

Report to: **Pension Board**
Date: **8 February 2018**
By: **Chief Finance Officer**
Title of report: **Pension Fund Budget Monitoring and 2018/19 Budget**
Purpose of report: **This report 2017/18 Budget Monitoring and outlines the 2018/19 budget for the East Sussex Pension Fund.**

RECOMMENDATION

The Board is recommended to note the monitoring and revenue budget for 2018/19 attached as Appendix 1 to this report.

1. Background

1.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other 'scheduled bodies' as defined in the Regulations. The Regulations also empower the Fund to admit employees of other 'defined' (e.g. other public bodies) bodies into the Fund.

1.2 The proposed 2018/19 budget for the Pension Fund has been put together to assist in the management of the Fund, and the Council will be able to perform its role as the administering authority in a structured way. The Pension Committee is charged with meeting the duties of the Council in respect of the Pension Fund. Therefore it is appropriate that the Committee formally adopts an annual budget to assist with the discharge of its duties.

1.3 The estimates do not incorporate any provision for investment fees earned by the alternative fund managers.

2. 2017/18 Budget Monitoring

2.1 In February 2017 the Pension Fund Committee agreed a budget in respect of the Pension Fund's investment and administration expenses for the 2017/18 financial year. Appendix 1 (below) provides analysis of the Pension Fund expenditure to date and the 2017/18 projected outturn.

Description	2017/18	2017/18	Change
	Budget	Projected	
	£000	Outturn	£000
	£000	£000	£000
Pension Administration	1,110	1,075	(35)
Oversight and governance	660	729	69
Investment Management	8,850	7,388	(1,462)
Total	10,620	9,192	(1,428)

2.2 The projected underspend is mainly due to the renegotiated fee arrangements with our fund managers (i.e., including StateStreet, Newton), and a reduction of fees for our Private Equity managers (HarbourVest). Officers continue to have ongoing dialog with other fund managers in relation to our fee arrangements.

3. East Sussex Pension Fund (ESPF) Budget – 2018/19

3.1 The budget outlined in this report will assist the Council in monitoring expenditure of the Fund's revenue budget in accordance with its requirement to manage resources effectively. The detail ESPF budget for 2018/19 is attached as Appendix 2. A comparison of the 2017/18 budget with the 2018/19 budget is shown below:

Description	2017/18	2018/19	Change
	Budget £000	Budget £000	
Pension Administration	1,110	1,086	(24)
Oversight and governance	660	733	73
Investment Management (invoiced fees)	8,850	4,650	(4,200)
Total	10,620	6,469	(4,151)

Analysis of Budget Movement

3.2 Pension Administration - The slight decrease in pension admin budget between 2017/18 and 2018/19 is primarily due to efficiencies within the joint administration service. The budget for the on-going GMP reconciliation work is currently being determined, therefore, previous year budget has been assumed.

3.3 Oversight and governance – The changes in the oversight and governance budget is due to the resources set aside for commissioning work re the ongoing LGPS investment pooling initiative and an increase in legal cost in dealing with employers issues.

3.4 Investment Management - The Investment Strategy budget allows for potential fee reductions from current managers but it also reflects the increase in the value of the fund since 31 March 2017 due to the current market valuations. The budget reflects the renegotiated fee arrangements with our fund managers and the subsequent fee savings for the East Sussex Fund. However as a result of LGPS asset pooling, the way in which fees will be paid by the East Sussex Fund will change as a result of assets being transferred to the ACCESS pool. As an example, the fees invoiced by Newton will be deducted at source, against the value of units in the Newton portfolio, rather than being invoiced to the East Sussex Fund.

3.5 Since the setting of the 2017/18 £8.850m investment management fees budget, reductions have been negotiated with Newton, HarbourVest and State Street. The ACCESS Pool has awarded a contract for the combined passive mandate to UBS Asset Management (UK) Limited, which is expected to result in savings in the region of £600k for the East Sussex Fund.

4. Budget Monitoring

4.1 The budget will be monitored by officers with a quarterly report to the Pension Board throughout the year. Actual spend is detailed in the Annual Report and Accounts of the Pension Fund which are subject to external audit. As in previous years, the Pension Fund will participate in a number of national LGPS benchmarking exercises during the year, which will provide a useful cost comparator with other LGPS funds.

5. Conclusion and recommendations

5.1 Pension Fund expenditures on investment and administration will be charged to the Pension Fund. There is no direct charge to local authorities or other employer bodies for the costs detailed in this report.

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Appendix 1

2017/18 Pension Fund Revenue - Projected Outturn

Description	2017/18 Budget £000	2017/18 Projected outturn £000	Change £000	Narrative
Pension Administration				
Orbis Finance Support Services	40	50	10	Staff time in monitoring the administration of the Fund
Orbis Business Operations Support Services	970	925	(45)	Cost of the joint administration service, and reflects hosting the system by Business Operations
Guaranteed Minimum Pension	100	100	-	On-going GMP Reconciliation work
Administration total	1,110	1,075	(35)	
Oversight and governance costs				
Orbis Finance Support Services	200	258	58	Staff time spent on oversight and governance
Subscriptions	40	40	-	CIPFA Pension Network, LAPFF, Club Vita, LGPC etc.
Actuarial Fees	120	90	(30)	Outsource to contractors
Investment Consultancy	120	95	(25)	Outsource to contractors
Investment Pooling	100	110	10	Commissioning work for expert advice on investment pooling
External Audit Fee	29	23	(6)	External audit of the Annual Report
Internal Audit Fee	17	19	2	Control work performed by the Council's internal audit team
Legal Fees	10	60	50	Legal work commissioned for the fund
Performance Measurement Services	24	24	-	Investment performance monitoring service
Other Expenses	-	10	10	Conferences, travel, etc.
Specific Actuarial Work*	150	150	-	Work performed by the actuary on the behalf of specific employers which is recharged to them
Other Income	(150)	(150)	-	Recovery of work provided by the actuary
Oversight and governance total	660	729	69	
Investment Management				
Investment Manager Fees	8,850	7,388	(1,462)	Fees paid to the investment managers
Total	8,850	7,388	(1,462)	
Total PF Budget	10,620	9,192	(1,428)	

**Note – The fund occasional request specific work to be carried out the actuary on the behalf of specific employers, of which the full costs are recoverable from employers.*

Appendix 2

2018/19 Pension Fund Revenue Budget

Description	2017/18 Budget £000	2018/19 Budget £000	Change £000	Narrative
Pension Administration				
Orbis Finance Support Services	40	51	11	Staff time in monitoring the administration of the Fund
Orbis Business Operations Support Services	970	935	(35)	Cost of the joint administration service, and reflects hosting the system by Business Operations
Guaranteed Minimum Pension	100	100	-	GMP Reconciliation work
Administration total	1,110	1,086	(24)	
Oversight and governance costs				
Orbis Finance Support Services	200	263	63	Staff time spent on oversight and governance
Subscriptions	40	36	(4)	CIPFA Pension Network, LAPFF, Club Vita, LGPC etc.
Actuarial Fees	120	90	(30)	Outsource to contractors
Investment Consultancy	120	100	(20)	Outsource to contractors
Investment Pooling	100	120	20	Commissioning work for expert advice on investment pooling
External Audit Fee	29	26	(3)	External audit of the Annual Report
Internal Audit Fee	17	19	2	Control work performed by the Council's internal audit team
Legal Fees	10	45	35	Legal work commissioned for the fund
Performance Measurement Services	24	24	-	Investment performance monitoring service
Other Expense	-	10	10	Conferences, travel, etc.
Specific Actuarial Work*	150	150	-	Work performed by the actuary on the behalf of specific employers which is recharged to them
Other Income	(150)	(150)	-	Recovery of work provided by the actuary
Oversight and governance total	660	733	73	
Investment Management				
Investment Manager Fees	8,850	4,650	(4,200)	Fees paid to the investment managers and a reduction in passive mandate fees.
Investment Management Total	8,850	4,650	(4,200)	
Total PF Budget	10,620	6,464	(4,151)	

**Note – The fund occasional request specific work to be carried out the actuary on the behalf of specific employers, of which the full costs are recoverable from employers.*