

PENSIONS BOARD

7 MARCH 2022

WORCESTERSHIRE COUNTY COUNCIL PENSION FUND ADMINISTRATION BUDGET 2022/23

Recommendation

- 1. The Chief Financial Officer recommends that the Board note and comment on:**
 - a) The Pension Fund Administration Budget, including manager fees, for 2022/23 shown in the Appendix totalling £21.015m;**
 - b) The indicative budget allocations for 2023/24 and 2024/25; and**
 - c) Variations against budget will be monitored be noted.**

Purpose of the report

2. This report seeks the Boards comments on the proposed 2022/23 for the Worcestershire County Council Pension Fund Administration Budget, as shown in the attached Appendix. The budget and Forecast Outturn for 2021/22 are also shown.
3. The Appendix also shows indicative budgets for the following two years 2023/24 and 2024/25. 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 Pensions 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

6. The attached Appendix shows the forecast outturn estimated to be £20.081m compared to a budget of £18.386m, an overspend of £1.695m. The main reasons for the variance are:

- a) Investment management fees (increase of £1.529m) due to the increase in investments that have occurred throughout the year and in particular since November 2021. This has also meant an increase in transaction costs through the transition of assets to LGPSC and the restructuring of the Equity Protection strategy being more than were budgeted; The Funds asset value has also continued to increase more than anticipated resulting in higher fee levels;
- b) An increase above budget for administration costs (£0.034m) for increased fund investment performance reporting information due to increasing Funds and improvements to monitoring the performance benchmark. Also there has been a slight increase in custodial services due to the increase in asset valuation;
- c) An increase in the Pensions Admin costs to support improvements in Governance, recognised as good practice (£0.132m) due to:
 - Admin software (£0.071m) due to implementing improvements to the system to enable staff to run their own data quality reports, including matching of deceased record, of which £0.036m is one off.
 - An increase in the cost of the dispatch and postage relating to payslips and annual benefit statements (£0.035m) which is due also to increasing members.
 - An increase in the actuarial services (£0.022m) due to some early work on the valuation and support on terminations and Funding Strategy Statement.

7. Excluding the uncontrollable costs of the management fees, this forecast overspend is within the £0.5m variation limit delegated to the Chief Financial Officer by the Committee and in line with the Admin budget reported to the October Committee where the variations were agreed.

Key features of the proposed 2022/23 budget

8. The budget now proposed for 2022/23 is £21.015m, an increase of £2.629m (12.5%) from the original 2021/22 budget (see Appendix). The largest proportion of the budget (£18.029m) 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. Also, to comply with the Cost transparency code initiative this also includes all known transaction and associated costs.

9. The key reason for the increase in budget in the management fees are as follows:
- a) The full year effect in 2022/23 of the investment in a number of new Funds (5) during 2021/22;
 - b) The increase in the Funds anticipated investment performance resulting in an increase in fees given most are based on the Net asset value; and
 - c) More transparency on the fees being charged from the submission of Fund managers cost transparency reports which provides greater detail on the costs of the investments.

10. The Fund's "controllable" budget (i.e. excluding investment management fees) is £2.987m, which is an increase of £0.358m (12.0%) net increase on the original budget. The key reasons for this decrease are:

- a) An increase for investment administration costs of £0.088m and the main reasons are:-
 - £0.012m for increased support from the Pensions Investment Team
 - £0.016m for increased reporting requirements due to the increasing size and complexity of the fund
 - £0.044m for increased governance and running costs of LGPS Central.
 - £0.011m for increased custodial services due to increasing valuation;
- b) An increase in the Pensions Admin costs of £0.270m and the main reasons are:-
 - software (£0.030m) due to the provider now providing improved self service facilities for staff particularly in running their own reports on data quality
 - An increase in forecast staffing requirements in line with the restructure agreed at the December 2021 Committee (£0.200m) to cope with the increasing changes and complexity of the pension legislation such as McCloud and to aid retention and training of staff.
 - An increase in the cost of the dispatch and postage relating to payslips and annual benefit statements (£0.035m) which is due also to increasing members. Work is progressing to automate and reduce this in future years but this will take time to implement;
- c) An increase in the actuarial services (£0.050m) due to additional support required for the pensions valuation; and
- d) A reduction on the anticipated pension deficit recharge to Admin (£0.040m) due to the improved valuation.

Summary

11. 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.

12. The current budgeted 2021/22 Worcestershire Pension Fund administration costs are currently £23.07 per member. The proposed budget for 2022/23 will take these costs up to £27.26 per member (0.04% of the market value of the Fund's assets as at December 2021).

13. In terms of investment costs, the budget indicates spend of 47p per £1,000 (0.47% of market value as at December 2021) on managing its assets for 2021/22, including all pooled mandate costs

Risk Assessment

14. 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.

15. 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.

16. 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

Specific Contact Points for this report

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Supporting Information

- Appendix detailing the 2021/22 Administration Budget monitoring and proposed 2022/23 Administration Budget with indicative budget allocations for 2023/24 and 2024/25

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.