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| 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: | <ol style="list-style-type: none"> 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>Variances 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 | <u>810,000</u> | | |
| Balance (sum of general inflation less efficiencies plus minor changes) | <u>(18,066)</u> | | |

- 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 |