

## **WILTSHIRE COUNCIL**

WILTSHIRE PENSION FUND COMMITTEE  
18 July 2019

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### **WILTSHIRE PENSION FUND OUTTURN 2018-19**

#### **Purpose of the Report**

1. The purpose of this report is to present the Fund's financial outturn for 2018-19.
2. This report also seeks Members' approval for an extension to the 2019-20 Administration Budget agreed on 14<sup>th</sup> March 2019 following consideration of the outturn presented.

#### **Background**

3. This report sets out the final Pension Fund outturn results for 2018-19 as at 31<sup>st</sup> March 2019. As in previous years, the Appendix presents the outturn against the main budget areas of the Fund.

#### **Key variances against 2018-19 budget**

4. There was a net underspend £49k against the Fund's "controllable" budget. This was made up of a £175k net underspend against the Pension Fund Administration budget partially offset by a £126k overspend against Investment Administration budget.
5. The key variances that contributed towards the net underspend against Pension Fund Administration budget were:
  - a) £186k underspend against Pension Scheme Administration budget mainly comprising in-year vacancy savings and a net underspend against systems costs. Increases in interest rates during the year led to higher than budgeted returns on overnight deposits on cash held in the Fund's local bank account which is used to fund the day-to-day running costs of the Scheme and into which contributions are paid.
  - b) No trustee training fees were paid during the year and Audit fees were lower than previous years following a change in the external auditor which led to a small underspend (totalling £33k) against these budgets.
  - c) There was greater use of external legal services in 2018-19 and there was a £28k overspend against the budget for external legal fees. It should be noted that the budget for 2019-20 has been increased from £20k to £50k.
  - d) A small net over-spend (£16k) against Actuarial Services owing to increased activity during the year.

6. The key variances that contributed towards the net overspend against Pension Fund Investment Administration budget were:
  - a) £39k overspend against Investment Administration representing the cost of additional agency support during the year as agreed with the previous S151 officer when they were in post.
  - b) £45k overspend against Investment Consultancy budget which mainly due to additional external legal and advisory costs relating to one-off investment matters.
  - c) A net £42k overspend across Corporate Governance Services and Performance Measurement which related to voting services and performance analytics services previously provided via PIRC. This was originally omitted from the budget as it was anticipated that Brunel would take over this service in due course. This contract was terminated in 2018-19 and voting services are to be provided by Brunel as an elective service for £3k per annum. This is being done on a short-term basis as the portfolios under this contract will transition into Brunel later this year.
7. 2018-19 saw a significant increase in the amount of Securities Lending Income earned. Market data suggests that this is in part due to uncertainty caused by UK vote to leave the EU and a resultant increase in demand from short sellers for asset managers and pension funds to lend their stocks in return for a fee. In 2018-19 the Fund earned £596k against budgeted income of just £20k. The securities lending budget has been increased from £20k to £300k from 2019-20 and officers will monitor this trend to see if it continues.
8. There has been a significant overspend of £8.391m against Fund Investment Fees in 2018-19.

The budget for 2018-19 was based on IM costs accounted for in 2017-18, however this incorrectly included some income and was therefore understated by £3.2m. Furthermore, due to the introduction of improved cost transparency reporting, it has been possible to include additional underlying figures this year associated with the costs of managing the portfolios. The fees and costs of the underlying fund investments in both Partners Group's infrastructure portfolio, and CBRE's pooled property portfolio have been included this year, which were not previously included. Please note that the increase in 2019 does not represent an increase in managers' fees, but better available information about the underlying costs of investment management.

### **Environmental Impact of the Proposal**

9. There are no known environmental impacts from these proposals.

### **Safeguarding Considerations/Public Health Implications/Equalities Impact**

10. There are no known implications at this time.

### **Risk Assessment**

11. 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.
12. In line with good governance practice, officers will be 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 Treasurer to the Pension Fund will

approve variations to the budget and report these to the Committee retrospectively for ratification.

### **Reasons for Proposals**

13. To note the outturn for 2018-19 in line with good governance practice
14. A personnel issue arose during the year and its resolution generated a cost, which was originally expected to fall within the 2018-19 budget year by using the forecast staffing underspend for that year, but due to a delay in it reaching a conclusion the actual costs have fallen into the 2019-20 budget year.
15. Following staff shortages last year, in addition to continuing IT issues and focus on delivering longer-term improvements, the Fund wishes to be better equipped to tackle backlog issues and improve KPIs by using the equivalent of some of the staff underspend as additional budget for this year.

### **Proposals**

16. The Committee is asked to:
  - a) Note the outturn for 2018-19 and figures in the attached Appendix;
  - b) Approve an additional £68k extension to the Pension Fund Administration Budget for 2019-20 for the staffing matter referred to in paragraph 14.
  - c) Approve an additional £35k to fund additional temporary staffing in 2019-2020 (the approximate underspend in staffing costs from 2018-2019 less the £68k proposed in b).
  - d) Note that officers will continue to monitor budgets on a quarterly basis and to inform Committee of any material changes as they arise which may require additional action.

JENNIFER DEVINE Investment Manager &  
ANDYCUNNINGHAM Head of Pensions Administration and Relations

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Unpublished documents relied upon in the production of this report:       None

**WILTSHIRE PENSION FUND BUDGET 2018-19 - FINAL OUTTURN**

**APPENDIX**

	2018-19			Explanations
	Budget £000	Outturn £000	Variance £000	
<b><u>Fund Investment Management Fees</u></b>				
Segregated Funds	6,646	10,905	4,259	
Pooled Funds *	2,633	6,851	4,218	Includes Invisible (or non direct charged) fees adjustment for higher asset base and investment in direct infrastructure.
<b>Total FUND INVESTMENT FEES</b>	<b>9,279</b>	<b>17,756</b>	<b>8,477</b>	
Securities Lending	-20	-596	-576	Uncertainty caused by the UK vote to leave the EU has boosted UK securities lending income. This has generated more money for asset managers and pension funds lending their stocks to short sellers such as hedge funds for a fee.
<b>Total MANAGEMENT FEES &amp; SECURITIES LENDING</b>	<b>9,259</b>	<b>17,160</b>	<b>7,901</b>	
* pooled costs paid through investment holdings				
<b><u>Fund Investment Costs</u></b>				
e Investment Administration	135	174	39	Cost of agency support to during the year
f Investment Consultancy	84	129	45	Additional external legal and advisory costs mainly relating to one-off investment matters
g Corporate Governance Services	9	47	38	Voting services - to be covered by Brunel Fee from 1920
g Performance Measurement	0	4	4	Performance Analytics - Contract terminated in 1819
	228	354	126	
<b><u>Fund Scheme Administration</u></b>				
a Pension Scheme Administration	1,895	1,709	-186	In year vacancy savings, net underspend against systems costs, interest rates have increased leading to greater returns on overnight deposits
d Actuarial Services	173	189	16	There has been increased employer activity during the year however most of these costs have been recharged to employers (e.g. recharge for actuarial work related to outsourcing, conversions/ transfers to MATs).
b Audit	33	16	-17	Lower audit fees from 2018/19
c Legal Advice	20	48	28	Greater usage of external legal services in 18/19 (budget for 19/20 has been increased to £40k)
b Committee & Governance	95	79	-16	No trustee training fees paid in 18/19
	2,216	2,041	-175	
<b>GRAND TOTAL (EXC INVEST MAN FEES &amp; SECURITIES LENDING INCOME)</b>	<b>2,444</b>	<b>2,395</b>	<b>-49</b>	
<b>Total FUND COSTS (INC INVEST MAN FEES &amp; SECURITIES LENDING INCOME)</b>	<b>11,703</b>	<b>19,555</b>	<b>7,852</b>	