

Subject	Pensions Authority Budget 2023/24	Status	For Publication
Report to	Authority	Date	09 February 2023
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 2023/24 for approval.

2 **Recommendations**

- 2.1 Members are recommended to:
- a. **Approve the 2023/24 budget for the Authority, a total of £6,657,570.**

3 **Link to Corporate Objectives**

- 3.1 This report sets out the budget for 2023/24 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 after three years of maintaining the budget at the same level in cash terms, the budget for 2022/23 included growth for the first time since 2018/19. During 2022/23, the Director completed a review and plan for a medium-term approach to building organisational resilience and sustainability. The resulting report included a range of proposals involving growth in the staffing establishment to be implemented over the course of 2022/23 to 2024/25 and estimated cost implications of £500k in 2023/24. The proposals were approved by the Staffing, Appointments and Appeals Committee in October 2022 and are included in the budget for 2023/24 presented below.
- 5.4 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. Budget 2022/23
- 5.5 The table on the following page shows the proposed budget for 2023/24 and the main changes within this when compared to the budget for the 2022/23 year.

Table 1: South Yorkshire Pensions Authority – Operating Budget 2023/24

Operational Budget	2022/23 Budget £	Salaries Budget Movement £	Other Budget Movements £	2023/24 Budget for Approval £
Cost of Services				
1) Pensions Administration	2,717,850	302,810	56,870	3,077,530
2) Investment Strategy	537,340	98,500	(70)	635,770
3) Finance & Corporate Services	858,800	199,710	13,720	1,072,230
4) ICT	738,710	127,610	68,150	934,470
5) Management & Corporate	906,570	(114,340)	77,420	869,650
6) Democratic Representation	137,090	8,840	(10)	145,920
Residual Unfunded Liabilities of South Yorkshire County Council	350,000	0	3,000	353,000
Subtotal Revenue Expenditure	6,246,360	623,130	219,080	7,088,570
Capital Expenditure	0	0	72,000	72,000
Levy on District Councils for Residual Liabilities	(350,000)	0	(3,000)	(353,000)
Subtotal before transfers to / (from) reserves	5,896,360	623,130	288,080	6,807,570
Appropriations to / (from) Reserves Total	(66,360)	0	(83,640)	(150,000)
Grand Total	5,830,000	623,130	204,440	6,657,570

2022/23 Budget £	Total Charge to the Pension Fund comprises:	2023/24 Budget £
3,962,670	Administration Expenses	4,470,733
372,630	Investment Management Expenses	544,176
1,494,700	Oversight & Governance Expenses	1,642,661
5,830,000		6,657,570

- 5.6 The overall budget requirement is for a total of £6,657,570 representing a total increase of £827,570 on the previous annual budget of £5,830,000. This total increase comprises:
- £472,270 – relating to the previously approved proposals for Organisational Resilience and Sustainability; and
 - £355,300 – relating to the annual increase required for operational running costs.
- 5.7 In assessing this level of budget increase, £355,300 represents a 6% uplift compared to 2022/23.
- 5.8 The total proposed increase in the budget for 2023/24 and how this translates into Cost Per Member, split by the two elements comprising the budget uplift shown above, is analysed in the tables below.

Actual Budget Increase	2022/23	2023/24	Increase
Budget Total	£5,830,000	£6,657,570	£827,570
	Estimated 31/03/2023	Estimated 31/03/2024	
Membership Totals	172,952	174,680	1,728
Total Cost Per Member	£33.71	£38.11	£4.40
Increase / (Decrease) as %			13.1%

Increase Analysed:	Increase in Cost Per Member	Increase as a Percentage
Increase Due to Organisational Resilience and Sustainability Growth	£2.38	7.1%
Remaining Budget Increase for 2023/24	£2.01	6.0%
Total Increase	£4.40	13.1%

- 5.9 The table above shows that the increase in the proposed budget for 203/24 – excluding the increase from the separate piece of work on Organisational Sustainability and Resilience – is equivalent to a 6% increase in cost per member. The cash limit for the budget increase – based on our own self-imposed guideline (set out in the Medium Term Financial Strategy) of the weighted average of pay inflation (at 4.04% in 2022/23) and CPI inflation (at 10.1%) – would equate to 5.9%. Therefore, the increase proposed in this budget is consistent with this guideline, albeit marginally higher.

Salaries Budget Movement

- 5.10 The total increase of £623,130 on salaries budgets is analysed in the table below:

Employee Budget (Salary + On-costs)	Budget £	Comments
2022/23 Budget	3,830,420	
<u>Organisation Resilience and Sustainability Review</u>		
<u>Newly Established Posts:</u>		
2 x Benefits Team Leaders	93,420	These are all the proposals approved in October 2022. The budgetary impact shown here is based on confirmed grades for some posts following job evaluations and also takes into account phasing of recruitment activity expected during 2023/24 as some posts will be advertised part way through the year.
Benefits Senior Practitioner	38,620	
Customer Services Senior Practitioner	30,650	
Customer Services Officer	31,930	
Systems Team Leader	46,710	
Investment Manager	74,520	
HR Adviser	22,570	
HR Business Support Officer	23,990	
Executive Management Support Officer	36,180	
ICT Development Team Leader	39,720	
Operations Management Officer	38,500	
<u>Other Changes from Resilience & Sustainability Review</u>		
Create 'Experts' Pensions Officers progression for 3 posts	3,240	
Removal of 1 x Business Support Officer Finance	(22,810)	
Total Increase from other minor changes	15,030	
Subtotal - Resilience & Sustainability Changes	472,270	
<u>Other Changes to Budget:</u>		
Cost of 2023/24 pay award estimated at 2%	89,810	An assumption of 2% has been used for budgeting purposes. No formal offer from the employer side of the NJC has yet been made.
Total Increase from job evaluations / market supplements on a small number of existing roles	33,900	
Other Changes (Career grade and incremental progression, hours, Employer on-costs etc.)	105,700	
Increase in Vacancy / Turnover Allowance from 1% to 2.5% of Salary Budget	(78,550)	This has been increased to reflect actual experience in the last two years.
Subtotal - Other Changes	150,860	
Total Movement	623,130	
2023/24 Budget	4,453,550	

Workforce and Pay Policy

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

	2022/23 Funded Establishment	Miscellaneous Changes	Growth	2023/24 Funded Establishment
	FTE	FTE	FTE	FTE
Pensions Administration	67.4	-1.2	6.0	72.2
Investment Strategy	3.3	0.0	1.0	4.3
Finance and Corporate Services	19.3	2.3	2.0	23.6
ICT	8.3	0.0	2.0	10.3
Management and Corporate Costs	2.4	2.0	0.0	4.4
Democratic Representation	0.3	0.0	0.0	0.3
Total	101.0	3.1	11.0	115.1

- 5.12 The miscellaneous changes shown above include the transfer of 2.0 FTE from Pensions Administration to Management & Corporate – this is to reflect planned changes to reporting lines taking effect from April. The other changes in this column reflect changes that have been approved at different stages during the 2022/23 year so were not included in the original budget establishment.
- 5.13 The changes shown in the column as 'Growth' represent the increases in 2023/24 to the total established FTE arising from the Organisational Resilience and Sustainability review.
- 5.14 The Authority produces a Pay Policy Statement which sets out its arrangements for pay and reward. This is elsewhere on the agenda.

Other Budget Movements

- 5.15 This column in Table 1 at paragraph 5.5 sets out the net budget impact of various specific changes to individual budget items. The total shown (before transfers to / from reserves) in this column of £288,080 is analysed with explanations in the following table.

Budget Head	Item of Expense	Detail	Total £
Pensions Administration	Professional Services / Consultancy	There is a net reduction to the various budgets for consultancy and other professional services - mainly due to removal of some one-off items from last year that are not required on a recurrent basis.	(11,380)

Budget Head	Item of Expense	Detail	Total £
Pensions Administration	Actuarial Fees	The budget for 2022/23 was set based on anticipated costs and included a large reduction on the previous year due to a change of contract. For 2023/24, the budget is being increased. This is partly for additional cost relating to work required on the triennial valuation, which is expected. In addition, part of this increase will meet the estimated costs of several new enhancements available to us now - that will result in greater efficiency and effectiveness, supporting more opportunities for self-service and will result in savings elsewhere in the medium term.	93,500
Pensions Administration	Other Expenditure	Net total reduction following review of a number of smaller budgets for items such as catering, travel, hotel, stationery.	(8,990)
Pensions Administration	Income from Fees and Charges	Total increase on budgeted income expected from fees charged to members and employers, and from payroll administration fees - reflecting growth in volume of transactions (not the rate of fees charged).	(16,260)
Investment Strategy	-	No significant change overall. The budget last year included an increase relating to the costs of undertaking the triennial strategy review. The total has not been reduced this year because a similar amount will be required for support on work around additional reporting requirements in respect of TCFD and also relating to impact investing.	(70)
Finance & Corporate Services	Training	An increase of £5,000 to the professional qualification budget to enable further studying of AAT and CIPFA qualifications, and an increase to the budget for short courses and conferences for growing need relating to supporting the team members to maintain CPD.	7,200
Finance & Corporate Services	Memberships, Professional Services, Consultancy	Inflationary increase to budgets for corporate subscriptions, TM advice, CIPFA networks membership and running costs	6,520
ICT	Pensions Administration System	This budget in 2022/23 included a number of items / modules that have not gone ahead in the planned timescale. For 2023/24 therefore, the budget is being reduced to remove these items. There are funds available in the ICT Reserve that may be drawn down as necessary to meet any one-off costs for enhancements, upgrades if required.	(71,060)
ICT	HR / Payroll System	The 2023/24 budget includes an additional amount for consultancy and implementation costs estimated in relation to a new HR and Staff Payroll system - due to be procured in the next couple of months.	49,420
ICT	Hardware	Additional budget for estimated costs of hardware - desktop monitors replacement for office working and potential purchasing of additional mobile devices if required as part of the drive to paperless meetings.	36,250

Budget Head	Item of Expense	Detail	Total £
ICT	Other Expenditure	Total increase relating to various other ICT infrastructure costs - reflecting inflationary increases, and the increasing complexity of systems required, growth in the number and types of software licences etc.	53,540
Management & Corporate	Corporate Contingency	This budget was introduced in the previous year for costs unknown at the time relating to pay awards, resilience and sustainability review, and pay & benefits review. For 2023/24, this is being reduced - as the only costs remaining unknown relate to the pay and benefits review for which a separate reserve is being proposed.	(153,410)
Management & Corporate	Premises	An increase to the various budgets relating to premises costs - including a new annual budget for repairs and maintenance, a significant increase to the utilities budget reflecting the impact of inflation on these costs, and an increase to the rent budget to reflect the lease rent accounting adjustment required to charge rent on a straight-line basis - essentially a smoothing of the payments profile over the lease term rather than any actual cost increase.	114,580
Management & Corporate	Legal Fees	The budget for legal fees has been increased to meet the estimated costs of undertaking a full review of the Constitution in 2023/24.	45,000
Management & Corporate	External Audit Fee	Public Sector Audit Appointments Ltd have confirmed the new 5-year audit contracts for audits relating to the 2023/24 year onwards and advised all audited bodies to budget for a substantial increase to scale fees - by applying a 150% increase to the actual fees paid in the current year. This results in an increase from £47k to £118k for our budget.	71,250
Democratic Representation	-	There are no significant changes to the budgets for democratic representation; inflationary increases are offset by reductions on running costs based on experience in the last year.	(10)
Capital Expenditure	Laptop Replacement Programme	There is a rolling programme for replacing laptops for staff, which we provide for each year by adding to the ICT reserve. The purchase of replacement laptops and also a number of new laptops for additional staff numbers will take place - and funds will be drawn down from the capital reserve to finance.	72,000
Total Other Budget Movements			288,080

Reserves

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

Reserve	Balance 1 April 2023	Contributions to Reserves £	Contributions from Reserves £	Balance 31 March 2024
Corporate Strategy Reserve	147,270	24,000	(64,000)	107,270
ICT Reserve	201,160	10,000	(85,000)	126,160
<i>Proposed Pay and Benefits Reserve</i> ¹	200,000	0	0	200,000
Subtotal Revenue Reserves	548,430	34,000	(149,000)	433,430
Capital Projects Reserve	119,330	65,000	(100,000)	84,330
Total Earmarked Reserves	667,760	99,000	(249,000)	517,760
Net total transfer (from) reserves:			(150,000)	

Notes

1. The proposed 'Pay and Benefits' reserve is planned to be used in 2023/24 to contribute to costs required for implementation of any changes arising from the pay and benefits review undertaken in 2022/23. At this stage, it is not possible to provide a reasonable estimate for this, which is why no movements on this reserve can be shown here at this time.

- 5.17 The corporate strategy reserve is held for providing additional funds required for one-off corporate plan projects and to mitigate risk. The planned transfers to and from this reserve in 2023/24 relate to draw downs for items such as retention payments and setting aside of funds required for future years such as the triennial investment strategy review.
- 5.18 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 2023/24 will include funding one-off costs associated with developments on the pensions administration system in relation to McCloud and Pensions Dashboard, and with the purchase and implementation of a new HR system.
- 5.19 It is proposed to establish a new reserve in the current year, 2022/23, in order to earmark the unspent contingency budget for the as yet undetermined costs that will be required following the pay and benefits review carried out at the end of 2022. Due to the uncertainty of the extent and timing of this, specific transfers are not yet shown in the planned 2023/24 movements above. When further work has been completed and costs can be more reliably estimated, we will provide an update and request approval for any budget virements required.
- 5.20 The capital projects reserve holds funds required for one-off costs of large capital projects. This reserve was previously used for financing the costs associated with the Oakwell House refurbishment and the implementation of the new contract for the pensions administration system. The current plans for this reserve and transfers included in the table above, relate to setting aside and drawing down of funds as appropriate for meeting costs of various ICT Hardware replacement and purchasing programmes, as well as for larger maintenance and/or upgrade projects that may be required in future years on the Oakwell House office.

Local Pension Board

- 5.21 Included within the Democratic Representation budget shown above is the budget for the Local Pension Board, a total of £15,130.
- 5.22 A draft budget for the Board totalling £14,400 was considered at their meeting on 3 November 2022 and the Board recommended this to the Authority for approval. Since that meeting, a further £730 has been added to the proposed budget for the Board for additional impact of inflation on running costs identified as part of the process of preparing the overall budget for the Authority.

Report Under Section 25 of the Local Government Act 2003

- 5.23 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.
- 5.24 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.
- 5.25 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.
- 5.26 The preparation of the 2023/24 budget builds on the comprehensive review of resourcing requirements carried out in 2022 by the Director and approved by members, as well as continued review of the Authority's needs relating to delivery of day-to-day operations and 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.
- 5.27 Employee costs make up approximately 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.
- 5.28 Based on experience over the last two years in particular, the vacancy allowance has been increased from 1% to 2.5% of the salary and on-costs budget for 2023/24 to allow for time-lag in filling vacancies, and now reflecting the current challenging recruitment environment.
- 5.29 As outlined in the table at para 5.11 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. We have not received any indication of what the employer side will offer. In 2022/23 the pay award was based on adding £1,925 to each spinal column point, representing an increase of almost 10% at the lowest grades and a headline, average increase of 4.04%. The assumption of 2% for the 2023/24 budget is considered to be appropriate and prudent based on the best

information available at this time. In light of the higher than expected increase in 2022/23, 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. Should this risk transpire, the additional costs could be met from the proposed pay & benefits reserve. There is a risk that it could be lower, in which case this would result in an under-spend.

- 5.30 The budget estimates have been developed specifically to align with the Authority's corporate strategy and priorities.
- 5.31 The budget is monitored regularly throughout the year and forecast outturn and variances reported to the Authority every quarter.
- 5.32 The Treasurer therefore considers that the estimates included in the budget are robust.
- 5.33 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 10% of the total budget. The proposed revenue reserves total of £443k at 31 March 2024 as set out in paragraph 5.17 above represents 6.5% of the total budget for 2023/24 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.
- 5.34 Additionally, the Capital Projects Reserve will provide adequate level of resources required for the ICT equipment replacement programme and for Oakwell House office upgrades in future as set out in paragraph 5.21.

Conclusion

- 5.35 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 tables at paragraphs 5.11 and 5.12.
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

Gillian Taberner

Assistant Director – Resources & Deputy Treasurer

Background Papers	
Document	Place of Inspection
Budget working papers	Oakwell House, 2 Beevor Court, Pontefract Road, Barnsley, S71 1HG