when posts remain vacant – see details in paragraph 5.15 above.	(40,000)
Management & Corporate	Premises Costs	The budget for office accommodation includes the additional costs for provision of Facilities Management (FM) and other running costs due to moving to our own new office at Oakwell House. As the office is only being fully occupied from February 2022, the budget requirements in respect of FM and utilities in particular involve a degree of estimation in relation to the cost drivers - where this is the case, caution has been used to budget on a prudent basis.	66,000
Management & Corporate	External Audit Fee	The budget for external audit fees has been increased, reflecting the additional requirements placed on external audit that are now being added to the scale fees approved by the Public Sector Audit Appointments Limited.	7,500
Management & Corporate	Health & Wellbeing	The budget for health and wellbeing now includes the costs of an external Health & Safety consultant, occupational health services purchased from BMBC including counselling provision and also the costs of providing suitable equipment to staff for homeworking.	3,500
Democratic Representation	Various	The budgets for various running costs (printing, postage, catering and travel) for Authority, Committee and Board meetings have reduced reflecting changes post-COVID and the continuing move to paperless; whilst the budgets for members' allowances and adviser to the board have increased in line with inflation. The net impact is an overall reduction on this budget head as shown.	(5,820)
All	Various	The overall net effect of other minor changes reflecting the actual resourcing requirements within each department for the 2022/23 financial year.	3,260
Total Other Budget Movements			192,020

Reserves

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

Reserve	Forecast Balance at 01/04/2022 £	Estimated Contributions to Reserves £	Estimated Contributions from Reserves £	Estimated Balance at 31/03/2023 £
Corporate Strategy Reserve	220,210	40,980	(74,000)	187,190
ICT Reserve	178,300	8,660	(77,000)	109,960
Subtotal Revenue Reserves	398,510	49,640	(151,000)	297,150
Capital Projects Reserve	44,000	35,000	0	79,000
Total Earmarked Reserves	442,510	84,640	(151,000)	376,150

- 5.22 The corporate strategy reserve is held for providing additional funds required for one-off corporate plan projects and to mitigate risk. During the current 2021/22 financial year, this reserve has been drawn upon to finance aspects of the Oakwell House project, the implementation of a governance and meeting management system, and the employment of an HR undergraduate placement. In 2022/23, the planned transfers from reserves will finance the Investment Strategy review undertaken every three years in line with the triennial valuation, retention payments, and there will be an additional transfer to the reserve for future projects.
- 5.23 The ICT reserve holds funds from the income generated from the sales of internally developed software to other pension funds. The reserve is used to provide funding for the enhancement of ICT systems and infrastructure as required to support the delivery of corporate objectives. The planned transfers from this reserve in 2022/23 will be to fund the one-off costs anticipated for developments on the pensions administration system in relation to McCloud and the payroll browser automation.
- 5.24 The capital projects reserve holds funds required for one-off costs of large capital projects. In 2021/22, this reserve was used for financing the costs associated with the Oakwell House refurbishment and the implementation of the new contract for the pensions administration system. The forecast remaining balance at 1 April 2022 and the contribution to the reserve in 2022/23 is to meet the costs of the Authority's ICT Hardware replacement programme in future years – i.e. replacement of laptop equipment for all staff, replacement of servers and so on.

Local Pension Board

- 5.25 Included within the Democratic Representation budget shown above is the budget for the Local Pension Board, a total of £13,650. This was considered at their meeting on 14 October 2021 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

- 5.26 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.
- 5.27 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.

- 5.28 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.
- 5.29 The preparation of the 2022/23 budget builds on continued review of resourcing requirements for delivery of day-to-day operations as well as the planned requirements for delivering the corporate plan and addressing the risks facing the organisation as detailed in the corporate risk register. Detailed budget monitoring is 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.
- 5.30 Employee costs make up two thirds of the overall budget. The budget estimates for employee costs have been prepared based on a detailed line-by-line analysis, taking account of career grade progression, individual incremental progression, and the estimates include additional staffing resources as set out in the relevant section above.
- 5.31 Based on experience over the last three years, a vacancy allowance of c.1% has been made for 2022/23 to allow for time-lag in filling vacancies.
- 5.32 As outlined in para 5.12 above, the salaries budget lines for 2022/23 include the effect of a 1.75% pay award, currently still awaiting confirmation, to be applied for the 2021/22 year. However, for 2022/23, rather than including an assumption for pay award inflation in the individual salary budgets, a separate corporate contingency has been proposed at c.5% of the total pay budget. This is on the basis of the degree of uncertainty of pay awards going forward, and also to reflect that an independent pay and benefits review is to be undertaken during the year. This proposed approach to the budget for pay 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.
- 5.33 The budget estimates have been developed specifically to align with the Authority's corporate strategy and priorities.
- 5.34 The budget is monitored regularly throughout the year and forecast outturn and variances reported to the Authority every quarter.
- 5.35 The Treasurer therefore considers that the estimates included in the budget are robust.
- 5.36 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 £297k as set out in paragraph 5.21 above represents 5.1% of the total budget for 2022/23 and is therefore well within this self-imposed limit, and it is considered to be adequate for the purposes outlined and to meet needs arising from any unforeseen events during the year.
- 5.37 Additionally, the Capital Projects Reserve will provide adequate level of resources required for the ICT equipment replacement programme as set out in paragraph 5.24.

Conclusion

- 5.38 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 proposals include the addition of staff resources in certain areas as set out in the table at paragraph 5.13.
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	Oakwell House, 2 Beevor Court, Pontefract Road, Barnsley, S71 1HG