

Report to: Pension Committee

Date of meeting: 24 February 2022

By: Chief Financial Officer

Title: East Sussex Pension Fund (ESPF) quarterly budget report and 2022/23 Pension Fund business plan and budget

Purpose: This report provides an update on the forecast 2021/22 Outturn and sets out the business plan and budget for 2022/23

RECOMMENDATION

The Committee is recommended to:

- 1) note the forecast 2021/22 Q3 outturn position for the East Sussex Pension Fund
 - 2) agree the Business Plan and Budget for 2022/23 in Appendix 1
-

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 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 plus on costs of £50,000. The budget presented as part of Q3 monitoring 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. 2021/22 Q3 Outturn position

2.1 The budget requirement for 2021/22 was significantly increased from 2020/21 due to the insourcing of the Pensions Administration team, 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 2021/22 is **£5,898m**, a decrease of £0.930m from the last reported position. The 2021/22 projected outturn against budget line items is shown at Table 2 below. The underspend mostly relates to the revised manager

fees and analysis of the Actuarial and system fees. 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 Q2 Outturn	2021/22 Q3 Outturn	Variance from last reported position
Fund Officers	1,380	1,234	(146)
Actuarial Fund Work	175	52	(123)
Investment Manager Fee Invoices	3,313	2,874	(439)
Custodian	75	151	76
System Services and License	346	89	(257)
Other Minor movements	1,539	1,498	(41)
Total	6,828	5,898	(930)

2.3 The budget for staffing was set at £1.756m assuming that no vacancies were being held by the Fund. Since the last meeting the Pensions Accountant and Communications Manager post has been recruited however these appointments have started later than anticipated. The current job descriptions are being reviewed for the Pensions Administration team, as many of the team are on historic contracts of employment prior to the TUPE (Transfer of Undertakings Protection of Employment regulations) transfer of staff into the team. This may result in increased costs as roles are potentially regraded. The continued presence of vacancies has resulted in a decrease of £0.146m from the last reported figure.

2.4 The budget set for actuarial fund work costs for 2021/22 was reduced to £0.175m in the last report as the invoiced amounts that were coming in were lower than originally anticipated of the new actuarial contract. The evidence from the last 9 months of invoices has demonstrated that the costs for actuarial services from the Fund has continued to have been lower as a result of lower reliance upon the scheme actuary due to the capabilities within the new structure than anticipated and a further reduction in the charges of £0.123m has been made.

2.5 The budget set for manager fees which the Fund pays direct, was set at £3.313m, based on asset values as at December 2020. This did not anticipate that money would be moving into the ACCESS pool (£225m Ballie Gifford investment) that has reduced the assets that the Fund is invoiced. The invoices are payable quarterly in arrears. The Fund has two quarters information and accurate estimates for the third quarter. This has demonstrated that the costs for investment management fees are looking to be lower than previously reported and a reduction of £0.493m has been made.

2.6 The custodian's fees were based upon the same structure of assets being held for the year and no major transitions were taking place. As a result of the change in equity strategy, there have been two transitions events in 2021/22, the first was the transfer of UBS assets to the Baillie Gifford Global Alpha ACCESS sub fund and the second is due to take place in later this year in funding the UBS/Osmosis strategy. The second transition event will also change the structure of assets held and the Fund will be holding these as a segregated account and will increase the custodian charges for these assets. These changes have resulted in an increase of £0.076m.

2.7 The budget set for System Services and License for 2021/22 was based on the contract that was agreed with Heywoods and reported to the committee in November 2020. During the review of payments made to Heywoods to confirm the relatively low spend to date for this item it was identified that a there was an invoice paid in March 2021 covering different aspects of the agreement which was not subsequently accrued and were included in the prior year figure. The spend has therefore been reduced to account for this mismatch of payments by £0.257.

Table 2 2021/22 Outturn Report

2020/21 Outturn £000	Item	2021/22 Budget £000	2021/22 Actuals to October £000	2021/22 Forecast Outturn Q2 £000	2021/22 Forecast Outturn Q3 £000	Variance to Q2 Forecast Outturn £000
	Pension Fund Staff Costs					
592	Fund Officers	1,756	279	1,380	1,234	(146)
53	Recruitment costs	12	2	12	2	(10)
645	Sub Total	1,768	281	1,392	1,236	(156)
	Pension Fund Oversight and Governance					
341	Actuarial Fund Work	250	41	175	52	(123)
87	Actuarial Employer Work	100	30	70	79	9
(64)	Employer reimbursement	(100)	(8)	(70)	(66)	4
2	Training Costs	10	3	10	15	5
40	External Audit – Grant Thornton	30	(35)	30	35	5
190	East Sussex County Council	286	2	257	243	(14)
285	Legal Fees	165	40	100	65	(35)
157	Subscriptions and Other Expenses	72	31	72	79	7
1,038	Sub Total	813	104	644	502	(142)
	Investment activities					
221	Investment Advice	192	112	230	195	(35)
37	ESG Advice	25	21	25	25	-
61	Custodian	75	50	75	151	76
80	ACCESS	93	129	103	103	-
2,365	Investment Manager Fee Invoices	3,313	820	3,313	2,874	(439)
2,764	Sub Total	3,698	1,132	3,746	3,349	(397)
	Pension Administration					
894	Orbis Business Operations Support Services	-	-	-	-	-
-	East Sussex County Council	237	52	213	203	(10)
282	System Services and License	346	156	346	89	(257)
90	Consultancy & Service Providers - Benefits	100	45	239	234	(5)
-	Operational Support Services	225	9	244	244	-
183	Other Expenses	18	16	9	46	37
-	Other Income	-	(2)	(5)	(5)	1
1,449	Sub Total	926	278	1,046	812	(234)
5,896	Total	7,205	1,795	6,828	5,898	(930)

3. 2022/23 Business Plan and Budget

- 3.1 The Business Plan and Budget is set out in **Appendix 1**.
- 3.2 Total budget proposed is **£7.141m** (£7.205m 2021/22) to support the Business Plan activities and administration of the Fund.
- 3.3 The budget is slightly lower than the 2021/22 budget due to lower costs as a result of removing outsourcing of work that can be completed through the new Fund team structure and a reduction in expected investment management fees paid directly by the Fund to managers. The budget does not include investment management fees deducted at source by the Investment managers or investment income.

4. Conclusion and reasons for recommendation

- 4.1 The Committee is recommended to note the Q3 2021/22 outturn position and agree the Business Plan and Budget for 2022/23.

IAN GUTSELL
Chief Finance Officer

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