

**PENSIONS BOARD
17 SEPTEMBER 2021****WORCESTERSHIRE COUNTY COUNCIL PENSION FUND
ADMINISTRATION BUDGET FORECAST OUTTURN 2021/22
AND UPDATED INDICATIVE BUDGET 2022/23 & 2023/24**

Recommendation

1. **The Chief Financial Officer recommends that the Board review:**
 - a) **the variations to the Pension Fund Administration Budget, including manager fees, for 2021/22 shown in the Appendix totalling £18,401,026; and**
 - b) **the proposed Investment Managers Fees budget forecast outturn of £15,757,500 as shown in the Appendix. This would result in an overall proposed 2021/22 budget of £18,385,900.**

Purpose of the report

2. This report provides Members' an update to the budget and Forecast Outturn for 2021/22 and the updated indicative budgets for 2022/23 and 2023/24 in the Appendix.

Background

3. 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.
4. 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 2021/22

5. The attached Appendix shows the forecast outturn estimated to be £18,401m compared to a budget of £12.331m, a difference of £6.070m and is mainly due to a forecast overspend against the Investment Management fees budget of £6.055m. This is the largest proportion of the budget and largely depend on the value of assets being managed, investment return performance which depends on market conditions and transaction costs such as commission, tax and other expenses incurred.
6. This includes the management fees for the Equity Protection strategy, whilst the contribution towards the Governance & operational costs relating to LGPS central is now shown under investment administration costs. The main reasons for the variance are due to:

- Additional recent commitments to Infrastructure and Private Debt not being included in previous estimate.
- Increase in forecast expense and equity contributions on some Infrastructure investments due to increase in valuations and some drawn downs being earlier than anticipated based on last year's actual outturn.
- An increase in transaction costs such as tax, commission and trades particularly in relation to our Equity Protection Strategy and active Corporate Bonds mandate. However, the £2.5m transactions costs for Equity Protection were offset from the additional £12m additional investment returns achieved.
- An increase based on the forward projection of anticipated future investments in Property & Infrastructure compared to what was originally forecast.

7. The Fund's "controllable" budget (i.e. excluding investment management fees) is £2.628m and is showing a forecast overspend of £0.015m. The main reasons are some forecast increased actuary costs and pensions administration due to workload, offset by some anticipated underspend in our custodian fees and investment advisory fees.

Summary

8. 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.

9. In terms of investment costs, the forecast outturn indicates spend of 48p per £1,000 (0.48% of market value as at June 2021) on managing its assets for 2021/22, including all pooled mandate costs

Comparative data to other LGPS Funds for controllable costs

10. The budgeted Worcestershire Pension Fund administration costs are currently £22.97 per member for 2021/22. When comparing this to the last published Local Government Pension Scheme Fund Account 2019/20 statistics (2020/21 submitted August 2021) this equated to £23.60 per member and ranked 37th out of 89 LGPS Funds.

Risk Assessment

11. The Board 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.

12. 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.

13. In line with good governance practice, officers are bringing budget monitoring reports back to the Pensions 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

Specific Contact Points for this report

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Supporting Information

- Appendix detailing the proposed 2021/22 Administration Budget monitoring and indicative budgets 2022/23 to 2023/24

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.