

Report to: **Pension Committee**

Date: **27 February 2017**

By: **Interim Chief Finance Officer**

Title of report: **Pension Fund - Cost Analysis**

Purpose of report: **This report covers the analysis of pension fund costs over the last few years.**

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## **RECOMMENDATIONS – The Committee is requested to note the Pension Fund Cost**

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### **1. Background**

1.1 Any costs of administering pension fund have the potential to take resources away from scheme members' pensions, and it is therefore important for the Fund to be transparent about administration costs and to ensure that the costs represent value for money. This report aimed to provide detailed information on ESPF scheme administration costs - to provide a baseline for these costs, examine which administrative overhead expenses placed the greatest burden on the fund, and to allow for a more informed discussion about action that could be taken by the Committee or by the Board to ensure value for money in the efficient operation of pension fund business.

1.2 In February 2016 the Pension Fund Committee agreed a budget in respect of the Pension Fund's investment and administration expenses for the 2016/17 financial year. The production of an annual budget is in accordance with a recommendation of best practice set out in the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme.

1.3 Appendix A (below) provides analysis of the Pension Fund costs incurred since 2012/13 (the last full year of the previous SERCO contract for pensions administration) and the future budget projection.

### **2. Oversight and Governance Support**

2.1 The total budget on ongoing expenditure for this service is approximately £680k (Appendix A). The largest component of the cost is the staff time spent on oversight and governance, and it is expected that the pension's investment team and other support services costs will be on budget. Since 2012/13 there has been a shift in the profile of expenditure, with less being spent on investment consultants and more on in-house staff. Over the period the complexity of governance has increased, with the number of employers within the Fund rising from 73 in 2012 to 109 now. Other variations to charges were due to impact of the triennial valuation and changes in the level of expenditure on the following core activities-

- CIPFA Pension Network, LAPFF, Club Vita, LGPC etc.
- Hymans Actuarial Fees
- Hymans Investment consultancy costs and independent advisor costs
- Commissioning work for expert advice on investment pooling
- External audit of the Annual Report
- Legal work commissioned for the fund
- Investment performance monitoring service, etc.

### **3. Costing Analysis – Business Operations**

3.1 In respect of charges applicable to the delivery of Pensions Administration by Business Operations, these can be attributed to two primary aspects; staffing and systems.

3.2 Despite a 15% increase in membership numbers since 2012/13 and modest wage inflation, staffing costs have reduced over the period that SE Shared Services, later developed into Orbis, has delivered the services, from £806K in 2013/14 to a forecast £740K in 2016/17. This has been achieved in spite of the requirement to deliver a new CARE scheme from April 2014 alongside the existing final salary protections and the resultant complexities around implementation and ongoing service delivery. Business Operations have optimised staff resources with a mix of experienced and highly knowledgeable LGPS experts supplemented by an intake of trainees who have been trained to initially deliver the more straightforward aspects of the Administration.

3.3. The systems costs during the period have remained relatively stable but, as the Committee will be aware, the new integrated contractual arrangement from April 2016 will deliver savings over the course of the next two years, as well as bringing technological enhancements such as online access to member records. Following a one off licensing and integration cost in 2016/17, the future cost savings can be demonstrated with the forecasted cost for 2017/18 and which would be replicated in further years.

3.4 GMP Reconciliation costs. The amount allocated to the budget for 2016/17 was based on the proposal offered by the organisation commissioned to conduct the initial GMP analysis on behalf of the East Sussex fund. Business Operations is proposing to utilise the new National LGPS Framework for administration support services, expected to launch very shortly, to procure GMP reconciliation services and it is therefore anticipated this spend will be incurred in 2017/18.

3.5 The full CIPFA Benchmarking analysis report is provided within the Officer Report – Business Operations (presented at this meeting), which shows the Total Cost Per Member as follows -

2012/13	£ 16.99
2013/14	Did not participate
2014/15	£ 16.36
2015/16	£ 15.90

#### **4. Conclusion and reasons for recommendations**

4.1 The aims of this report were to inform the Committee about the range and scale of costs that the pension fund has to incur, in particular staff salary, internal costs, administrative costs, expenditure on professional/consultancy services, managing funds and the costs associated with having trustees.

#### **PHIL HALL**

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Local Member(s): All  
Background Documents  
None

## Appendix A

### Pension Fund – Costs Analysis

Description	Actuals				Budget	
	SERCO	SESS	SESS	ORBIS	ORBIS	ORBIS
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	£000	£000	£000	£000	£000	£000
<b>Administration</b>						
Orbis Finance Support Services	21.4	23.9	46.3	53.9	40.0	40.0
Orbis Business Operations Support Services	-	805.7	749.6	711.8	740.0	740.0
SERCO Contract	1,022.3	9.6	-	-	-	-
Heywood plus Hosting of Heywood system	-	287.8	289.0	299.3	340.0	200.0
GMP	-	-	-	-	-	100.0
PensionWeb	-	-	-	60.0	30.0	30.0
Third Party Payments	-	-	-	-	-	-
Other Income	-	-	-	-	-	-
<b>Total</b>	<b>1,043.7</b>	<b>1,127.0</b>	<b>1,084.9</b>	<b>1,125.0</b>	<b>1,150.0</b>	<b>1,110.0</b>
<b>Oversight and Governance</b>						
Accounts and Pensions	178.2	201.2	213.4	235.9	200.0	200.0
Investment Consultants	215.7	140.4	147.5	167.3	135.0	135.0
Subscriptions (LAPFF, CIPFA, etc.)	14.0	31.9	39.1	50.6	35.0	40.0
Actuarial Fees	156.7	171.7	100.1	136.7	186.0	120.0
Pension Board	-	-	-	10.0	10.0	10.0
Investment Pooling	-	-	-	-	50.0	100.0
Other Supplies & Services	74.8	91.6	73.6	76.6	64.0	55.0
Third Party Payments	164.4	107.3	153.9	117.7	180.0	150.0
Other Income	- 150.5	- 113.6	- 155.2	- 113.6	- 180.0	- 150.0
<b>Total</b>	<b>653.3</b>	<b>630.5</b>	<b>572.4</b>	<b>681.2</b>	<b>680.0</b>	<b>660.0</b>
Description	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
<b>Scheme Membership Numbers</b>	<b>64,024</b>	<b>67,627</b>	<b>69,151</b>	<b>72,748</b>	<b>74,731</b>	<b>76,000</b>
<b>Cost per Member</b>	<b>£16.99</b>	<b>N/A</b>	<b>£16.36</b>	<b>£15.90</b>	<b>-</b>	<b>-</b>