

Report to: **Pension Committee**

Date: **22 June 2020**

By: **Chief Financial Officer**

Title of report: **Pension Fund Business Plan and Budget 2020/21**

Purpose of report: **This report updates the 2020/21 business plan at Quarter 1 for the East Sussex Pension Fund.**

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**RECOMMENDATION – The Board is recommended to**

- 1. Note the updated business plan; and**
  - 2. Note the new workstream for ill health retirement planning.**
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**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 business plan and budget 2020/21 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, however the Fund will begin from September 2020 to monitor fees. In addition, the Fund has not received a quotation for pension administration costs for this financial year for approval by pension committee. This will be explored with the Chief Operating Officer with a view to presenting a budget for approval in September 2020.

**2. 2019/20 Investment and Administration Expenses Outturn and 2020/21 Budget Report**

2.1 In March 2020 the Pension Fund Committee agreed a budget of £3.795M (2019/20: £4.857M) revised downward at quarter one to £3.730M due to budget adjustments in respect of the Data Improvement Plan, and ESG suppliers, PIRC and EIRIS.

2.2 The 2019/20 Outturn is £5.36M, against a budget of £4.86M resulting in an overspend of £0.5M.

2.3 The attribution of the overspend, in the main relates to programmes and projects arising from service performance shortfalls which were not included in budget setting in February 2019. These are set out in below in Para. 2.4 to 2.6.

2.4 The Good Governance Scheme Advisory Board Project commenced in November 2019 supported by the Good Governance Working Party, Aon Advisory and Eversheds

Sutherland. The overspend in 2019/20 attributable to Good Governance is £0.09M. The additional budget to complete the Good Governance Project in 2020/21, and which is due to be completed and reported to Pension Committee in September 2020 is £0.05M.

2.5 The Data Improvement Programme commenced in October 2019 following the results of the failed Annual Benefit Statement Exercise for 2019 and all prior years to 2015. The Pension Committee formed the Data Improvement Project and ABS Working Group supported by Hymans Robertson Actuarial. The overspend attributable to Data Improvement is £0.08M.

2.6 There has been significant input by the Actuary in managing the valuation which was 10 weeks late due to data errors. This additional work to rectify administration errors contributed to the increase resource required from the Actuary - contributing to an overspend of £0.2M. Additional support was also required from the Fund's legal advisor during this time which contributed to an overspend of £0.08M

2.7 The 2019/20 outturn against line items is shown at Table 1 in Para. 3 below. The table also shows the budgeted expenditure for 2020/21 and the budgetary performance to Quarter 1.

### 3. Table 1 2019/20 Outturn and 2020/21 Budget Report

2019/20 Outturn £000	Item	2020/21 Budget £000	2020/21 Q1 Outturn £000	2020/21 Outturn £000
	<b><u>Pension Fund Oversight and Governance</u></b>			
345	Actuarial Fund Work <sup>1</sup>	250	62	250
97	Actuarial Employer Work <sup>2</sup>	150	37	150
(97)	Employer reimbursement <sup>2</sup>	(150)	(37)	(150)
88	Good Governance Program	47	12	47
75	Data Improvement Program <sup>3</sup>	100	25	100
8	Independent Pension Board Chair	5	1	5
307	Fund Officers <sup>4</sup>	385	96	385
30	External Audit – Grant Thornton	26	6	26
17	Internal Audit	19	4	19
119	Legal Fees <sup>5</sup>	115	29	115
11	Subscriptions and other Expenses	70	17	70
<b>1,000</b>	<b>Sub Total</b>	<b>1,017</b>	<b>252</b>	<b>1,017</b>
	<b>Investment activities</b>			
114	Investment Consultant	120	30	120
0	PIRC ESG Report	11	11	11
0	EIRIS Carbon Report	24	24	24
11	Independent Advisor Basic	12	3	12
5	Independent Advisor Project work	8	2	8
54	Custodian	150	37	150
3,003	Investment Manager Fee Invoices <sup>7</sup>	1,200	300	1,200
<b>3,187</b>	<b>Sub Total</b>	<b>1,525</b>	<b>407</b>	<b>1,525</b>
	<b>ACCESS</b>			
67	ACCESS Support Unit <sup>8</sup>	98	35	98
(3)	Fund Officer Time Rebates <sup>8</sup>	(20)	0	(20)
<b>64</b>	<b>Sub Total</b>	<b>78</b>	<b>35</b>	<b>78</b>
	<b>Pension Board/Committee Training:</b>			
0	Training Costs <sup>9</sup>	30	0	30
<b>0</b>	<b>Sub Total</b>	<b>30</b>	<b>0</b>	<b>30</b>
<b>1,106</b>	<b>Pension Administration:</b>	<b>1,080</b>	<b>270</b>	<b>1,080</b>
<b>5,357</b>		<b>3,730</b>	<b>964</b>	<b>3,730</b>

#### 4. Ill Health Retirement Workstream

4.1 The Fund has not determined its approach to managing ill health early retirement risk within the Fund. The actuary has prepared a report at Appendix 2 in this regard as a late addition to the business plan workstreams.

4.2 When an LGPS member is awarded early retirement on grounds of ill health there is an increase in the pension liability for the participating employer (“the strain cost”). This results from:

- early payment of the pension compared to under normal retirement; and
- an increase in the benefits payable to the member through augmentation awarded on ill-health retirement (either based on full prospective service to retirement for a Tier 1 early retirement or 25% of prospective service for a Tier 2 early retirement).

4.3 At present the Fund’s approach is that employers effectively self-insure by making a contribution towards potential ill health strain costs via a small proportion of their total contribution rate. While this method of managing costs works well for larger employers (e.g. Councils) where large numbers of members make strain costs relatively predictable, it is more variable and unpredictable for medium or smaller employers (e.g. Academies). There is a risk that some employers in the Fund may be unable to meet the strain cost arising from an ill-health early retirement. In the worst-case scenario, the increased deficit and contributions could put an employer out of business.

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

5.1 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 costs and considerations associated with delivering the Funds Business Plan.

5.2 The new workstream for ill health retirement planning will set out the approach that the Fund takes to managing strain costs for medium or smaller employers (e.g. Academies) in the Fund.

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