

**PENSION FUND COMMITTEE – 14 SEPTEMBER 2018**

**PENSION FUND BUDGET OUTTURN REPORT FOR THE YEAR  
ENDED 31 MARCH 2018.**

**Report of the Director of Finance**

**Introduction**

1. In March 2017 the Pension Fund Committee agreed a budget in respect of the Pension Fund for the 2017/18 financial year. The production of an annual budget is in accordance with a recommendation of best practice set out in the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme.
2. Annex 1 compares the outturn figures against the budget and shows the variations for each budget line. The overall outturn position was an overspend of £1,147,000. The reasons for any material variations are explained below.

**Scheme Administration Expenses**

3. **Administrative Employee Costs** were underspent by a total of £42,000. This was due partly because of the vacancies within the team (offset by the employment of third parties to undertake project work relating to data quality and historic backlogs of work) and partly due to an underspend on training.
4. **Other Costs** were overspent by £81,000. The main variances included a shortfall in projected income of £76,000; an under spend on postage costs of £10,900, which is partly attributable to the move to online documents and a smaller under spend of subscription fees and telephone charges of £2,400. There were over spends storage costs of £4,000 and miscellaneous expenses of £15,000, which included property related charges

**Investment Management Expenses**

5. **Fund Management Fees.** Although a budgeted sum is agreed for this item it is not possible to accurately estimate the annual charges because they are linked to the market values of the assets being managed, which continually fluctuate. The actual spend on fund management fees for 2017/18 was £887,000 above the budgeted amount. The overspend predominantly resulted from the Pension Fund committing to several new funds in order to maintain target asset allocations in property, infrastructure, and private equity: Bridges Property Alternatives Fund IV, Partners Group Global Infrastructure Fund 2015, Epiris Fund II, Adams Street 2017 Global Fund, and Longwall Ventures

III ECF. These funds typically incur fees on commitments in the initial years of the fund.

6. The 2017/18 budget and actuals are based on the CIPFA guidance for calculating management fees and as such include management fees that are borne by the fund but are not invoiced. The Pension Fund is invoiced for some management fees but for investments in pooled funds management fees are typically deducted at source so are factored in to the price of units in the pooled fund.
7. The fund changed Custodian during the year following the appointment of State Street as the Custodian and Administrator for Brunel. **Custody Fees** for the year were £18,000 less than budgeted.
8. **Brunel Working/Regulatory Capital**; as approved by the Committee at its meeting on 23<sup>rd</sup> June 2017 there was an additional £300,000 of working/regulatory capital to be provided to Brunel which was to be offset by Brunel repaying a similar amount to cover **Brunel Development Costs** incurred by the Fund on its behalf. **Brunel Contract Costs** were to cover Brunel running costs, however these payments did not commence until 1<sup>st</sup> April 2018 meaning the working capital payments were increased by a corresponding amount.
9. Taken together **Brunel Development, Working/Regulatory Capital and Contract Costs** were budgeted at a net £605,000, the outturn against this was a £240,000 overspend. £100,000 of the overspend was a result of a decision to fully fund Brunel's pension position meaning the cost was incurred as a lump sum rather than spread over a number of years. The remaining overspend was a result of the timing of Brunel development costs. This does not affect the overall quantum of Brunel development costs which were within the budget agreed for Brunel.

### **Oversight & Governance Expenses**

10. There was an underspend of £33,000 on **Support Services** following a review of charges which identified costs that were no longer applicable to the Pension Fund following the vacating of Unipart House.
11. **Advisory & Consultancy Fees** were overspent by £25,000. This was primarily a result of the unbundling of broker research costs, as required by the Markets in Financial Instruments Directive II. This meant that the Pension Fund needed to sign-up and pay separately to receive broker research on its listed private equity holdings. Previously this service was not paid for directly but was included within the fees charged by brokers for their brokerage services. There was also a small additional cost from the Pension Fund's decision to sign up to the LGPS Universe service from PIRC which provides performance comparisons with other LGPS funds.

## **RECOMMENDATIONS**

**The Committee is RECOMMENDED to receive the report and to note the outturn position.**

Lorna Baxter  
Director of Finance

Background Papers:           None

Contact Officers:               Gregory Ley, Financial Manager, 07393 001071

Sally Fox, Pensions Administration Manager,  
(01865) 323854

August 2018

**Pension Fund Budget Outturn for the Financial Year ended 31 March 2018**

	<b>Budget £'000</b>	<b>Actual £'000</b>	<b>Variance £'000</b>
<b>Administrative Expenses</b>			
Administrative Employee Costs	1,240	1,198	-42
Support Services Including ICT	447	460	13
Printing & Stationary	51	57	6
Advisory & Consultancy Fees	30	12	-18
Other	29	110	81
<b>Total Administrative Expenses</b>	<b>1,797</b>	<b>1,837</b>	<b>40</b>
<b>Investment Management Expenses</b>			
Management Fees	7,436	8,323	887
Custody Fees	75	57	-18
Brunel Development Costs	75	5	-70
Brunel Working/Regulatory Capital	200	840	640
Brunel Contract Costs	330	0	-330
<b>Total Investment Management Expenses</b>	<b>8,116</b>	<b>9,225</b>	<b>1,109</b>
<b>Oversight &amp; Governance</b>			
Investment Employee Costs	240	236	-4
Support Services Including ICT	40	7	-33
Actuarial Fees	40	54	14
External Audit Fees	24	21	-3
Internal Audit Fees	14	14	0
Advisory & Consultancy Fees	64	89	25
Committee and Board Costs	48	47	-1
<b>Total Oversight &amp; Governance Expenses</b>	<b>470</b>	<b>468</b>	<b>-2</b>
<b>Total Pension Fund Budget</b>	<b>10,383</b>	<b>11,530</b>	<b>1,147</b>