

LOCAL PENSIONS PARTNERSHIP ADMINISTRATION

# 2023/24 Annual Budget Process

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London Borough of Hammersmith & Fulham

JANUARY 2023

**LPP**  
Local Pensions Partnership  
Administration

# Background and Considerations

London Borough of Hammersmith & Fulham (LB Hammersmith & Fulham) is entering into a shared service agreement with Lancashire County Council (LCC) for pensions administration. LCC discharge the responsibility for this service to LPPA via a services agreement. LPPA's pensions administration fees are based on shared service principles of full cost recovery where LPPA recover the costs to run the service and do not make any profit.

LCC's obligations to LB Hammersmith & Fulham (fulfilled by LPPA) will be:

1. **Annual budget setting process** – each year we will supply an initial proposed budget for the next financial year.
2. **Quarterly reporting** – An update of the actual cost vs budgeted cost is provided quarterly. Any shortfall will be communicated; if a shortfall remains at the end of the year an adjustment is made.
3. **Year end adjustment** – Invoice for full year shortfall or pay refund for underspend, if applicable.
4. **Formal approval** - Once the Pension Fund agree the budget, it is presented to the LPPA Board and this approval is confirmed to the Fund.
  - The latest published UK inflation rate puts CPI as 10.7% at November 2022, a significant increase from 5.1% in November 2021
  - The increase in inflation has impacted our cost base which is mainly fixed costs and is driving the budget proposal for 2023/24
  - A number of our third party IT costs including systems and licenses have increased by 12.5% inflation going into the new financial year
  - Full benefits of system migration will be realised from 2024/25 onwards, with initial productivity benefits from 1 Jan 2024 as we deliver system enhancements during 2023/24 and deliver training to our administration staff
  - We are currently undertaking a review of Transfer Pricing and early conclusion is that we will need to apply a transfer pricing mark up to our pricing at the end of the financial year to comply with UK tax legislation.

# Proposed 2023/24 Budget

Hammersmith & Fulham	Budget FY 22/23	Q2 Forecast FY 22/23	Proposed 23/24 Budget	23/24 Budget v Q2 Forecast 22/23		Provisional 2024/25	Provisional 2025/26
				£	%		
Budgeted Fee £'000	£384	£399	<b>£493</b>	£94	24%	£491	£484
Total Membership	16,676	16,676	<b>17,626</b>	950	6%	17,890	18,159
Cost per Member	£23.03	£23.91	<b>£27.98</b>	£4.07	17%	£27.45	£26.66
*CPM in real terms (exc inflation)			<b>£22.17</b>			£21.86	£21.33

*\*CPI real terms base line is Nov 21 when the 22/23 Budget was set and looks to show CPM movement excluding inflation*

*22/23 Membership figures as at August 2021*

*23/24 Membership figures as at August 2022*

## Key drivers of the increase in proposed CPM for 2023/24:

**Regulatory changes** for estimated costs of McCloud and Pensions Dashboard included within the proposed CPM account for £1.59 increase in 23/24. This is 5.7% of recoverable costs.

**Resilience roles** which we brought in to support with PACE in the 22/23 budget and originally assumed would drop out after December 2022 have been retained to support the business in improving productivity whilst UPM continues to be embedded in order to bring us back into agreed service levels. Additional resources have also been included in the 2023/24 proposal to support with this and ensure we are improving both quality as well as productivity. Impact of this on the proposal is £1.65 CPM. These roles we will look to drop out of the costs from Jan 2024 as we see the UPM benefits of further automation. Resilience roles account for 5.9% of recoverable costs.

**Inflation** is significantly higher with an average 11.1% supplier inflation reflected in the proposal compared to this time last which assumed 2.5% cost inflation which results in a CPM increase of £0.30. We are not proposing pay increases in line with current cost inflation, however, with the current cost of living increase this is proposed at 4% higher than we'd originally planned for 12 months ago which is an increase of £0.67 CPM

# Key Budget Assumptions

- Membership numbers as of 31 August 2022 increasing by 1.5% year on year
- Service demand (pension administration casework volumes) remaining consistent with current year
- In line with October 2022 ONS CPI figure of 11.1% on unknown renewal costs, or supplier advised rates where advised which range from 10.7% to 12.5%.
- Resilience roles retained to support returning to agreed service levels and improved quality
- Pay uplift of an average of 7% with consideration of impact on pension contributions following triennial review
- Investment in training and staff to support retention, improve understanding and quality as well as and attraction of experienced staff
- Productivity savings from January 2024
- Estimated headcount and system costs for McCloud and Dashboard regulatory changes (excluding McCloud system development costs)
- No costs have been included for regulator change outside of McCloud and Dashboard i.e. Exit Cap
- In 2023/24, if there is an underspend against the budget, a refund will be paid. If there is an overspend, we will recover this via a true-up at the end of the financial year. We propose to handle under or overspend against the budget at the end of the financial year.

# Summary

- As outlined due to a number of factors the budget for pension administrations services is increasing, which in turn will increase the cost per member to £27.98.
- LPPA are asking for the London Borough of Hammersmith & Fulham pension fund to agree the proposed budget for 2023/24
- The proposed Budget is subject to formal approval by the LPPA Board and this will be confirmed to the Fund
- LPPA will continue to drive service improvements, economies of scale and look for efficiencies to ensure that we provide a high quality, value for money, pensions administration service to you and your members and employers.
- Therefore , if there is an underspend against the budget, a refund will be paid to the pension Fund. If there is an overspend, LPPA will recover this via a true-up at the end of the financial year. We propose to handle under or overspend against the budget at the end of the financial year.