

**Report to:** Pension Board

**Date of meeting:** 15 February 2020

**By:** Chief Financial Officer

**Title:** East Sussex Pension Fund (ESPF) quarterly budget report and 2021/22 Pension Fund business plan and budget

**Purpose:** This report updates the 2020/21 Quarter 3 budget report and sets out the business plan and budget for 2021/22.

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## **RECOMMENDATION**

The Board is recommended to:

- 1) note the revised forecast 2020/21 outturn position; and
  - 2) note the Business Plan and Budget for 2021/22 in Appendix 1
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## **1. Background**

1.1 Under the Local Government Pension Scheme (LGPS) Regulations, East Sussex County Council is required to maintain a pension fund, known as East Sussex Pension Fund (ESPF or the 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 business plan and budget sets out the direction of travel, objectives and targets to be achieved 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.

1.3 As reported at the last meeting, the budget estimates do not incorporate any provision for investment fees earned by the alternative fund managers since these are deducted at source by asset managers. Budget and forecast figures may move between this report and the version for approval at Pensions Committee due to more information starting to come through on the costs of the Pensions Administration function, however, this should be immaterial.

1.4 **Appendix 1** sets out the proposed 2021/22 business plan and budget for the Fund that will be considered by Pension Committee on 1 March 2021.

## **2. Supporting information**

### **2020/21 Investment and Administration Expenses Outturn Report**

2.1 In June 2020, the Pension Committee agreed to the revised down budget of £3.730m from £3.795m agreed in March 2020 (2019/20: £4.857m) due to budget adjustments in respect of the Data Improvement Plan and work undertaken by Environmental, Social and Governance (ESG) suppliers, PIRC and EIRIS.

2.2 The forecast outturn for 2020/21 is £6.007m, against a budget of £3.730m resulting in an overspend of £2.277m, an increase of £1.266m from the outturn position reported at the last

meeting. The 2020/21 projected outturn against line items is shown at Table 3 in Para. 3 below. Table 3 also shows the budgeted expenditure and actual spend to Quarter 3.

2.3 The overspend, in the main relates to the expected costs associated with bringing the administration service back under sovereign control, details can be seen in paragraph 2.8 and table 2. Other large movements to the forecast are set out in Table 1 below and movements detailed in Para. 2.4 to 2.7. The other lines items variation is not provided in detail as the movement from budget to forecast was reported in prior quarters and mostly results from investment management fees that now directly invoiced and not deducted at source.

**Table 1**

	2020/21 Budget	2020/21 Forecast Outturn November	Variance from last reported position	Variance to Budget
Staffing - Para 2.4	385	551	159	166
Custody - Para 2.5	150	67	- 33	- 83
Legal costs - Para 2.6	115	187	72	72
Actuarial - Para 2.7	250	323	73	73
Pensions Administration - Para 2.8	1,080	2,119	1,039	1,039
Other line items – minor variations	1,750	2,760	- 44	1,010
<b>Total</b>	<b>3,730</b>	<b>6,007</b>	<b>1,266</b>	<b>2,277</b>

2.4 Since the last report the Fund has been able to work to provide more up to date figures on the staffing costs for the new structure. This has resulted in an increase of £109,000 from the last report. In addition, for the costs of recruitment, at £50,000, are also included.

2.5 The Custodian forecast has been reduced to be in line with the activity that they currently do for the Fund and anticipated increased costs based on the new equity structure. The underspend on this item has increased by £33,000.

2.6 The external legal fee costs have been increased to cover the additional work that the Fund commissioned whilst the resources of the Fund were depleted during the summer as well as to complete significant due diligence in relation to the new investments made through the year to ensure the fund well protected. This overspend on this item is £72,000 for an initial budget of £115,000.

2.7 The actuary's fees have been increased to £309,000 to bring the forecast in line with the experience of the fee levels that have been incurred for the first 3 quarters along with a reduction in the amount that we are expecting to recover from employers as the documentation is not in place to charge these costs. This has resulted in an overspend of £73,000.

2.8 Arrangements around the Pension Administration Team (PAT) being brought back under sovereign control have started to clarify costs, which were previously incurred by the Surrey Shared Service within Orbis. There is still some elements of the final budget requirement to be

worked through, however, it is estimated that the cost for the administration will be £2.119m, which is £1.039m more than the budget of £1.080m. The original budget was based on previous Orbis recharges to the ESPF for the PAT. It is anticipated the Orbis recharge will be £200,000 higher than the previous budget, in addition the Fund now has costs of £350,000 for the staff that were part of the Transfer of Undertakings (Protection of Employment) Regulations (TUPE) to East Sussex. The Fund is also incurring a number of project costs associated with the dissolution from Orbis, such as the data migration project. In addition, there are other direct costs, such as employer portal costs and the roll out of new agile working packs to the new staff through TUPE or establishment expansion. There will also be further costs for i-Connect and other projects undertaken. Budgeting for Pensions Administration has been limited to date, however as Pensions Administration comes further under sovereign control the transparency of costs will increase. Table 2 shows the basis for the revised forecast of £2.119m.

**Table 2 Pensions Administration Forecast 2020/21**

Line item	2020/21 Forecast Outturn, February £000	One off or ongoing details
Orbis Business Operations Support services	1,138	Last year of Orbis contract, 2021/22 budget replaces this with ongoing staffing and software licence costs
PAT staffing, post TUPE	349	Direct Staff costs December 2020 to March 2021 as a result of TUPE
One off Data migration costs	75	One off costs, ESCC share to replicate Altair system
Systems and licences	323	Altair BAU support, Employer website, i-Connect
IT equipment	77	One off IT associated costs for data migration including new servers and equipment for staff
Consultancy and project costs	150	Mostly one off projects, including GMP reconciliation, Mortality screening, licence for data access, address tracing
Other general expenditure	7	
<b>Pensions Administration total forecast line</b>	<b>2,119</b>	

**Table 3 2020/21 Outturn Report Q3**

2019/20 Outturn	Item	2020/21 Budget	2020/21 Actuals to December	2020/21 Forecast Outturn November	2020/21 Forecast Outturn February	Variance to the last reported Forecast
£000		£000	£000	£000	£000	£000
	<b><u>Pension Fund Oversight and Governance</u></b>					
345	Actuarial Fund Work	250	245	250	309	59
97	Actuarial Employer Work	150	61	150	90	(60)
(97)	Employer reimbursement	(150)	(20)	(150)	(76)	74
88	Good Governance Program	47	22	47	25	(22)
75	Data Improvement Program	100	40	40	40	-
8	Independent Pension Board Chair	5	9	13	12	(1)
307	Fund Officers*	385	376	392	501	109
	Recruitment Costs	-	-	-	50	50
30	External Audit – Grant Thornton	26	24	30	30	-
-	Democratic Services Support	-	-	18	18	-
17	Internal Audit*	19	28	37	37	-
119	Legal Fees	115	140	115	187	72
11	Subscriptions and other Expenses	70	59	70	96	26
<b>1,000</b>	<b>Sub Total</b>	<b>1,017</b>	<b>984</b>	<b>1,012</b>	<b>1,319</b>	<b>307</b>
	<b>Investment activities</b>					
114	Investment Consultant	120	157	200	182	(18)
-	PIRC ESG Report	11	11	11	11	-
-	EIRIS Carbon Report	24	25	25	25	-
11	Independent Advisor Basic	12	9	12	12	-
5	Independent Advisor Project work	8	5	16	16	-
54	Custodian	150	52	100	67	(33)

2019/20 Outturn  £000	Item	2020/21 Budget  £000	2020/21 Actuals to December  £000	2020/21 Forecast Outturn November £000	2020/21 Forecast Outturn February £000	Variance to the last reported Forecast £000
3,003	Investment Manager Fee Invoices	1,200	1,311	2,167	2,167	-
<b>3,187</b>	<b>Sub Total</b>	<b>1,525</b>	<b>1,570</b>	<b>2,531</b>	<b>2,480</b>	<b>(51)</b>
	<b>ACCESS</b>					
67	ACCESS Support Unit	98	98	98	88	(10)
(3)	Fund Officer Time Rebates	(20)	(2)	(10)	(2)	8
<b>64</b>	<b>Sub Total</b>	<b>78</b>	<b>96</b>	<b>88</b>	<b>86</b>	<b>(2)</b>
	<b>Pension Board/Committee Training:</b>					
-	Training Costs	30	1	30	3	(27)
-	<b>Sub Total</b>	<b>30</b>	<b>1</b>	<b>30</b>	<b>3</b>	<b>(27)</b>
<b>1,106</b>	<b>Pension Administration*:</b>	<b>1,080</b>	<b>1,211</b>	<b>1,080</b>	<b>2,119</b>	<b>1,039</b>
<b>5,357</b>		<b>3,730</b>	<b>3,862</b>	<b>4,741</b>	<b>6,007</b>	<b>1,266</b>

\* These costs are invoiced to the Fund from ESCC and Orbis currently this is done annually but we are working with the finance officer for ESCC and Orbis to do this quarterly going forward. We have been provided information from ESCC for these costs up to the 31 December 2020

## 2021/22 Business plan and budget

2.9 It is anticipated that 2021/22 will see some key activities within the following themes:

- Pension Fund Oversight and Governance activities: Fund/Employer actuarial work, Fund external legal advice, Pension Fund Annual Report and Accounts, External/Internal audit work, Achievement of the Statutory Annual Benefit Statement, Implementation of McCloud provisions, Public Sector Exit Payments, Review of Academies, Employer covenant reviews and final implementation of the ill health insurance cover for employers.
- Investment activities: Review investment strategy, develop the Fund's ESG credentials, UK Stewardship Code 2020, Principals of Responsible Investment, review and implement any agreed changes to the Fund's credit structure, assistance with annual accounts completion, Investment Governance, Investment Pooling, Cost Transparency, Cost Management, Strategic ESG Repositioning.
- ACCESS activities: ACCESS support unit (ASU), Actively managed listed assets, Alternative/ non-listed assets, alternative / non listed assets, passive assets, Governance.
- Employer engagement activities: i-Connect implementation, contribution monitoring, communications strategy
- Pension Board/Committee Training: Implementation of the agreed training strategy for the Board and Committee, Provision of 2 Investment Governance/Strategy days, Attendance at third party provided LGPS related training, Breaches, Good Governance.
- Pension Administration: Implementation of the sovereign pensions administration service, Maintaining Member Data, Data Improvement Programme, Annual Benefit Statement (ABS) Compliance, McCloud working group.

2.10 Each theme within the business plan includes milestones planned for the year. The strategic nature of the Fund's objectives means that a number of the 2021/22 milestones build on work previously undertaken and will in turn provide the foundation for further milestones in subsequent years.

2.11 A draft budget totalling £7.025m (£3.730m 2020/21) to support the business plan is set out in the **Appendix 1**.

2.12 The budget is significantly higher in 2021/22 than that reported through 2020/21 is partially due to increased transparency of costs that were previously recharged to the Fund by ESCC or Orbis. In addition, the increased establishment for the Pension fund and under-resourcing in 2020/21 will have a significant impact as do a number of projects to improve data and help bring the service back to a high standard of working throughout 2021/22.

2.13 The draft budget, set out in the Appendix 1, will be presented to the Pension Committee on 1 March 2021 for its consideration and approval.

### **3. Conclusion and reasons for recommendation**

3.1 The Fund is required to maintain an annual business plan and budget to ensure that it can fulfil its duties in the management of the Fund. The Business Plan sets out the themes of work for the Fund and the work plan details specific areas of work required to meet these. The Budget sets out the believe costs associated with delivering the Fund's Business Plan. The Board is recommended to note the revised forecast 2020/21 outturn position; and the Business Plan and Budget for 2021/22

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