

WILTSHIRE COUNCIL

WILTSHIRE PENSION FUND COMMITTEE
12 March 2015

WILTSHIRE PENSION FUND ADMINISTRATION BUDGET 2015-16

Purpose of the Report

1. This report seeks Members' approval of the 2015-16 Administration Budget for the Wiltshire Pension Fund, as shown in the Appendix. Actual costs for 2013-14 are also shown, together with the original budget for 2014-15, and the 2014-15 forecast outturn is on the same agenda as this report.
2. As last year, the Appendix also shows indicative budgets for the following two years 2016-17 and 2017-18. These budgets once approved will be incorporated into the forthcoming 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 sets out how we will 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 2015-16 budget

5. Overall the 2015-16 budget of £9.510m shows an increase of £700k (7.9%) from 2014-15 (see Appendix). The largest proportion of the budget (£7.378m) is investment managers' fees that largely depend on the value of assets being managed, and the investment return performance.
6. The Fund's "controllable" budget (i.e. excluding investment management fees) is £2.132m, which is a £61k (2.9%) increase. However, this includes one main "growth" item for the administration of the Local Pension Board and revised governance arrangements totalling £33k, therefore, the overall 'real' base budget represents an increase of £28K (1.3%).

Fund Investment – Management Fees

7. Investment management fees show an increase in estimated fees of £639k for 2015-16. Estimating investment fees is difficult as it is tied into predicting market values of investments (which drive fee levels) into the future. As a proxy, these projections are based on asset growth of 10% per annum which accounts for all the increase. In previous years, the market has been at somewhat of a downward trend and fees at

outturn have been less than originally budgeted. The fees are paid for from the Fund and not from employers direct, as such where the actual is less than budgeted the fees simply do not call on the fund; where the fees are higher, if it were to happen, it would be due to better than forecast returns on investment which bolster the Fund's asset base. Over the last three years Officers have sought to restructure payment terms with Investment Managers to both better predict fees and to tie payments into good performance.

8. The implementation of the new Multi Asset Credit and Absolute Return Bond mandates with Loomis are anticipated to be transitioned in March 2015. The Budget reflects the new fee structure for these mandates.
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 2014-15, manager fees are currently projected to be under spent by £200k against the estimate this time last year and these savings will be carried forward in the Fund.

Fund Investment – Administration

10. This budget has broadly stayed the same overall. Investment Advisory fees have increased by £24K, largely as a result of a planned asset allocation review due to take place in the summer and analysis to further developing the 'flight path' and risk control investment strategies.
11. This has been offset by a reduction in custodian fees resulting from the Fund's move to more "pooled" investments.

Scheme Administration

12. This budget has increased by £61k (3.7%) to £1.730m. However, this does include £33k of a "growth" item, resulting in a real increase of 28K (1.7%) from 2014-15. The major budget changes are explained below:

Pension Administration Recharge

13. The budget has increased by £22K reflecting, in the main the increase in staff costs due to pay award and increment progression.

Pension Administration Software

14. There has been a reduction in of £49k from following the additional implementation costs of LGPS2014. However, this has been offset by anticipated one-off procurement and tender costs as the Altair pension database needs to be retendered during 2015-16.

Actuarial Services

15. This budget has increased by £5k reflecting the procurement of additional online services. These on-line services allow us to have up to date funding levels available for both the Fund and employers bodies. Savings will be generated however in terms of officer time as reports can be run directly, and therefore more efficiently, by the pension team without the need to refer to the actuary.

Committee & Governance Services

16. This budget has increased by £33k and contains the major growth area of the Fund. Following the Public Services Pension Act a Local Pension Board will be in operation

from April 2015 onwards. Additional budget is required to cover the training and serving of this board (18K). The Investment Sub Committee has also had its role expanded and will be meeting more frequently. This was agreed at the December 2014 committee meeting.

17. The LGPS national Scheme Advisory Board also comes into operation from April 2015 (from its previous Shadow form). A levy will be applied across all LGPS Funds based on their active membership. Although details of the levy have yet to be issued it's estimated that this will be approximately £7K for the Wiltshire Pension Fund.

Future years

18. The appendix forecast for future years is that the budget will remain broadly in line with the proposed 2015-16 budget. Efficiencies in the Administration of the Fund are predicted from improved software and operations. The 2016-17 budget includes an increase for the Tri-annual Revaluation which is reversed in 2017-18. Fees are assumed as above, but are subject to the same variations as noted above. We will continue to monitor the sector and local and national changes to model the impact on those years. We will also continue to benchmark the service to assess costs and efficiencies.

Summary

19. The budget attempts to maintain service standards while developing areas 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.
20. The Wiltshire Pension Fund administration costs were £26.19 per member in 2013-14 compared to the average of £26.90. The proposed budget attempts to keep these costs within an envelope (between £27-£30 p.m.) as costs will inevitably increase across all schemes resulting from the implementation of LGPS 2014 and Local Pension Boards.
21. In terms of investment costs, the Fund spent 30p per £1,000 (0.30% of market value) on managing its assets in 2013-14, 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 which are usually netted off the units held. 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 ensures the Fund remains well below this figure (circ. 0.39%).

Environmental Impact of the Proposal

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

Safeguarding Considerations/Public Health Implications/Equalities Impact

23. There are no known implications at this time.

Risk Assessment

24. 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.

25. 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 less than 0.1% of the total Fund value.
26. 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 Associate Director, Finance will approve variations to the budget and report these to the Committee retrospectively for ratification.

Reasons for Proposals

27. 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

28. The Committee is asked to:

- a) Approve the Pension Fund Administration Budget for 2015-16 shown in the Appendix totalling £9.510m.
- b) Note the indicative budget allocations for 2016-17 and 2017-18.

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

APPENDIX

Wiltshire Pension Fund Administration Budget 2015-16

2013-14		2014-15	Changes	2015-16	2016-17	2017-18	
Actual		Budget	£	Budget	Annual Change	Annual Change	
£		£	£	£	£	£	
Fund Investment							
<u>4,860,752</u>	INVESTMENT MANAGEMENT FEES	<u>6,739,000</u>	<u>639,000</u>	9.5% <u>7,378,000</u>	<u>682,000</u>	<u>854,000</u>	
94,671	Investment Administration Recharge	105,700	1,800	107,500	4,400	1,300	Increased investment support & salary growth in 2015/16
38,505	Investment Custodial & Related Services	75,000	-19,000	56,000	4,000	5,000	Reduced custodian fees more pooled funds
110,768	Investment Professional Fees	136,400	16,400	152,800	-40,400	-28,150	Strategic review planned in 2015/16 & Custody review support
51,750	Corporate Governance Services	38,300	1,000	39,300	1,000	1,000	
40,810	Performance Measurement	47,000	-800	46,200	0	0	
<u>336,504</u>	INVESTMENT ADMINISTRATION COSTS	<u>402,400</u>	<u>-600</u>	-0.1% <u>401,800</u>	<u>-31,000</u>	<u>-20,850</u>	
Scheme Administration							
1,158,249	Pension Scheme Administration Recharge	1,436,300	21,950	1,458,250	37,850	-36,900	Mainly increased staff costs from pay awards and increments
239,225	Actuarial Services	106,000	5,000	111,000	64,000	-79,000	
40,353	Audit	57,400	900	58,300	0	0	
26,991	Legal Fees	20,000	0	20,000	0	0	
32,284	Committee and Governance Recharge	49,000	33,400	82,400	-700	600	Increased costs from implementation of the Local Pension Boards from April 2015 and proposed national Scheme Advisory Board levy.
<u>1,497,102</u>	SCHEME ADMINISTRATION COSTS	<u>1,668,700</u>	<u>61,250</u>	3.7% <u>1,729,950</u>	<u>101,150</u>	<u>-115,300</u>	
<u>1,833,606</u>	GRAND TOTAL (EXC INVEST MAN FEES)	<u>2,071,100</u>	<u>60,650</u>	2.9% <u>2,131,750</u>	<u>70,150</u>	<u>-136,150</u>	
<u>6,694,358</u>	GRAND TOTAL (INC INVEST MAN FEES)	<u>8,810,100</u>	<u>699,650</u>	7.9% <u>9,509,750</u>	<u>752,150</u>	<u>717,850</u>	