

## **PENSIONS BOARD**

### **3 MARCH 2023**

## **WORCESTERSHIRE COUNTY COUNCIL PENSION FUND ADMINISTRATION BUDGET 2023/24**

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### **Recommendation**

- 1. The Chief Financial Officer recommends that the Board note:**
  - a) The Pension Fund Administration Budget, including manager fees, for 2023/24 shown in the Appendix totalling £22.964m;**
  - b) The indicative budget allocations for 2024/25 and 2025/26;**
  - c) Variations against budget will be monitored be noted; and**
  - d) The granting of delegated authority to approve variations of up to £0.5m.**

### **Purpose of the report**

- 2. This report seeks the Committee's approval for the 2023/24 for the Worcestershire County Council Pension Fund Administration Budget, as shown in the attached Appendix. The budget and Forecast Outturn for 2022/23 are also shown.**
- 3. The Appendix also shows indicative budgets for the following two years 2024/25 and 2025/26. 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 2022/23**

- 6. The attached Appendix shows the forecast outturn estimated to be £21.638m compared to a budget of £21.015m, an overspend of £0.623m. The main reasons for the variance are:**

- a) Investment management fees (increase of £0.621m) due to the increase in investments that have occurred towards the end of last year and May 2022 of this financial year. This has also meant an increase in transaction costs through the transition of assets to LGPSC active equities being more than were budgeted; and
- b) Administration costs are forecast near enough to break even. There is a slight forecast overspend on Investment admin costs of £2k.

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 Committee and in line with the Administration 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 2023/24 is £22.964m, an increase of £1.949m (9.3%) from the 2022/23 budget (see Appendix). The largest proportion of the budget (£19.817m) is investment managers' fees that depend on the value of assets being managed, and the investment return performance which depends on market conditions. 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 2023/24 of the investment in a number of new Funds (5) during 2022/23;
- 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 £3.147m, which is an increase of £0.161m (5.4%) net increase on the original budget. The key reasons for this decrease are:

- a) An increase for investment administration and pension admin costs of £0.161m and the main reasons are:
  - £0.028m for increased ESG support.
  - £0.038m for increased admin costs such as the cost of the dispatch and postage relating to payslips and annual benefit statements.
  - £0.093m for increased governance and running costs of LGPS Central.
  - £0.027m for increased custodial services due to increasing valuation.
  - £0.030m reduced actuarial costs as not a triennial valuation year.

### **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 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.

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**

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### **Supporting Information**

- Appendix detailing the 2022/23 Budget monitoring and proposed 2023/24 Budget with indicative budget allocations for 2024/25 and 2025/26

### **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.