

Report to: Pension Board

Date of meeting: 15 November 2022

By: Chief Finance Officer

Title: Quarterly budget report

Purpose: This report provides an update on the 2022/23 Forecast Financial Outturn

RECOMMENDATION

The Board is recommended to note the 2022/23 Q2 forecast financial outturn position

1. Background

1.1 The East Sussex Pension Funds (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 is charged with meeting the duties of the Council as 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 where these are deducted at source by asset managers, or payment of pension benefits as these are paid in line with statute and not a discretionary item.

2. Supporting information

2022/23 Outturn Report

2.1 The budget requirements for 2022/23 was 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 second quarter of 2022/23 is £6.393m, a decrease of £0.748m from the approved budget. The 2022/23 projected outturn against budget line items is shown at Table 2 below. The underspend mostly relates to the current vacancies, that are actively being recruited to and the expected reduction in manager fees due to lower asset values. The main movements to the budget are set out in Table 1 below and movements detailed in Paragraphs 2.3 to 2.9.

Table 1

	2022/23 Budget	2022/23 Current Outturn	Variance from last reported position
Staffing – Para 2.3	1,900	1,510	390
East Sussex County Council re-charges – Para 2.3	530	411	119
Actuarial – Para 2.4	200	155	45
Governance Consultancy – Para 2.4	-	55	-55
Communications – Para 2.5	42	5	37
Legal Fees – Para 2.6	78	43	35
Investment Manager Fee Invoices – Para 2.7	2,872	2,667	205
Consultancy & Service Providers - Benefits – Para 2.8	100	203	-103
Other Administration projects – Para 2.9	150	100	50
Other Minor movements	1,269	1,244	25
Total	7,141	6,393	748

2.3 The budget for staffing was set at £1.900m assuming full establishment. At the beginning of the year the Fund had 12 vacant posts, recruitment to these posts is under way with 5 new starters since the beginning of the year, however there have also been 3 leavers. Vacancies has resulted in an underspend of £0.390m from the agreed budget. East Sussex County Council recharges are partly linked to the actual full time equivalents of Fund staff, so a vacancies also reduce the associated costs. This has contributed £0.054m to underspend. In addition, there is £0.065m underspend from a removal double counting within the Budget for project work that ESCC are undertaking for the Fund (under Other Administration projects) and for the postal charges that are paid through ESCC instead of directly charged to the Fund (Admin operational support services)

2.4 The movement on Actuarial costs and Governance Consultancy costs are linked. Historically the Fund used its Actuary to undertake consultancy work which was not specifically actuarial in nature and recorded all these costs under the Actuarial Work. This work is now shown separately to provide a better understanding of these costs. As a result, the Actuarial costs have reduced by £0.045m and Governance Consultancy costs forecast spend of £0.055m. Total movement from the budget results in an overspend of £0.010k

2.5 The planned spend on communications for a replacement website, new communications software and development resources have been delayed due to redevelopment of the existing website and prioritisation of work in liaison with the communications working group. This results in a £0.037m underspend to the budget.

2.6 Legal costs are reported as a £0.035m underspend due to a reduction in reliance of third party providers to undertake activities on its behalf.

2.7 Since the beginning of the year the value of the Fund's investments have decreased. The fees the Fund pays managers are linked to the value of the assets under management. If these decrease the fees will also decrease, we have adjusted the expectation of the fee

level down to match the downturn in markets. This is a reduction of £0.205m to the expected fees for the year.

2.8 Consultancy and Service Providers – Benefits represents spend on specific projects that are being run by third parties rather than the pension administration team. The Projects currently being run are the:

- Annual Allowance
- GMP
- National Fraud Initiative
- Mortality and address tracing

The Annual Allowance project is reflecting an overspend due to slippage of spend from 2021/22, resulting from a delay in data from employers, pushing the charges into the 2022/23 year and an overspend on the total project resulting from more complex cases than anticipated at the outset of the project.

2.9 There were 7 projects that were believed would take place during budget setting process for 2022/23. Analysis of the costs to date and work that has started anticipates that 4 of the projects will have started this year and that 3 will most likely slip into 2023/24 so the expected cost has been reduced reflect that this work is unlikely to place this year.

Table 2 2022/23 Outturn Report

2021/22 Outturn £000	Item	2022/23 Budget £000	2022/23 Actuals to July £000	2022/23 Forecast Outturn Q2 £000	Variance to Budget £000
	Pension Fund Staff Costs				
1,234	Staffing	1,900	-72	1,510	390
2	Recruitment costs	5	-	-	5
1,236	Sub Total	1,905	-72	1,510	395
	Pension Fund Oversight and Governance				
55	Actuarial	200	24	155	45
57	Employer Actuarial work	80	15	66	14
-38	Employer recharges	-80	9	-66	-14
-	Governance consultancy costs	-	27	55	-55
-	Communications	42	-	5	37
8	Training Costs	30	8	17	13
47	External Audit – Grant Thornton	35	-28	22	13
279	East Sussex County Council recharges	249	-	202	47
56	Legal Fees	78	14	43	35
70	Subscriptions and Other Expenses	72	52	67	5
534	Sub Total	706	121	566	140
	Investment activities				
216	Investment Advice	135	77	135	-
21	ESG Advice	50	24	50	-
139	Custodian	136	-	166	-30

110	ACCESS	125	1	125	-
3,210	Investment Manager Fee Invoices	2,872	663	2,667	205
3,696	Sub Total	3,318	765	3,143	175
	Pension Administration				
150	East Sussex County Council recharges	281	-	209	72
98	System Services and License	346	305	378	-32
156	Consultancy & Service Providers - Benefits	100	158	203	-103
-	Other Administration projects	150	10	100	50
218	Admin operational support services	289	16	269	20
14	Other Expenses	50	-	35	15
-3	Other Income	-4	-17	-20	16
633	Sub Total	1,212	472	1,174	38
6,099	Total	7,141	1,286	6,393	748

3. Conclusion and reasons for recommendation

3.1 The Board is recommended to note the Q2 2022/23 outturn position.

IAN GUTSELL
Chief Finance Officer

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