



LOCAL PENSION BOARD

8 FEBRUARY 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PENSION FUND – BUSINESS PLAN AND BUDGET 2023/24

Purpose of the Report

1. The purpose of this report is to inform the Local Pension Board of the Pension Fund's Administration and Investment Business Plans and Pension Fund budget for 2023/24.

Background

2. To demonstrate good governance, the Pension Fund's Budget and Business Plan are presented to the Board for consideration. The Business Plan is formed of two documents, one covers administration, the other covers investments.
3. The 2023/24 Business Plan and Budget will be presented to the Local Pension Committee in March 2023 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

4. The Pension Section's Administration Business Plan details the main changes that impact on the Pension Fund in 2023/24. The most significant are implementing a solution for the national Pensions Dashboards, ongoing implementation of McCloud, implementing the Pension Regulator's new Code of Practice, and reviewing the Fund's Additional Voluntary Contribution (AVC provider).
5. The key points are detailed in points 1, 3, 5 and 7. The Business Plan is attached as Appendix A.
6. The investments business plan covers five main areas, training, policies, asset allocation, fund valuation and reporting. One area of focus during the year will be delivery the implementation of Fund's first Net Zero Climate Strategy and ensuring it aligns with the Strategic Asset Allocation. Full details of individual work and deliverables are included within Appendix B.

Pension Fund Budget

7. 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 Corporate Resources, as the Fund's designated senior officer, has reviewed the Pension Fund budget independently considering the full need of the service. Whilst the Good Governance project has not been finalised, Phase 3 of the report includes the following proposal;
- 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.
8. The current budget covers the financial year 2022/23 with projected estimates out to 2025/26. A summary of the budget is shown below including current forecasts for 2023/24 to 2025/26. The 2023/24 forecast budget is expected to be sufficient to meet the Fund's statutory requirements.

Budget Heading	2021/22	2022/23	2022/23	2023/24	2024/25	2025/26
	Actual	Budget	Forecast	Forecast	Forecast	Forecast
	£'000s	£'000s	£'000s	£'000s	£'000s	£'000s
Investment Management Expenses (split into three areas)						
o Management	23,146	27,400	24,826	25,792	27,518	29,339
o Transaction	5,961	8,490	6,394	6,642	7,087	7,556
o Performance	9,856	11,920	18,400	10,500	11,000	11,500
Sub Total	38,963	47,810	49,620	42,934	45,605	48,394
LGPS Central costs (Governance, operator running costs, product development)	995	986	1050	1216	1211	1271
Staffing	1,473	1,470	1,470	1,551	1,605	1,662
IT costs	448	510	510	520	530	540
Actuarial costs	163	400	200	150	150	400
Support Services / other	492	490	600	630	650	670
Total	42,534	51,666	53,450	47,001	49,750	52,938
% of assets under management	0.77%	0.91%	0.95%	0.80%	0.79%	0.79%
Average assets under management in year	5,559,960	5,652,630	5,652,630	5,872,500	6,265,488	6,680,089

9. The LGPS Central budget is agreed by shareholders before the start of the new financial year. An update will be provided later in the year once more accurate costs are agreed. At present the best estimates are included for 2023/24.

Investments

10. The fund holds no reserves and has no capital expenditure planned.
11. The total budget being forecasted for approval is £47.0 million for 23/24. A breakdown of the expenses is set out below.

Investment Management Expenses

12. Investment Management Expenses have been split into three sections, management fees, transaction costs and performance fees. There could be deviations from these numbers given the changes within fee structures and changes of investment manager. For example, reduced investment manager fees, as a direct or indirect result of asset pooling or increased performance fees if mandates which are subject to performance fees when product investment returns are ahead of the hurdles required.
13. The 2022/23 investment management expenses are a forecast and will be subject to investment market returns that will be finalised after the financial year ends. The Fund has assumed a prudent long-term investment return for the purpose of this budget estimate.
14. The performance fee estimate can be highly variable given the Fund would not expect meaningful performance fees when general market returns are depressed. At the time of setting the budget for 22/23 markets were far more stable and as such a prudent estimate was included within the 22/23 budget based on the prior year forecast. One manager in particular that the Fund invests in has had a very good year in terms of performance (+43% in 2022). Whilst this would be a good performance in most years it's especially good given the market conditions seen in 2022. As such a higher forecasted performance fee will be payable than budgeted.
15. Assets under management (AUM) has been estimated to grow over time plus an estimate for net contributions which is the sum of employer and employee contributions less pensions and lump sums paid. As the AUM increases, the pounds value of investment managers fees will increase given investment management fees are paid based percentages of asset values. The investment management expenses as a percentage of the Fund reduces all other things being equal as fixed costs are spread over a larger AUM.
16. The estimated investment management expenses are expected to increase from the 21/22 actuals each year as asset under management increase. In reality assets under management will not increase each year in a uniform manner and therefore variability should be expected.

LGPS Central costs oversight, governance and product development

17. The budget for LGPS Central and costs borne to the Fund, concerning oversight, governance and product development have not yet been approved for the financial year 2023/24. The Shareholder meeting is scheduled for February 28th 2023 when resolutions

will be presented for vote. At present the best estimate is included for 2023/24 costs. Where a budget cannot be agreed within timescales the shareholder agreement allows for a RPI based change on the previous years budget to be ratified.

18. The Fund's expected share of costs has been estimated at £1.2 million. These governance costs are split equally between the eight member 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. As time has passed the level of product development fees has reduced as the majority of Central products have been bought forward. There is likely to continue to be product development as Partner Funds have their own investment advisors with differing allocations and strategies being approved each year.

Staffing

19. The 2023/24 Pensions Administration staffing budget covers staffing related costs for 37 full time equivalent staff. This includes two temporary full time Pension Assistants employed solely to work on the McCloud project.
20. Whilst the final McCloud remedy is outstanding there remains uncertainty on the final implementation date. Officers are closely monitoring McCloud progress and reviewing the necessary resource needed. The Pensions Manager believes McCloud implementation will be the most challenging area of administration during 2023/24.
21. For 2023/24 Officers have assumed 5.5% increase in staffing related costs, then 3.5% in the following two years in line with the County Council's assumptions.

IT Costs

22. 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.
23. The cost of the system was detailed in the tender and annual costs remains at £500,000 each year, plus an element for annual inflation. The Pension Section purchased a new bank account verifier through the Heywood pension administration system in October 2022. This is used to reduce the risk of fraudulent payments being made.

Actuarial Charges

24. Actuarial charges are budgeted as £150,000 each year, and at £400,000 during Fund valuation years. Although 2022/23 was a valuation year the anticipated spend is lower than budget as some elements of the valuation were brought forward into 2021/22.
25. The total valuation spend is anticipated to be £150,000 lower than budget.

Support Services/Other

26. Support Services were made up of Strategic Financial and Operational Finance charges, East Midlands Shared Services, Internal Audit and Legal Services. More elements of work were brought in house including Central Print, Democratic Services, and more elements of Strategic Finance. The charges increased in 2022/23 to account for the additional elements of Pension Fund work brought inhouse. Other costs include annual subscriptions, tracing service charges, Officer qualifications, training for Officers, Committee and Board Members.

Budget Summary

27. Over 85% 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 expected if investment performance exceeds assumptions. Therefore, the costs detailed in the report could significantly change if returns exceed expectations.

Recommendation

29. It is recommended that the Board notes the Business Plan and Pension Fund budget for 2023/24.

Equality and Human Rights Implications

None

Appendix

Appendix A: The Pension Section's Administration Business Plan 2023/24

Appendix B: Pension Fund Investment Business Plan 2023/24

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