

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
26 March 2020

WILTSHIRE PENSION FUND ADMINISTRATION BUDGET 2020-21

Purpose of the Report

1. This report seeks Members' approval for the 2020-21 Administration Budget for the Wiltshire Pension Fund, as shown in the attached Appendix. Actual costs for 2018-19 are also shown, together with the original budget for 2019-20.

Background

2. 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.
3. A number of internal and external services are required to ensure delivery of the Local Government Pension Scheme (LGPS) administering authority function. The Committee has ultimate responsibility for these services. It should be noted, however, that Wiltshire Council, which is one of the employer bodies whose interests the Committee is responsible for, is at present also the provider of some services which are paid for by way of an annually reviewed corporate recharge (for example, IT, HR, payroll etc)

Key features of the proposed 2020-21 budget

4. The budget for the Fund's expenditure is now shown in three sections, to bring consistency with SF3 reporting and industry practice, by creating a third category called Governance and Oversight in addition to the existing Scheme Administration and Investment administration. The budget for the Local Pension Board is also now shown separately (it was previously shown as part of the Scheme Administration). This is to better reflect the lines of decision-making affecting expenditure against these budgets.
5. Due to the change in budget presentation, officers have realigned previous years' figures so that each line is broadly comparable across columns on a like with like basis to aid ease of comparability.
6. Central Finance has confirmed that there will be no change to the Corporate recharge for this budget.
7. The Fund's "controllable" budget (i.e. excluding investment management fees and securities lending income) now proposed for 2020-21 is £2.795m, which is a £159k (+6.0%) net increase from 2019-20 (see Appendix). The reasons for this increase are:

Scheme Administration

- a) A £127K net increase in the Scheme Administration staffing budget. This increase covers standard pay increases, additional resource in the team and to allocate resource for backlogs (and also as a contingency to cover a potentially mid to long-term staff absence).

- b) The Wiltshire Pension Fund Committee approved a temporary increase of £103k to the 2019-20 Scheme Administration Staffing budget to cover some additional staffing costs in that year. This was only a temporary arrangement, so this extra budget has not been included in the figures for 2020-21. In the interests of comparability, the additional budget has been excluded from the 2019-20 figure shown against the 2020-21 budget in the appendix. The higher total is shown against the forecast for 2019-20 on a separate line below.
- c) The latest forecast for 2019-20 against the controllable budgets is a total net spend of £2.720m, which is very similar to the value of £2.721m reported at the last Committee meeting on 17th December 2019.
- d) The Scheme has become more complex following the 2014 LGPS reforms, and there is also an increased total scheme membership (15% increase between 2018 and 2019) and employer numbers (12% over three years, including much higher turnover) which has added complexity. The Fund has also seen higher turnover of active members which means added work setting up records, refunds, aggregations and transfers.
- e) Further administration complications will also put pressure on current resources such as the McCloud reforms and GMP rectification. Officers are also working hard to deliver long-term improvements to administration infrastructure which will deliver long-term efficiency improvements. A large number of changes have already taken place (as evidenced in the business plan) and many more are due.
- f) A proportion of the staffing budget has been transferred across to the new Oversight and Governance budget to reflect staff time spent on that area.
- g) The Scheme Administration training budget has been increased by £14,700 to fund the continual development of existing staff and training of new staff members and a new online staffing portal license fee. It is important to have well trained staff to deal with added complexity and also to have deliver the business plan and realise efficiency gains.
- h) The Systems budget has been increased by £35k to cover indexed lined price increases and planned expenditure in 2020-21 such as new mortality checks for pensioners living abroad (standard tracing services are unable to identify deaths outside of the UK).
- i) The net budget that covers other Scheme Administration costs has been reduced by £18k. This overall reduction is due to anticipated savings on printing, as a result of the Fund's new communications strategy and efficiency measures already gained, but partially offset by some other increases.

Investment and Accounting

- j) The Investment and Accounting Administration budget has a small net increase of £4k. This is to fund an increase in staff working hours. As with Scheme Administration, from 2020-21 an increased proportion of Investment staff costs are to be charged to Governance to better reflect staff time spent on that area.

Oversight and Governance

- k) This new budget area has been created to monitor and control Committee and strategic driven spend (as is standard industry practice). The following budget areas have been transferred across from other areas:
- i. Some senior Management staffing (covering the approximate proportion of staff time spent on areas of work in this area);
 - ii. Training and conferences for Committee members;
 - iii. Subscriptions, Memberships and Levies (many are compulsory);
 - iv. All Actuarial Services;
 - v. All Audit costs;
 - vi. All legal fees;
 - vii. Governance advisory Fees (covering both the Independent and Investment Advisor); and
 - viii. A portion of corporate charges.
- l) The £69k reduction to the actuarial budget mainly reflects that there will be no triennial valuation in 2020-21. Other than this, the net budget for actuarial services remains similar.
- m) There has been a £52k increase to the advisory budget to reflect anticipated spend on the following areas:

- Climate change modelling £25,000
- Private debt interim portfolio £20,000
- To provide advice and recommendations regarding RPI reform £4,000

As agreed at the Investment Sub-Committee Meeting on 27 February 2020.

This budget is used to pay for the Independent Advisor to the Fund and the designated Investment Advisor. It also includes an allowance to cover unexpected costs in relation to advice.

Local Pension Board

- n) The Local Pension Board reviewed and endorsed their budget at their meeting on the 13th February 2020. A budget of £27,400 is included for 2020-21 in the attached appendix for the Local Pension Board – the same figure as for 2019-20. Any small differences in the Local Pension Board budget can be accommodated using delegated authority with this Committee being informed accordingly.

Investment management fees and related costs

8. The largest proportion of the budget (£14.214m) 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 budget has been increased by a net £5.307m so that it now also includes investment management fees and transaction costs not paid directly by the Fund but which are accounted for using the more detailed cost transparency reporting which is now available

This increase also includes a reduction to the amount of budgeted securities lending income from £300k back to its original level of £20k following the switch to Global High Alpha in December 2019 to reflect the high level of uncertainty around this area. The Fund stopped earning securities lending income from December 2019 and although we expect to begin earning again we do not know how much this will be at the present time.

Bank interest rates on the overnight call-accounts has increased significantly and this has led to higher interest on these accounts. Budgeted bank interest receivable has been increased by £35k to reflect the additional interest we expect to receive.

9. The Investment Management Fees budget presented includes annual fees for the Brunel Partnership totalling £963k per year from April 2020. This figure excludes the cost of their custodial charge which is shown on a separate line in the appendix. BPP has advised that in time the fees will be more than offset by reductions in Investment Managers' fees. The expectation is that this will break even by 2024.

Summary

10. The budget aims to improve service standards, fulfil statutory requirements while developing areas in response and anticipation of scheme changes. It aims to Fund long-term improvements to the Fund.
11. Comparability of data is difficult between funds nationally due to different methodologies for reporting costs but the budget for Scheme administration costs was £30.95 per member for 2019-20. Using the revised, three category structure this is now £21.88 per member for the 2019-2020 (mainly due to movements to the Governance and Oversight category). The proposed budget for 2020-21 will take the administration costs to £23.95 per member (0.06% of the market value of the Fund's assets). Under the revised methodology, Governance and Oversight costs will be £10.26 per member and Investment administration costs will be £1.65 per member.
12. In terms of investment costs, the budget indicates spend of 53p per £1,000 (0.53% of market value) on managing its assets for 2020-21, including all pooled mandate costs. We have previously compared this with the older CEM Benchmarking report which indicates that the total investment cost for an LGPS fund was on average 0.65%. The budget being proposed ensures the Fund remains well below this figure.

Environmental Impact of the Proposal

13. There are no direct, known environmental impacts from these proposals.

Safeguarding Considerations/Public Health Implications/Equalities Impact

14. There are no known implications at this time.

Risk Assessment

15. The Committee is asked to recognise that some costs, particularly investment fees, are dependent upon factors that are outside of the Fund's control. They may go up or down, depending on market conditions due to the terms of contracts.
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 0.10% of the total Fund value.
17. In line with good governance practice, officers will bring budget monitoring reports back to Committee quarterly.

Reasons for Proposals

18. The submission of the proposed budget to this Committee is in line with best practice and assists in mitigating many of the risks outlined in the Risk Register elsewhere on this agenda.

Proposals

19. The Committee is asked to:

- a) To note the Pension Fund Investment Fees and related costs budget of £15.247m as indicative spend on this area (which officers will continue to monitor) and;
- b) Approve the Pension Fund Administration, Investment and Governance Controllable budgets for 2020-21 shown in the Appendix totalling £2.795m (0.1% of total fund value).

ANDY BROWN
Treasurer to the Pension Fund

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

Wiltshire Pension Fund Administration Budget 2020-21

2018-19 Actual £		2019-20 Forecast £	2019-20 Budget £	Changes £		2020-21 Budget £	Comment
	Fund Investment						
<u>16,911,939</u>	INVESTMENT MANAGEMENT FEES	<u>27,831,000</u>	<u>8,907,000</u>	<u>5,307,000</u>	59.6%	<u>14,214,000</u>	Budget now reflects investment management fees and transaction costs not paid directly by the Fund but which are accounted for using the more detailed cost transparency reporting which is now available
113,000	Custodian's Fees	144,000	113,000	30,000		143,000	
- 595,828	Securities Lending Income	- 243,000	- 300,000	280,000		- 20,000	Budget reduced to £20k following transition to Global High Alpha and the uncertainty regarding potential sec lending earnings
768,955	Brunel Cost of Pooling	891,000	547,000	416,000		963,000	
- 38,256	Bank Interest/ charges	- 59,600	- 18,000	35,000		- 53,000	Budget increased to reflect higher bank interest
<u>17,159,810</u>	TOTAL NET COSTS OF INVESTMENT MANAGEMENT	<u>28,563,400</u>	<u>9,249,000</u>	<u>5,998,000</u>	64.9%	<u>15,247,000</u>	
175,133	Investment Administration Staffing Costs	113,000	118,892	4,472		123,364	
5,555	Investment Administration Travel Costs	1,000	4,400	-800		3,600	
<u>180,687</u>	INVESTMENT ADMINISTRATION COSTS	<u>114,000</u>	<u>123,292</u>	<u>3,672</u>	3.0%	<u>126,964</u>	Higher staff costs recharged to be recharged to Oversight and Governance budget (based on estimated time spent on this area)
	Scheme Administration						
800,344	Pension Scheme Administration Staffing Costs <i>*Including additional budget agreed for 201920 only</i>	<i>969,000</i> <i>969,000</i>	<i>944,348</i> <i>1,047,348</i>	<i>127,496</i>	13.5%	1,071,844	Increase due to pay increases and additional resource.
15,982	Staff Training	28,100	17,500	14,700	84.0%	32,200	
248,300	Corporate charges	311,450	311,450	0	0.0%	311,450	
396,963	Pension Administration systems and data cleansing	332,000	318,500	35,100	11.0%	353,600	Index-linked pricing increases, new mortality checks and other
78,466	Other Administration Costs	94,500	97,200	-18,200	-18.7%	79,000	Overall reduction due to anticipated savings on printing.
<u>1,540,056</u>	SCHEME ADMINISTRATION COSTS	<u>1,735,050</u>	<u>1,688,998</u>	<u>159,096</u>	9.4%	<u>1,848,094</u>	
	<i>*SCHEME ADMINISTRATION COSTS</i>	<i>1,735,050</i>	<i>1,791,998</i>				
	Oversight and Governance						
135,116	Staffing and Related	169,000	168,360	13,585		181,945	Increase in staffing hours
0	Training and Conferences	11,700	10,100	-2,100		8,000	
39,279	Subscriptions, memberships and levies	42,650	42,650	2,300		44,950	Relates to PLSA, CIPFA, FRC, SAB levy, LGA etc
186,618	Actuarial Services	273,000	225,000	-69,000		156,000	Reduction to budget mainly reflects that there will be no full valuation in 2020-21
15,794	Audit	27,300	27,300	0		27,300	
66,858	Legal Fees	20,400	59,000	-750		58,250	
110,925	Advisory Fees (Investment and Independent Advisor)	164,500	117,300	52,200		169,500	Budget amended to reflect expected spend on this area (covers Independent Advisor to the Fund, Investment Advisor and contingency support (to cover unexpected costs)
100,323	Corporate Charges & other costs	146,250	146,250	0		146,250	Transfer share of corporate charges from Administration Budget
<u>654,914</u>	OVERSIGHT AND GOVERNANCE COSTS	<u>854,800</u>	<u>795,960</u>	<u>-3,765</u>	-0.5%	<u>792,195</u>	
<u>19,613</u>	LOCAL PENSION BOARD COSTS	<u>16,216</u>	<u>27,414</u>	<u>-14</u>		<u>27,400</u>	Budget approved at LPB meeting
<u>2,395,270</u>	GRAND TOTAL (exc. Inv mgt' fees & securities lending income)	<u>2,720,066</u>	<u>2,635,664</u>	<u>158,989</u>	6.0%	<u>2,794,653</u>	
<u>19,555,079</u>	GRAND TOTAL (inc. Inv mgt' fees & securities lending income)	<u>31,283,466</u>	<u>11,884,664</u>	<u>6,156,989</u>	51.8%	<u>18,041,653</u>	
	<i>*GRAND TOTAL (exc. Inv mgt' fees & securities lending income)</i>	<i>2,720,066</i>	<i>2,738,664</i>				
	<i>*GRAND TOTAL (inc. Inv mgt' fees & securities lending income)</i>	<i>31,283,466</i>	<i>11,987,664</i>				

* Figures including additional £103k budget agreed at Committee on 18th July 2019 to cover additional staffing costs in 2019-20

Summary of key changes to budget 2019-20 to 2020-21**£'000**

Pay increases and additional resourcing	145
Provision to cover training of new staff members	14
Provision to cover index-linked price increases and planned expenditure on Pension Systems in 2020-21	35
Budget reduction from Fund's digital strategy and efficiency measures already gained	-18
Reduction in actuarial budget to reflect no formal valuation taking place in 2020-21	-69
Additional advisory costs to cover climate change modelling, work on new private debt interim portfolio and provide advice and recommendations regarding RPI reform (as previously agreed)	52
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Total net increase in controllable budget	159