

PENSIONS COMMITTEE
5 OCTOBER 2018**WORCESTERSHIRE COUNTY COUNCIL PENSION FUND**
ADMINISTRATION BUDGET 2018/19

Recommendation

1. **The Chief Financial Officer recommends that:**
 - a) **the Pension Fund Administration Budget for 2018/19 shown in the Appendix totalling £9.931m be approved;**
 - b) **the indicative budget allocations for 2019/20 and 2021/21 be noted;**
 - c) **variations against budget will be monitored and reported to Committee on a regular basis; and**
 - d) **the Chief Financial Officer to the Pension Fund be granted delegated authority to approve variations up to £0.5m.**

Purpose of the report

2. This report seeks Members' approval for the 2018-19 for the Worcestershire County Council Pension Fund Administration Budget, as shown in the attached Appendix. Actual costs for 2017-18 are also shown.

3. The Appendix also shows indicative budgets for the following two years 2019/20 and 2020/21. These budgets are indicative and incorporate the actions to meet the next Triennial valuation, the Investment Strategy and improved communication and engagement.

Background

4. To ensure good governance budgets are required to monitor the stewardship of the Fund's expenditure and financial plans assist in mitigating risks by allocating necessary resources to develop the service.

5. A number of services are required to ensure delivery of the Local Government Pension Scheme (LGPS) administering authority function. The Committee has ultimate responsibility for the procurement and monitoring of these services. It should be noted, however, that Worcestershire County Council, which is one of the employer bodies whose interests the Committee is responsible for, is at present also the provider of a number of these services.

Key features of the proposed 2018/19 budget

6. The budget now proposed for 2018/19 is £9.831m, an increase of £1,584m (+19.0%) from 2017-18 (see Appendix). The largest proportion of the budget (£7.943m) is investment managers' fees that largely depend on the value of assets being managed, and the investment return performance which depends on market conditions. This includes the management fees for the Equity Protection that has been implemented and the contribution towards LGPS Central.

7. The Investment Management Fees budget presented now also includes annual fees for the LGPS Central Partnership totalling £0.541m per year from April 2018. LGPS Central has advised that in time these fees will be offset by reductions in Investment Managers' fees. However, it is not expected that this will break even until 2032 as per the original pooling business case.

8. The Fund's "controllable" budget (i.e. excluding investment management fees) is £1.988m, which is a £0.266m (15.4%) net increase. The key reasons for this increase are:

- a. An appointment of a Communications and Engagement Officer from October 2018 at a cost of £43k per annum.
- b. New developments in the Pensions administration systems provided by Altair. This is anticipated to initially add circa £5k to system costs in 2018/19 and a further £15k thereafter for years 2019/20 onwards.
- c. The Guaranteed Minimum Pension Exercise which was approved by Committee on the 22 June 2018 has been included as a one off exercise in 2018/19 totalling £191k.
- d. An additional provision of £20k is made for actuarial costs following the experience of the last few years. Growing costs have been seen each year due to increasing employer numbers, additional complexity and fund developments (e.g. the implementation of employer investment strategies).
- e. Similar to how the County Council provides for elections that occur over a longer period, we have provided an additional provision of £80k for 2019/20 for the cost of the triennial actuarial valuation of the fund as at April 2019.

Summary

9. The budget attempts to maintain service standards, fulfil statutory requirements while developing areas in response to the scheme changes. Comparability of data is difficult between funds nationally due to different methodology of reporting costs.

10. The budgeted Worcestershire Pension Fund administration costs are currently £19.50 per member for 2017/18. The proposed budget will take these costs to £23.69 per member (0.05% of the market value of the Fund's assets).

11. In terms of investment costs, the budget indicates spend of 32p per £1,000 (0.32% of market value) on managing its assets for 2018-19, including all pooled mandate costs

12. We have previously compared this with the older CEM Benchmarking report which indicates that the total investment cost for an LGPS fund was on average 0.65%. The budget being proposed ensures the Fund remains well below this figure.

Risk Assessment

13. The Committee is asked to recognise that some costs, particularly investment fees, are dependent upon factors that are outside of the Council's control. They may go up or down, depending on market conditions.

14. The approval of this budget is essential to continue the good governance of the Fund. When viewed in relation to the overall value of assets, these 'controllable' costs represent 0.07% of the total Fund value.

15. In line with good governance practice, officers are bringing budget monitoring reports back to Committee twice a year. In the interim, variations against budget will be monitored and if they become very significant, the Chief Financial Officer to the Pension Fund will approve variations to the budget and report these to the Committee retrospectively for ratification

Contact Points

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Supporting Information

- Appendix detailing the proposed 2018/19 Administration Budget and indicative budget allocations for 2019/20 and 2020/21

Background Papers

In the opinion of the proper officer (in this case the Chief Financial Officer) the following are the background papers relating to the subject matter of this report:

Annual Report 2017/18