

Report To:	GMPF MANAGEMENT/ADVISORY PANEL
Date:	18 March 2022
Reporting Officer:	Sandra Stewart, Director of Pensions Paddy Dowdall, Assistant Director of Pensions, (Local Investments and Property)
Subject:	GMPF BUDGET 2022/2023 AND MEDIUM-TERM FINANCIAL PLANNING
Report Summary:	This report asks the Management Panel to approve an expenditure budget for GMPF for 2022/23 and a medium-term financial plan 2022-2025. (An updated version will be included in the Annual report for 2022/23).
Recommendations:	<ol style="list-style-type: none"> 1) That the Management Panel approves the expenditure budget for 2022/23. 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:	<p>Further information can be obtained by contacting Tracey Boyle Head of Pensions Accountancy, Greater Manchester Pension Fund, Guardsman Tony Downes House, 5 Manchester Road, Droylsden</p> <p>Telephone: 0161 301 7116</p> <p>email: tracey.boyle@tameside.gov.uk</p>

1. INTRODUCTION

- 1.1 This report asks the Management Panel to approve an expenditure budget for GMPF for 2022/23 alongside a medium-term financial plan for 2022 to 2025.
- 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 2022 to 2025 will be finalised for the annual report following, approval of budget and Fund Valuation at 31 March 2022.
- 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 2022; and the assumptions and methodology that underpin it.

2. BUDGET FOR 2022/23 AND CHANGES FROM 2021/22

- 2.1 The Fund remains committed to its core objectives. The last 2 years have seen substantial changes to the way in which the Fund delivers its core objectives in response to the pandemic and the changing requirements of the regulatory landscape. 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 2022/23	2.25%
Inflation	Notional 2.5% 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 £650,000 to implement business plan aspirations

- 2.2 The level of budget sought for 2022/23 seeks an increase from that in 2021/22. 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 1 to this report.

Reconciliation of movements in Budget from 2021/22 to 2022/23

		% change from 2021/22 from 2021/22	% contribution of movement
<u>Year 2021/22</u>			
Staffing	£7,132,348		
Other Costs	£6,033,755		
Total	£13,166,103		
<u>Year 2022/3</u>			
Staffing	£7,847,671		
Other Costs	£6,508,866		
Total	£14,356,537		
<u>Variances to 2023</u>			
Staffing	£715,323	10.03%	60.09%
Other Costs	£475,111	7.87%	39.91%
Total	£1,190,434	9.04%	100.00%
<u>Significant elements</u>			
External factor for staff cost increased NI and pay awards	£380,867	5.34%	31.99%
Other staffing increases	£334,456	4.69%	28.10%
<u>Business Plan Implementation 2021/22 items c/f</u>	£415,000		
Web design (£50k) and maintenance (£20k)	£70,000		5.88%
Payroll consultancy project	£80,000		6.72%
Adare / Postage above current levels of spend	£100,000		8.40%
Cyber security increase per Emma	£100,000		8.40%
New phone system	£65,000		5.46%
<u>Business Plan 2022/23</u>			
Actuarial Valuation	£150,000		12.60%
Increase in development budget	£150,000		12.60%
Notional 2.5% inflation on non-staff costs	£150,844		12.67%
Balance item	-£390,733		-32.82%
<i>(savings against inflationary increase on other costs plus non-recurring items from 2021/22)</i>			

- 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.

Investment Costs GMPF year end Dec 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 Dec 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 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 2022/23 with a comparison to projected out-turn for 2021/22. Individual fund manager fees are not disclosed as there are confidentiality agreements in place.

Manager	Budget 2022-2023 £m	Projected 2021-2022 £m	Change £m
Overall Total	21.97	20.33	+1.64

- 3.2 From a financial reporting perspective this year will see a change in 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. These changes in disclosure make no difference to the projected outcomes for the Fund NAV statement in accounts or the medium-term plan.

4. MEDIUM TERM FINANCIAL PLAN 2019-2022

- 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%
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.

	2022/23	2023/24	2024/25
	£m	£m	£m
Fund Size at Start of Year	28,700	29,921	31,280
Fund Size at end of Year	29,921	31,280	32,687
Pensions Paid	961	1,005	1,051
Contributions received	700	820	846
Net Transfers	0	0	0
Net Cashflow	-261	-185	-205
Management Costs	125	132	139
Investment Income	435	459	485
Increase in Value of Investments	1,172	1,216	1,267

Net Return from Investments	1,607	1,676	1,752
Net Change in Fund	1,221	1,359	1,407

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 As set out at the front of the report.

APPENDIX 1

GMPF Management Budget 2022/23 excluding external investment management fees

Area	Description / Basis	2022-2023	2021-2022
Staffing	Including indirect costs such as training and oncosts	7,797,671	7,113,177
Leadership & Development	Recharge from TMBC for Corporate Leadership team plus development items	745,703	589,900
Governance	Advisors, Local Board and Panel costs plus Democratic Services	324,573	269,120
Custody		500,120	488,620
Actuarial Fees		580,500	275,500
Professional Fees	Includes External audit fees	1,960,900	2,080,010
IT and Equipment		1,387,000	1,295,640
Premises	Rent, rates, utilities etc.	1,104,300	1,011,760
Other General Costs	Post, telephone, printing & stationery, media, travel etc. including misc. items < £10,000	672,684	794,309
Central Establishment Charges	Core Services HR Internal Audit etc.	508,086	478,067
Income	Recharge to third parties, divorce and admission fees	(1,225,000)	(1,230,000)
Total Cost		14,356,537	13,166,103