

Report To: **GMPF MANAGEMENT/ADVISORY PANEL**

Date: 24 March 2023

Reporting Officer: Sandra Stewart, Director of Pensions
Paddy Dowdall, Assistant Director of Pensions, (Local Investments and Property)

Subject: **GMPF BUDGET 2023/2024 AND MEDIUM-TERM FINANCIAL PLANNING**

Report Summary: This report asks the Management Panel to approve an expenditure budget for GMPF for 2023/24 and a medium-term financial plan 2023-2026. (An updated version will be included in the Annual report for 2022/23).

Recommendations:

- 1) That the Management Panel approves the expenditure budget for 2023/24.
- 2) That the Management Panel approve the Medium-Term Financial Plan.

Financial Implications:
(Authorised by the Section 151 Officer)
The financial implications are set out in the report. There is a projected increase in expenditure which supports strategic change at the Fund to optimise net risk adjusted returns on investments and to provide efficient administration in order to ultimately minimise the contributions paid by employers.

Legal Implications:
(Authorised by the Solicitor to the Fund)
There is a duty on the Fund to achieve best value and consequently the Panel need to ensure through such monitoring that value for money is being achieved.

Risk Management:
Failure to properly manage and monitor the Fund's budgets may lead to a reduction in service standards for scheme members or employers, or a loss of confidence in the management of the Fund.

ACCESS TO INFORMATION: **NON-CONFIDENTIAL**

This report does not contain information which warrants its consideration in the absence of the Press or members of the public.

Background Papers: Any enquiries should be directed to John Douglas Head of Pension Fund Accountancy john.douglas@gmpf.org.uk Tel (0161 301 7128)

1. INTRODUCTION

- 1.1 This report asks the Management Panel to approve an expenditure budget for GMPF for 2023/24 alongside a medium-term financial plan for 2023 to 2026.
- 1.2 The medium-term financial plan is essentially dependent upon the assumptions in the Funding Strategy Statement, and the out-turn is largely subject to financial markets and their impact on investment performance.
- 1.3 The medium-term financial plan 2023 to 2026 will be finalised for the annual report following, approval of budget and Fund Valuation at 31 March 2023.
- 1.4 CIPFA Guidance on preparing the Annual Report for Local Government Pension Scheme Funds requires GMPF to publish a medium-term financial plan approved by those charged with governance of the Fund. The Management Panel is approving the draft version of this subject to final confirmation in values as at 31 March 2023; and the assumptions and methodology that underpin it.

2. BUDGET FOR 2023/24 AND CHANGES FROM 2022/23

- 2.1 The Fund remains committed to its core objectives. There remains a great deal of uncertainty in the short to medium term in the outlook for inflation. The table below sets out the key assumptions and methodology for budget setting.

Pay Award 2023/24	Assuming no lower than latest offer from employers (yet to be accepted)
Inflation	Notional 5% applied to non-staff costs
Staffing	As in post and recruitment in hand at Feb 2022
Goods and Services	As contracted plus internal estimates for variable usage items
Business development	Centrally allocated provision of £850,000 to implement business plan aspirations

- 2.2 The level of budget sought for 2023/24 seeks an increase from that in 2022/23. The table below sets out some key movements. This budget covers the expenditure by the Fund on governance, administration and investment costs for oversight and internal management. External Investment Management fees are overseen by Management Panel in a more detailed fashion with comparison to peer Pension Funds provided by CEM. The budget is attached as **Appendix A** to this report.

Reconciliation of movements in Budget from 2022/23 to 2023/24

		<u>Year 2022/23</u>	
Staffing		£7,847,671	
Other Costs		£6,508,866	
Total		£14,356,537	
			<u>Year 2023/24</u>
Staffing			9,336,619
Other Costs			7,300,800
Total			16,637,493
	Change from 2022/23 £	Change from 2022/23 %	Proportion of Change
<u>Variiances 2024 to 2023</u>			
Staffing	£1,488,948	18.97%	65.28%
Other Costs	£791,934	12.17%	34.72%
Total	£2,280,956	15.89%	
<u>Staffing Costs</u>			
External factors for staff cost : Changes to pension contributions and cumulative effect of pay awards	£844,921	10.77%	56.75%
Other staffing increases	644,027	8.21%	43.25%
<u>Other Significant Movements None Staffing</u>			
	Change from 2022/23 £		
No actuarial valuation this year	(150,000)		
Web design and maintenance	50,000		
IT consultancy	84,000		
Payroll consultancy project	80,000		
Cyber security	150,000		
Business Plan developments	200,000		
Performance Measurement	158,000		
Reduction in income	238,000		
Total significant	810,000		
Balance (sum of general inflation less efficiencies plus minor changes)	(18,066)		

2.3 To put the budget for GMPF into context, the table below set out some external comparisons for investments and administration against peer groups of comparable funds, for the last 2 years.

Investment Costs GMPF year end March 2022 from CEM		
	£m	% AUM
GMPF Actual	99	0.38
Benchmark (CEM specific)	122	0.46
Difference	-24	0.09

Investment Costs GMPF year end March 2021 from CEM		
	£m	% AUM
GMPF Actual	92	0.39
Benchmark (CEM specific)	113	0.48
Difference	-21	0.09
Administration Costs GMPF year end March 2022 from CEM		
	£ per member	
GMPF Actual	16.91	
Benchmark (CEM peer group)	26.82	
Difference	-9.91	
Administration Costs GMPF year end March 2021 from CEM		
	£ per member	
GMPF Actual	17.01	
Benchmark (CEM peer group)	23.65	
Difference	-6.64	

3. INVESTMENT MANAGEMENT FEES

- 3.1 Members of management panel will be aware of the significant changes made in recent years to the disclosure of investment management costs. There is detailed consideration given to these through reporting mechanisms outside of budget setting, particularly through the reporting by CEM. These are not therefore considered in detail as part of this report. For information the table below shows these costs (excluding private markets) for 2023/2024 with a comparison to projected out-turn for 2022/23. The fees are not itemised due to confidentiality clauses in agreements with fund managers.

	Budget 2023-2024 £m	Projected 2022-2023 £m	Change £m
Overall Total	23.72	21.45	2.27

- 3.2 From a financial reporting perspective this year will see the second year of disclosure of certain costs for certain types of pooled private market investments. These having previously been accounted for within the changes in value of investments will now be identified separately. These are the costs identified by the custodian through their administration and accounting of GMPF private market investments and whilst meeting accounting requirements will not be exactly the same as those calculated by CEM. The estimate is that these will be in the region of £90m per annum from 2022/23 rising roughly in line with AUM thereafter. These changes in disclosure make no difference to the projected outcomes for the Fund NAV statement in the accounts or the medium-term plan.

4. MEDIUM TERM FINANCIAL PLAN 2023-2026

- 4.1 The assumptions for medium term financial planning going forward are detailed in the table below.

Fund Investment Return	5.6% per annum over the long term
Inflation	CPI Bank of England
Pay Inflation	2.25% longer term
Employer Payroll	From actuarial valuation
Pensioner Profile	From actuarial valuation
Management Budget	2022/23 projected forward
Investment Management Costs	CEM plus Internal estimate projection

- 4.2 The draft 3-year medium term plan is detailed below.

	2023/24	2024/25	2025/26
	£m	£m	£m
Fund Size at Start of Year	30,000	31,194	32,448
Fund Size at end of Year	31,194	32,448	33,778
Pensions Paid	938	955	961
Contributions received	592	612	634
Net Transfers	0	0	0
Net Cashflow	-346	-343	-327
Management Costs			
Investment Income	140	150	160
Increase in Value of Investments	0	0	0
Net Return from Investments	655	691	730
Net Change in Fund	1,025	1,056	1,087

4.3 Key observations to be considered are:

- The Fund has an increasingly mature liability profile.
- Investment income is still higher than outflows to pensioners net of contributions.
- Investment returns are key driver of outcomes.
- The changes to investment cost disclosure have no impact on overall result and are in effect a movement to costs that was previously deducted from appreciation of investments within the accounting of pooled investment vehicles.

5. RECOMMENDATIONS

5.1 That the Management Panel approves the expenditure budget for 2023/24.

5.2 That the Management Panel approve the Medium-Term Financial Plan.

APPENDIX A

GMPF Management Budget 2022/23 excluding external investment management fees

Area	Description / Basis	2023-2024 £	2022/23 £
Staffing	Including indirect costs such as training	9,336,619	7,797,671
Leadership & Development	Recharge from TMBC for Corporate Leadership team plus development items	948,892	745,703
Governance	Advisors, Local Board and Panel costs plus Democratic Services	349,337	324,573
Custody		496,625	500,120
Actuarial Fees		355,000	580,500
Professional Fees	Includes External audit fees	2,327,000	1,960,900
IT and Equipment		1,394,500	1,387,000
Premises	Rent, rates, utilities etc.	1,135,600	1,104,300
Other General Costs	Post, telephone, printing & stationery, media, travel etc. including misc. items < £10,000	685,325	672,684
Central Establishment Charges	Core Services HR Internal Audit etc.	596,000	508,086
Income	Charge to external investments plus some pension advice	(987,000)	(1,225,000)
Total Cost		16,637,493	14,356,537