

Report to: Pension Committee

Date of meeting: 22 February 2023

By: Chief Finance Officer

Title: Business plan, 2023/24 Budget and Quarterly budget report

Purpose: This report provides an update on the 2022/23 Forecast Financial Outturn and sets out the business plan and budget for 2023/24

RECOMMENDATION

The Committee is recommended to:

1. note the 2022/23 Q3 forecast financial outturn position
 2. approve the Business Plan and Budget for 2023/24 in Appendix 1
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1. Background

1.1 The East Sussex Pension Fund's (the Fund) business plan and budget sets out the direction of travel, objectives and targets to be achieved in the financial management for the administering authority to carry out its statutory duties in a structured way. The Pension Committee has been delegated the duties of East Sussex County Council as the administering authority in respect of the Pension Fund.

1.2 At its meeting on the 24 February 2022 the Pension Committee agreed a budget of £7.141m to support the business plan for 2022/23. The budget estimates do not incorporate any provision for investment fees earned by fund managers which are deducted at source by asset managers, income from contributions or payment of pension benefits as these are paid in line with statute and not a discretionary item.

2. Supporting information

2022/23 Q3 Forecast Outturn as at 31 December 2022

2.1 The budget requirements for 2022/23 were set at decreased level from 2021/22 due to increased transparency on the costs affecting the Pension Fund after the in sourcing of the administration team.

2.2 The forecast outturn at the third quarter of 2022/23 is **£5.739m, a decrease of £0.600m** from the previous reported forecast outturn. The 2022/23 projected outturn against budget line items is shown in the table below. The underspend mostly relates to investment management fee invoices due to lower asset values, lower custody fees based on the likelihood of transition activity taking place in 2023/24 rather than 2022/23 and fund officer vacancies. The main movements to the budget are detailed in Paragraphs 2.3 to 2.5.

2022/23 Outturn Report

2021/22 Outturn £000	Item	2022/23 Budget £000	2022/23 Actuals to December £000	2022/23 Forecast Outturn Q2 £000	2022/23 Forecast Outturn Q3 £000	Variance to Previous Quarter £000
	Pension Fund Staff Costs					
1,234	Staffing	1,900	137	1,510	1,435	75
2	Recruitment costs	5	(1)	-	-	-
1,236	Sub Total	1,905	136	1,510	1,435	75
	Pension Fund Oversight and Governance					
55	Actuarial	200	89	155	133	22
57	Employer Actuarial work	80	15	66	76	(10)
-38	Employer recharges	(80)	(20)	(66)	(77)	11
-	Governance consultancy costs	-	54	55	60	(5)
-	Communications	42	5	5	5	-
8	Training Costs	30	11	17	20	(3)
47	External Audit – Grant Thornton	35	(28)	22	24	(2)
279	East Sussex County Council recharges	249	45	202	184	18
56	Legal Fees	78	28	43	55	(12)
70	Subscriptions and Other Expenses	72	54	67	81	(14)
534	Sub Total	706	253	566	561	5
	Investment activities					
216	Investment Advice	135	102	135	150	(15)
21	ESG Advice	50	24	50	24	26
139	Custodian	136	(15)	166	97	69
110	ACCESS	125	125	125	125	-
3,210	Investment Manager Fee Invoices	2,872	400	2,667	2,208	459
3,696	Sub Total	3,318	636	3,143	2,604	539

2021/22 Outturn £000	Item	2022/23 Budget £000	2022/23 Actuals to December £000	2022/23 Forecast Outturn Q2 £000	2022/23 Forecast Outturn Q3 £000	Variance to Previous Quarter £000
	Pension Administration					
150	East Sussex County Council recharges	281	52	209	198	11
98	System Services and License	346	303	378	394	(16)
156	Consultancy & Service Providers - Benefits	100	181	203	218	(15)
-	Other Administration projects	150	10	100	65	35
218	Admin operational support services	289	20	269	269	-
14	Other Expenses	50	17	35	52	(17)
-3	Other Income	(4)	(2)	(20)	(3)	(17)
633	Sub Total	1,212	581	1,174	1,193	(19)
6,099	Total	7,141	1,606	6,393	5,793	600

2.3 Since the November meeting recruitment to the remaining vacant posts has been mostly successful however most posts are being filled later than anticipated. 5 vacancies are now forecast to be vacant till the early part of the next financial year. Resulting in an underspend of £0.075m from the previous quarter.

2.4 Since the November meeting the value of the Fund's investments have stayed relatively level. This is around £180m less than 31 March 2022 with around £100m of this affecting the equity portion of the Fund. The fees that are invoiced to the Fund are predominantly from our equity managers which are outside the ACCESS ACS structure. The fees charged are linked to the value of the assets under management. As the assets undermanagement are continuing to be lower than anticipated over the year we have adjusted the expectation of the fee level down. This is created an underspend of £0.459m to the expected fees for last quarter.

2.5 Custody fees are also partially based on the assets we hold as well as activity undertaken. When we are moving assets between managers, we incur additional costs from the custodian. Compared to the expectation at the beginning of the year the Fund has not readjusted the assets as much as we had planned during the year with the expectation that this may move to next year. The Fund is only expecting to cover the normal custodian cost for the remainder of the year so have underspend of £0.069m compared to last quarter.

3. 2023/24 Business Plan and Budget

3.1 The Business Plan and Budget is set out in **Appendix 1**.

3.2 Total budget proposed is **£4.463m** (£4,269m 2022/23) to support the Business Plan activities and administration of the Fund.

3.3 There has been a significant change in the reporting of the budget from the Business Plan in 2022/23, where invoiced investment management fees were included in the budget. This has been removed in 2023/24 due to the inability to predict investment returns which drive investment fees as they are linked to the assets under management. In addition, investment management fees are a mix of invoiced directly and deducted at source from the investment balance. The previous budget only included directly invoiced meaning the reported fees were only capturing certain investments and not all investment management fees. Investment management fees are calculated and reported in full in the annual report and accounts as part of the statutory accounting process.

3.4 The budget is £0.194m higher than the 2022/23 budget. The variance as been driven by an increase of £0.118m on staff costs which assumes the Fund is fully staffed for the year. A higher pay award is also budgeted for in 2023/24 than in previous years. There is a £0.134m increase expected on IT Systems due to a one of payment of £0.050m for improvements to the member self-service system, £0.020m improvement to the payroll system, an increase to contract costs due to membership exceeding the 80,000 threshold and £0.046k for inflation increases. This is partially offset by a reduction in actuarial fees of £0.113m as this is a non-valuation year.

3.5 The layout of the budget for 2023/24 has been amended to better align the budget with statutory reporting requirements. This will allow for a more transparent view of the costs when they are reported in the Pension Fund Annual Report and Accounts.

4. Conclusion and reasons for recommendation

4.1 The Committee is recommended to note the Q3 2022/23 forecast position and approve the Business Plan and Budget for 2023/24.

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