

LOCAL PENSIONS PARTNERSHIP ADMINISTRATION

2023/24 Annual Budget

London Borough of Hammersmith & Fulham

MARCH 2023

LPP
Local Pensions Partnership
Administration

Budget Considerations

- The latest published UK inflation rate puts CPI as 10.4% at February 2023, 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
- LPPA have deferred some costs from the 2022/23 budget and the 2023/24 budget to the following years to 'smooth out' the cost
- 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. We will provide more information on this throughout the course of the year

Revised 2023/24 Budget Proposal

Hammersmith & Fulham	2022/23 Budget	Prior Year Plan for 23/24	Proposed 23/24 Budget	Budget 23/24 v Budget 22/23		Budget 23/24 v Prior Year Plan		Provisional 2024/25	Provisional 2025/26
				£	%	£	%		
Budgeted Fee £'000	£384	£386	£468	£84	22%	£82	21%	£502	£494
Total Membership	16,676	16,676	17,626	950	6%	950	6%	17,890	18,159
Cost per Member	£23.03	£23.16	£26.56	£3.53	15%	£3.40	15%	£28.05	£27.23
*CPM in real terms (exc inflation)			£24.00					£25.47	£24.85

*CPI real terms base line is Nov21 when the 22/23 Budget was set and looks to show CPM movement excluding inflation
22/23 Membership as at August 2021. 23/24 Membership as at August 2022 with 1.5% year on year increase thereafter.

Cost per member (CPM) under the previous 2023/24 budget proposal provided in January 2023 was £27.98. The revised provisional CPM for both 24/25 and 25/26 includes £0.15 which relates to the true-up carried forward from 2022/23 and £0.45 which is the 'smoothing cost' to reduce the 2023/24 budget figure.

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

- 2023/24 Budget cost breakdown: Staff costs 78%, IT/Systems costs 12% and other third-party costs 10%
- 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.