



**LOCAL PENSION COMMITTEE**

**28 FEBRUARY 2020**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**PENSION FUND – BUSINESS PLAN AND BUDGET 2020/21**

**Purpose of the Report**

1. The purpose of this report is to seek the Committee's approval of the Pension Section's Business Plan and Pension Fund budget for 2020/21.

**Background**

2. In November 2019 The Good Governance Project in the Local Government Pension Scheme (LGPS) Phase two report was published. This report was from the working groups to the Scheme Advisory Board.
3. The report includes several proposals on how to improve governance in the LGPS. The favoured option from the engagement activity was greater ring-fencing of the LGPS within existing structures, greater separation of pension fund management from the host authority, including budgets, resourcing and pay policies. The Pension Committee should also be included in the business planning process.
4. The Pension Section's Business Plan and Pension Fund budget has in previous years been agreed with the Director of Corporate Resources, as the senior administering authority office responsible for the Fund.
5. To comply with the new governance proposal both the Business Plan and budget are now being submitted to the Committee for approval to ensure the Pension Section is adequately resourced to continue to provide the level of service required by scheme members and Fund employers over the next financial year.

**Business Plan**

6. The Pension Section's Business Plan details the main changes that impact on the Pension Fund in 2020/21. The most significant are a review of the Pension Section's processes and structure following the implementation of the new administration system, the good governance project and the implementation of the McCloud remedy.
7. The key points are detailed in points 1, 4 and 6 of the Plan which is attached as an Appendix

## **Pension Fund Budget**

8. Is it important to note the Pension Fund budget is independent of the Council's budget and its finances are managed separately. The Director of Resources has reviewed the Pension Fund budget independently taking into account the full need of the service. In the Hymans Good Governance Phase 2 report two of the proposals state;
- i. Each administering authority must ensure their committee is included in the business planning process. Both committee and LGPS senior officer must be satisfied with the resource and budget allocated to the deliver the LGPS service over the next financial year.
  - ii. Each administering authority must give proper consideration to the utilisation of pay and recruitment policies, including appropriate market supplements, relevant to the needs of their pension function. Administering authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.
9. The current budget is a one year budget but in time will be developed into a four year budget in line with the County Council's Medium Term Financial Strategy (MTFS). The 2020/21 budget compared to 2019/20 is summarised report below and is considered sufficient to meet the Fund's statutory requirements.

<b>Budget Heading</b>	<b>2019/20 £000</b>	<b>2020/21 £000</b>
Investment Management Expenses (split into three areas)	-	-
o Management	24,300	26,400
o Transaction	9,000	9,900
o Performance	4,950	5,500
<b>Sub Total</b>	<b>38,250</b>	<b>41,800</b>
LGPS Central costs (Governance, operator running costs, product development)	800	950
Staffing	1,200	1,300
IT costs	500	500
Actuarial costs	150	150
Support Services	400	400
<b>Total</b>	<b>41,300</b>	<b>45,100</b>

10. The fund holds no reserves and has no capital expenditure planned.
11. Officers will consider how to monitor performance against certain elements of the budget that are not dependant on investment performance.

12. The total budget being requested for approval is £45.1 million. A breakdown of the expenses is set out below.

#### Investment Management Expenses

13. Investment Management Expenses have been split into three sections, management fees, transaction costs and performance fees. These have been compiled using historical data of expenses by category received from the Fund's investment managers using a third party. There could be deviations from these numbers given the historical nature of the analysis and changes within fee structures and changes of investment manager. For example, reduced investment manager fees, as a direct or indirect result of asset pooling.
14. The 2020/21 investment management expenses an estimate and will be subject to investment market returns, however the Fund has assumed a prudent long-term investment return for the purpose of this budget estimate.
15. This estimated increase in investment management expenses from £38.25million in 2019/20 to £41.8million 2020/21 is mostly due to increases in management fees due to Fund's assets under management, as most investment managers charge a percentage-based fee, thus as assets under management grow so do management fees.
- i. Management fees (£26.4 million) – Are paid to investment managers based on a percentage of the assets under management. The figure includes £0.2 million payable to LGPS Central for the sub funds the Fund is invested in and advisory services on the fixed income, property and targeted return mandates.
  - ii. Transaction costs (£9.9 million) – Contain costs relating to trading within the fund whilst attempting to achieve the funds mandate.
  - iii. Performance fees (£5.5 million) - some investment managers have performance fees built into the agreed mandates which are paid once a performance hurdle is achieved. This can be highly variable given the Fund would not expect meaningful performance fees when general market returns are depressed.

#### LGPS Central costs oversight, governance and product development

16. The budget for LGPS Central and costs borne to the Fund, concerning oversight, governance and product development have not yet been approved. The Shareholder meeting is scheduled for March 20<sup>th</sup> 2020. This request for budget approval is based on provisional estimates that could change.
17. The Fund's expected share of costs has been estimated at £0.95 million. These governance costs are split equally between the eight local authorities. Operator running costs are split based on assets under management and product development costs are allocated based on products that our Fund has expressed an interest in and assets being invested.

Staffing

18. The Pensions Administration staffing budget covers staffing related costs for 30 full time equivalent staff. This includes limited extra resource to work on scheme governance and an improvement project. The project will be looking at best utilising the new pensions administration system and driving efficient working processes wherever possible.
19. McCloud changes remain unknown and once remedy is confirmed the Pensions Manager will review staffing requirements to deal with the administrative impact.
20. Within the percentage rate that employers pay there is an allowance of 0.3% for administration expenses. This was detailed in all the employer schedules provided as part of the Fund's valuation.

IT Costs

21. Following a full tender process, the Pension Section invested in a new pensions administration system in 2018/19 including pensioner payroll, IConnect for employers to submit data monthly, the main core system, workflow and image, and member self-service.
22. The cost of the system was detailed in the tender and annual costs will remain £500,000 in 2020/21.

Actuarial Charges

23. Actuarial charges are budgeted as £150,000 in 2020/21.
24. Officers will start a tender of actuarial services within 2020/21 and it is expected the largest four LGPS actuarial firms will bid for the work. Costs will form part of the tender evaluation.

Support Services

25. Support Services are made up of strategic financial and operational finance charges from East Midlands Shared Services, e.g. for providing the pensioner payroll service. The charge also includes the Fund's legal costs.
26. The improvement project may suggest differing options for the provision of support services.

Budget Summary

27. Over 90% of the budget is spent on investment manager related expenses. Given that most investment manager expenses are based on a percentage of assets under management any increase in asset values, for example an increase in stock market/equity returns, will result in higher management fees paid in total.

28. Investment management costs are volatile and are likely to be higher than budgeted if investment performance exceeds assumptions. Therefore, the costs detailed in the report could significantly change.

### **Recommendation**

29. It is recommended that the Committee approves the Business Plan and Pension Fund budget for 2020/21.
30. That the Leicestershire Pension Fund Section 151 Officer, following consultation with the Chairman of the Local Pension Committee, be authorised to amend the Pension Fund's budget following the approval of LGPS Central's budget and other in year changes arising from variations to Investment management fees paid by the Fund.

### **Equality and Human Rights Implications**

None

### **Appendix**

The Pension Section's Business Plan 2020/21

### **Officers to Contact**

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