

PENSIONS COMMITTEE 19 MARCH 2019

WORCESTERSHIRE COUNTY COUNCIL PENSION FUND ADMINISTRATION BUDGET 2019/20

Recommendation

1. The Chief Financial Officer recommends that:
 - a) The variation to the Pension Fund Administration Budget, including manager fees, for 2018/19 shown in the Appendix totalling £11.213m be agreed;
 - b) The Pension Fund Administration Budget, including manager fees, for 2019/20 shown in the Appendix totalling £12.640m be approved;
 - c) The indicative budget allocations for 2020/21 and 2021/22 be noted;
 - d) Variations against budget will be monitored be noted; and
 - e) He be granted delegated authority to approve variations of up to £0.5m.

Purpose of the report

2. This report seeks Members' approval for the 2019/20 for the Worcestershire County Council Pension Fund Administration Budget, as shown in the attached Appendix. The budget and Forecast Outturn for 2018/19 are also shown.
3. The Appendix also shows indicative budgets for the following two years 2020/21 and 2021/22. 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.

Forecast outturn 2018/19

6. The attached Appendix shows the forecast outturn estimated to be £11.213m compared to a budget of £9.931m, a difference of £1.282m. The key reason for the variance is investment management fees - when the original budget was set it was assumed that the management fees relating to our investment of £100m in the US Property Fund 'Stonepeak' would be incurred as the capital was gradually invested over the next 2 to 3 years. However the management fees are based on the committed sum rather than as the capital is invested, hence the significant variance.

7. Given this variation is more than the £0.5m delegated to the Chief Financial Officer Committee is asked to approve this variation.

8. There has been an increase in pensions investment administration due mainly to additional consultancy advice and support of the Pensions Investment Finance manager, this is offset by some savings on running costs within pensions admin

Key features of the proposed 2019/20 budget

9. The budget now proposed for 2019/20 is £12.640m, an increase of £2.709m (+27%) from the original 2018/19 budget (see Appendix). The largest proportion of the budget (£10.599m) 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.

10. The key reason for the increase in budget is the management fees are as follows:-

- a) Increase in assumed investment returns;
- b) The strategy to increase our asset allocation to 15% of the portfolio into Property and Infrastructure and reduce our equity portfolio to 75% (from 80%) will increase our management fees given the low fees on our passive equity portfolio; and
- c) Our investment of £100m in the US Property Fund 'Stonepeak' and £65m in the Corporate Private Debt fund with EQT are based on the committed sum rather than as the capital is invested which was included in the original budget.

11. The Fund's "controllable" budget (i.e. excluding investment management fees) is £2.040m, which is a £0.052m (0.5%) net increase. The key reasons for this increase are:

Areas of increase in budget

- a) Full year effect of 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 including hosting the self service for members. £116k to system costs (includes £40 set up costs) was added in 2019/20;
- c) 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; and

Areas of decrease in budget

- d) The Guaranteed Minimum Pension Exercise which was approved by Committee on the 22 June 2018 was included as a one off exercise in 2018/19 totalling £191k and therefore not required in 2019/20.

Summary

12. 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.

13. The budgeted Worcestershire Pension Fund administration costs are currently £23.69 per member for 2018/19. The proposed budget will take these costs to £23.25 per member (0.05% of the market value of the Fund's assets).

14. In terms of investment costs, the budget indicates spend of 42p per £1,000 (0.42% of market value as at December 2018) on managing its assets for 2019/20, including all pooled mandate costs

Risk Assessment

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

16. 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 0.08% of the total Fund value.

17. 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 monitoring and 2019/20 Administration Budget with indicative budget allocations for 2020/21 and 2021/22

Background Papers

In the opinion of the proper officer (in this case the Chief Finance Officer) there are no background papers relating to the subject matter of this report.