

**Report to:** Pension Board

**Date of meeting:** 5 November 2021

**By:** Chief Finance Officer

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

**Purpose:** This report provides an update on the 2021/22 Forecast Financial Outturn

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## **RECOMMENDATION**

**The Board is recommended to note the 2021/22 Q1 forecast 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 (the 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 At its meeting on the 1 March 2021, the Pension Committee agreed a budget of £7.155m to support the business plan for 2021/22. In the same meeting the Pension Committee approved an additional budget for a permanent Communications Manager to be added to the team structure at an estimated salary of £40k plus on costs. The budget presented below includes both the approved budget and additional post totalling £7.205m. The budget estimates do not incorporate any provision for investment fees earned by fund managers where these are deducted at source by asset managers.

### **2. Supporting information**

#### **2021/22 Investment and Administration Expenses Outturn Report**

2.1 The budget requirements for 2021/22 was significantly increased from 2020/21 due to the insourcing of the Pensions Administration Team (PAT), which has consequently provided a better understanding of ongoing costs. In addition, some investments were moved from Fund Managers, who deducted fees at source from the asset valuation, into new Fund Managers who will be invoicing fees directly to the Fund, increasing the reportable costs through budget monitoring compared to 2020/21.

2.2 The forecast outturn at the second quarter of 2021/21 is £6,824m, a decrease of £0.381m from the approved budget. The 2021/22 projected outturn against budget line items is shown at Table 2 below. The underspend mostly relates to the current vacancies within the Fund, which are actively being recruited to. The main movements to the budget are set out in Table 1 below and movements detailed in Paragraphs 2.3 to 2.7.

**Table 1**

	2021/22 Budget	2021/22 Q2 Outturn	Variance from last reported position
Officers – para 2.3	1,756	1,380	(376)
Actuarial Fund Work – para 2.4	250	175	(75)
Legal Fees – para 2.5	165	100	(65)
Investment Advice – para 2.6	192	230	38
Consultancy & Service Providers – Benefits – para 2.7	100	240	140
Other Minor movements	4,742	4,699	(43)
<b>Total</b>	<b>7,205</b>	<b>6,824</b>	<b>(381)</b>

2.3 The budget for staffing was set at £1.756m assuming that no vacancies were being held by the Fund. The current job descriptions are being reviewed for the PAT, as many of the team are on historic contracts from the TUPE. This may result in increased costs as roles are potentially regraded. Recruitment in some posts has been challenging and where this is the case job descriptions and adverts have been reviewed to ensure the jobs are appealing. Recruitment is currently underway for the Pensions Accountant, Communications Manager and Administration apprentice. The continued presence of vacancies has resulted in a decrease of £0.376m from the agreed budget.

2.4 The budget set for actuarial fund work costs for 2021/22 was set at £0.250m reduced from the 2020/21 total spend (£0.341m) in the anticipation of the new actuarial contract and reduced reliance on the actuary to provide additional support, due to increased officer capacity as a result of the new structure. The evidence from the first 5 months of invoices has demonstrated that the costs for actuarial services from the Fund has been lower than anticipated and a reduction in the charges of £75,000 has been made.

2.5 The budget set for legal costs for 2021/22 was set at £0.165m, reduced from the 2020/21 total spend of £0.285m in the anticipation of the reduced reliance on the external legal advice to provide additional support due to increased officer capacity resulting from the new structure. The evidence from the first 5 months of invoices has demonstrated that the costs for legal services incurred by the Fund has been lower than anticipated and a reduction in the charges of £65,000 has been made.

2.6 An initial budget was set for the investment advice of £0.192m, to cover the expected work for the year from the investment consultant and independent advisor. There has been a review of the equity strategy specifically and a whole Fund review in the first 6 months of the year. Both of the reviews have resulted in changes to the strategy, resulting in commissioning additional work that was not initially budgeted. At the Pension Committee in September 2021, a new contract for the independent advisor was agreed increasing the costs for the next 6 months. These changes have resulted in an increase of £38,000.

2.7 The budget set for Consultancy & Service Providers – Benefits for 2021/22 was set at £0.100m, based on the cost incurred from 2020/21. In addition to ongoing projects, a specific piece of work has been commissioned from Aon to undertake a review of annual allowance calculations. Based on the project quote and current experience of additional work required to resolve data issues the anticipated cost of the work has been included at £130,000.

**Table 2 2021/22 Outturn Report**

2020/21 Outturn £000	Item	2021/22 Budget £000	2021/22 Actuals to July £000	2020/21 Forecast Outturn Q2 £000	Variance to Budget £000
	<b>Pension Fund Staff Costs</b>				
592	Fund Officers	1,756	352	1,380	(376)
53	Recruitment costs	12	2	12	-
<b>645</b>	<b>Sub Total</b>	<b>1,768</b>	<b>354</b>	<b>1,392</b>	<b>(376)</b>
	<b>Pension Fund Oversight and Governance</b>				
341	Actuarial Fund Work	250	41	175	(75)
87	Actuarial Employer Work	100	30	70	(30)
(64)	Employer reimbursement	(100)	(8)	(70)	30
2	Training Costs	10	3	10	-
40	External Audit – Grant Thornton	30	(35)	30	-
190	East Sussex County Council	286	(25)	257	(29)
285	Legal Fees	165	36	100	(65)
157	Subscriptions and Other Expenses	72	66	72	-
<b>1,038</b>	<b>Sub Total</b>	<b>813</b>	<b>108</b>	<b>644</b>	<b>(169)</b>
	<b>Investment activities</b>				
221	Investment Advice	192	112	230	38
37	ESG Advice	25	21	25	-
61	Custodian	75	50	75	-
80	ACCESS	93	129	103	10
2,365	Investment Manager Fee Invoices	3,313	820	3,313	-
<b>2,764</b>	<b>Sub Total</b>	<b>3,698</b>	<b>1,132</b>	<b>3,746</b>	<b>48</b>
	<b>Pension Administration</b>				
894	Orbis Business Operations Support Services				
-	East Sussex County Council	237	6	213	(24)
282	System Services and License	346	156	346	-
90	Consultancy & Service Providers - Benefits	100	9	240	140
183	Other Expenses	243	26	243	-
<b>1,449</b>	<b>Sub Total</b>	<b>926</b>	<b>197</b>	<b>1,042</b>	<b>116</b>
<b>5,896</b>	<b>Total</b>	<b>7,205</b>	<b>1,791</b>	<b>6,824</b>	<b>(381)</b>

### 3. Conclusion and reasons for recommendation

3.1 The Board is recommended to note the Q2 2021/22 outturn position.

**IAN GUTSELL**  
**Chief Finance Officer**

Contact Officer:  
Email:

Russell Wood, Pensions Manager: Investments and Accounting  
Russell.Wood@eastsussex.gov.uk