

## **Wiltshire Council**

### **Wiltshire Pension Fund Committee**

**6 March 2014**

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## **Wiltshire Pension Fund Administration Budget 2014-15**

### **Purpose of the Report**

1. This report seeks Members' approval of the 2014-15 Administration Budget for the Wiltshire Pension Fund, as shown in the Appendix. Actual costs for 2012-13 are also shown, together with the original budget for 2013-14.
2. As last year, the Appendix also shows indicative budgets for the following two years 2015-16 and 2016-17. These budgets once approved will be incorporated into the new Wiltshire Pension Fund Business Plan.

### **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. The setting of a budget for the forthcoming financial year along with spending proposals for the following two years attempts to achieve this.
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 Wiltshire 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.

### **Key features of the proposed 2014-15 budget**

5. Overall the 2014-15 budget of £8.810m shows an increase of £819k (10.2%) from 2013-14 (see Appendix). The largest proportion of the budget (£6.739m) is investment managers' fees that largely depend on the value of assets being managed, over which officers have little control in the short term.
6. The Fund's "controllable" budget (i.e. excluding investment management fees) is £2.071m, which is a £47k (2.3%) increase. However, this includes three main "growth" items totalling £156k, therefore, the overall 'real' base budget represents a decrease of £112k from 2013-14 (-5.2%).

### **Fund Investment – Management Fees**

7. Investment management fees show an increase in estimated fees of £772k for 2014-15. Estimating investment fees is difficult as predicting market values of investments (which drive fee levels) into the future is impossible. As a proxy, these projections are based on asset growth of 10% per annum which attribute approximately £600k of the increase.

8. The remaining increase is in part a reflection of the implementation of the new Emerging Markets Multi Asset mandate during 2014-15 away from the lower cost passive global equities along with the anticipated increase in performance fees from the sustained upturn in markets.
9. This budget is a prudent position and if higher fees are paid it's a reflection of good performance by the investment managers. For 2013-14, manager fees are currently projected to be under spent by £1.2m against the estimate this time last year and these savings will be carried forward in the Fund.

### **Fund Investment – Administration**

10. This budget has decreased by £63k (-13.5%) to £402k. The main reason is the reduction in Investment Advisory fees (£88k) now that the current manager searches have been completed along with savings (£14k) from the retendering of the ESG contract as part of the Fund's Corporate Governance Services.
11. This has been offset by an increase in Investment Administration Recharges (£15k) from pay growth and associated on-costs along with increased costs of Custodial Services due to the reduction of Securities Lending (£20k) resulting from the Fund's move to more "pooled" investments where this additional income cannot be generated.

### **Scheme Administration**

12. This budget has increased by £110k (7.0%) to £1.669m. However, this does include £156k of "growth" items, leaving a real reduction in budget from 2013-14 of £46k. The major budget changes are explained below:

#### Pension Administration Recharge

13. The budget has increased by £157K reflecting, in the main the proposed "growth" areas the Fund should develop.
  - a) **Data Cleanse & Quality Assurance secondments**

Funds are under increasing pressure to ensure the quality of their data is as clean as possible and regularly reviewed. The new Public Services Pension Act that comes into force in 2015 will require the Fund to comply with the Data Records Act and that the quality is monitored. The quality of data held is also going to become more crucial with the implementation of the new LGPS 2014 scheme as benefits will be calculated annually and not at the point of retirement. To build on the work already undertaken by the Fund, and in line with its peers it is proposed that £62k is allocated to fund two temporary posts to specifically review and process data issues that arise from the on-going projects taking place.
  - b) **Pension Administration Software**

The updating and development of the Fund's pension software to make it compliant to administer the new LGPS 2014 scheme by its supplier will result in an additional £49k in 2014-15 with on-going licence fees in the following years.

c) Member Self Service

A further area for development to enable the Fund to meet the increasing customers expectations and develop the quality of the service is to implement member self service functionality. This will enable members to look at their records on-line. This has the potential to save administration costs in terms of posting and printing communications, provided written projections of benefits and keeping personal details up to date. The Fund has been looking at a number of systems and once a business case has been signed off, officers would look to procure this product after the implementation of the new scheme has been completed. The estimated cost of setting this system up is £40k in year one with running costs of £20k p.a. thereafter.

### Actuarial Services

14. This budget has reduced by £43k reflecting the lower costs following the 2013 Triennial Valuation year.

### Committee & Governance Services

15. Although there is a minor increase in the 2014-15 budget for Committee & Governance Services to reflect inflation, 2015-16 onwards will potentially see a significant increase in costs (circa £13k as a best estimate). This results from the implementation of the Public Services Pension Act which will require the Fund to have a Local Pension Board in operation from April 2015 onwards. Although guidance is still unclear as to the potential make up of these Boards, frequency of meetings, and their remit, it is anticipated that Committee Services will be required to support them, while budget will also be required for advisors and Board member training.

16. These Local Pension Boards will provide an oversight function to the main committee and will effectively be a statutory requirement by the Administering Authority, namely Wiltshire Council. Further discussions will take place with Wiltshire Council once further draft regulations have been issued.

### **Summary**

17. The budget attempts to maintain service standards while developing the service in response to the scheme changes. Comparability of data is difficult between funds nationally due to different methodology of reporting costs, however the Government's own data can provide a guide.

18. The Wiltshire Pension Fund administration costs were £25.18 per member in 2012-13 compared to the average of £27.02. The proposed budget attempts to keep these costs within this envelope (between £27-£28 p.m.) while costs will inevitable increase across all schemes due to the implementation of LGPS 2014.

19. In terms of investment costs, the Fund spent 32p per £1,000 (0.32% of market value) on managing its assets in 2012-13, including all pooled mandate costs. The national data for a scheme between £1-£1.5bn shows investment costs of 0.36%

although this may not account for pooled costs. The CEM Benchmarking report commissioned by Hymans Robertson indicated that the total investment cost for an LGPS fund was on average 0.65% and the budget being proposed ensure the Fund remains well below this figure (circ. 0.39%).

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

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

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

21. There are no known implications at this time.

### **Risk Assessment**

22. 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.

23. The approval of this budget is essential to continue the good governance of the Fund. When viewed in relation to the overall value of asset, these 'controllable' costs represent 0.1% of the total Fund value.

24. In line with good governance practice, officers are bringing a 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 Associate Director, Finance will approve variations to the budget and report these to the Committee retrospectively for ratification.

### **Reasons for Proposals**

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

### **Proposals**

26. The Committee is asked to:

- a) approve the Pension Fund Administration Budget for 2014-15 shown in the Appendix totalling £8.810m.
- b) note the indicative budget allocations for 2015-16 and 2016-17

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Unpublished documents relied upon in the production of this report:                      None  
Appendix - Budget table

# APPENDIX

## Wiltshire Pension Fund Administration Budget 2014-15

<u>2012-13</u>		<u>2013-14</u>		<u>2014-15</u>	<u>2015-16</u>	<u>2016-17</u>	
<u>Actual</u>		<u>Budget</u>	<u>Changes</u>	<u>Budget</u>	<u>Annual Change</u>	<u>Annual Change</u>	
<u>£</u>		<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>	<u>£</u>	
	<b>Fund Investment</b>						
<u>4,342,380</u>	INVESTMENT MANAGEMENT FEES	<u>5,967,000</u>	<u>772,000</u>	12.9% <u>6,739,000</u>	<u>623,000</u>	<u>586,000</u>	
90,014	Investment Administration Recharge	90,250	15,450	105,700	3,000	1,500	Increased investment support & salary growth in 2014/15
65,120	Investment Custodial & Related Services	58,000	17,000	75,000	6,000	6,000	Reduced income from Securities Lending
139,266	Investment Professional Fees	224,200	-87,800	136,400	-35,300	19,700	Planned reduction in investment manager searches
48,125	Corporate Governance Services	51,800	-13,500	38,300	1,000	1,000	Revised ESG contract and lower activity from pooled funds
39,985	Performance Measurement	41,110	5,890	47,000	0	0	
<u>382,510</u>	INVESTMENT ADMINISTRATION COSTS	<u>465,360</u>	<u>-62,960</u>	-13.5% <u>402,400</u>	<u>-25,300</u>	<u>28,200</u>	
	<b>Scheme Administration</b>						
1,090,760	Pension Scheme Administration Recharge	1,279,450	156,850	1,436,300	35,500	10,300	Includes seconded posts, LGPS 2014 software & members Self-service
105,752	Actuarial Services	149,000	-43,000	106,000	-10,000	64,000	
71,185	Audit	57,400	0	57,400	1,900	2,000	
58,102	Legal Fees	25,000	-5,000	20,000	0	0	
39,993	Committee and Governance Recharge	48,300	700	49,000	13,400	-1,600	Increased costs from implementation of local Pension Boards from April 2015
<u>1,365,792</u>	SCHEME ADMINISTRATION COSTS	<u>1,559,150</u>	<u>109,550</u>	7.0% <u>1,668,700</u>	<u>40,800</u>	<u>74,700</u>	
<u>1,748,302</u>	<b>GRAND TOTAL (EXC INVEST MAN FEES)</b>	<u>2,024,510</u>	<u>46,590</u>	2.3% <u>2,071,100</u>	<u>15,500</u>	<u>102,900</u>	
<u>6,090,682</u>	<b>GRAND TOTAL (INC INVEST MAN FEES)</b>	<u>7,991,510</u>	<u>818,590</u>	10.2% <u>8,810,100</u>	<u>638,500</u>	<u>688,900</u>	