

Report to: Pension Committee

Date of meeting: 22 June 2021

By: Chief Financial Officer

Title: East Sussex Pension Fund (ESPF) quarterly budget report

Purpose: This report provides the 2020/21 Financial Outturn report

RECOMMENDATION

The Committee is recommended to:

- 1) note the 2020/21 financial outturn position for the East Sussex Pension Fund**
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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 scheme employers.

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 for the Council to 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.

2. Supporting information

2020/21 Investment and Administration Expenses Outturn Report

2.1 In March 2021, the Pension Committee agreed to the revised forecast position of £5.9m from the original £3.7m budget agreed in March 2020.

2.2 The increase in budget requirements for the year was significantly increased due to the insourcing of Pensions Administration which included one off costs for the dissolution from the Orbis partnership and a better understand of ongoing costs as the funding costs became more transparent from the project increasing projections by £1m. In addition, a number of Investments were moved from Fund Managers who deducted fees from the asset valuation into new Fund Managers who invoiced fees directly to the Fund increasing the reportable costs through budget monitoring by £1m.

2.3 The forecast outturn for 2020/21 is £5.896m, against the revised forecast position of £5.895m, an increase of £0.001m. The 2020/21 projected outturn against line items is shown at Table 3 below.

2.4 The overspend, relates to increased investment fees invoiced directly to the fund, offset by a reduction in the costs associated with Pensions Administration. Main movements to the forecast are set out in Table 1 below and movements detailed in Paragraphs 2.6 to 2.9.

Table 1

	2020/21 Forecast Outturn, March Committee	2020/21 Outturn	Variance from last reported position
Staffing - Para 2.6	435	486	51
Investment Management Fees - Para 2.7	2,167	2,365	198
Legal costs - Para 2.8	187	285	98
Pensions Administration - Para 2.9	2,069	1,806	(389)
Other line items – minor variations	1,037	1,054	43
Total	5,895	5,996	1

2.5 Since the last report the Fund has been able to work to provide total figures on the staffing costs incurred for the new structure. This has resulted in an increase of £51,000 from the last report, mainly due to agency staff costs.

2.6 The investment management fees has been increased due to the availability of asset values as at the 31 March 2021 upon which the calculations are based. The overspend on this item has increased by £198,000.

2.7 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, and to complete significant due diligence in relation to the new investments made through the year to ensure the fund is well protected. The overspend on this item has increased by £98,000.

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 has been some movement on elements of the final cost for the administration and this will be £1.680m, which is £0.389m less than reported at the last meeting. Table 2 provides a breakdown of the Pension admin costs.

Table 2 Pensions Administration Forecast 2020/21

Line item	2020/21 Forecast Outturn, March Committee £000	2020/21 Outturn £000	Movement from previous forecast	One off or ongoing details
Orbis Business Operations Support services	1,077	894	(183)	Last year of Orbis contract, 2021/22 budget replaces this with ongoing staffing and software licence costs
PAT staffing, post TUPE	360	231	(129)	Direct Staff costs December 2020 to March 2021 as a result of TUPE
One off Data migration costs	75	95	20	One off costs, ESCC share to replicate Altair system
Systems and licences	323	282	(41)	Altair BAU support, Employer website, i-Connect
IT equipment	77	78	1	One off IT associated costs for data migration including new servers and equipment for staff
Consultancy and project costs	150	90	(60)	Mostly one off projects, including GMP reconciliation, Mortality screening, licence for data access, address tracing
Other general expenditure	7	10	3	
Pensions Administration total forecast line	2,069	1,680	(389)	

Table 3 2020/21 Outturn Report

2019/20 Outturn	Item	2020/21 Budget	2020/21 Forecast Outturn March Committee	2020/21 Outturn	Variance to the last reported Forecast
£000		£000	£000	£000	£000
	<u>Pension Fund Oversight and Governance</u>				
345	Actuarial Fund Work	250	309	341	32
97	Actuarial Employer Work	150	90	87	(3)
(97)	Employer reimbursement	(150)	(76)	(64)	12
88	Good Governance Program	47	25	25	-
75	Data Improvement Program	100	40	40	-
8	Independent Pension Board Chair	5	12	11	(1)
307	Fund Officers*	385	435	486	51
	Recruitment Costs	-	50	53	3
30	External Audit – Grant Thornton	26	30	40	10
-	Democratic Services Support	-	22	28	6
17	Internal Audit*	19	37	37	-
119	Legal Fees	115	187	285	98
11	Subscriptions and other Expenses	70	96	81	(15)
1,000	Sub Total	1,017	1,257	1,450	193
	Investment activities				
114	Investment Consultant	120	182	200	18
-	PIRC ESG Report	11	11	12	1
-	EIRIS Carbon Report	24	25	25	-
11	Independent Advisor Basic	12	12	12	-
5	Independent Advisor Project work	8	16	9	(7)
54	Custodian	150	67	61	(6)
3,003	Investment Manager Fee Invoices	1,200	2,167	2,365	198
3,187	Sub Total	1,525	2,480	2,684	204
	ACCESS				
67	ACCESS Support Unit	98	88	82	(6)
(3)	Fund Officer Time Rebates	(20)	(2)	(2)	-
64	Sub Total	78	86	80	(6)
	Pension Board/Committee Training:				
-	Training Costs	30	3	2	(1)
-	Sub Total	30	3	2	(1)
1,106	Pension Administration:	1,080	2,069	1,680	(389)
5,357		3,730	5,895	5,896	1

3. Investment Management Fees – Cost Transparency

3.1 The information in table 4 below sets out the investment management fees based on the Scheme Advisory Board's cost transparency initiative (CTI) templates. These are completed annually by the investment management firms. These are not however all completed at the same date and include additional costs that we do not include above or are not relevant for accounting purposes, so these costs cannot be compared to the figures above or in the accounts. This has been provided to allow the board to get a better understanding of all the costs the Fund likely incurs during a year.

Table 4 CTI Templated cost figures for East Sussex Pension Fund (figures adjusted to represent a full 12 month period).

PORTFOLIO TRANSACTION COSTS	Total
Total transaction costs	5,968
ONGOING CHARGES	
Fund and investment management	15,546
Invoiced fees (incl. VAT)	1,450
Fees and charges paid through NAV	10,802
Investment advisers fees paid through NAV	0
Payments for research (RPA) through NAV	0
Less: management fee rebates	(426)
Indirect fees and charges	3,720
Administration	1,103
Investment administration	15
Custody / depositary fees	110
Payments for research (RPA)	21
Collateral management fees	0
Facility fees e.g. prime brokerage	1
Other administration charges	956
Governance, regulation and compliance	91
Audit costs	30
Legal and professional fees	31
Engagement and voting fees	0
Performance measurement	0
Risk monitoring	0
Tax advice and structuring costs	2
Other governance and compliance charges	28
Distribution, comms and client service	1
Distribution costs	1
Communication material	0
Other distribution charges	0
Total ongoing charges figure	16,741
INCIDENTAL COSTS	
Performance fees invoiced	0
Performance fees paid through NAV	0
Carried interest charged	2,305
Total incidental costs	2,305
Total lending and borrowing costs	650
Total property expenses	318

Total one-off costs	156
TOTAL COSTS	26,138

3.2 The Majority of the costs are directly linked to the cost of the investment management fees £15.546m 59.5% of total costs. The next largest single cost are transaction fees at £5.968m 22.8%.

4. Conclusion and reasons for recommendation

4.1 The Committee is recommended to note the Final 2020/21 outturn position; and the Investment management costs based on the CTI template.

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