

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	13 December 2019
Title:	Pension Fund Budget
Report From:	<i>Director of Corporate Resources – Corporate Services</i>

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Purpose of this Report

1. For the Pension Fund Panel and Board to approve a budget for the Pension Fund for 2020/21 and projections for 2021/22 and 2022/23.

Recommendations

2. That the budget shown in Appendix 1 for the Pension Fund for 2020/21 is approved.

Background

3. The Pension Fund reports its actual expenditure for the management of the Fund against budget in its Annual Report. The 2018/19 Annual Report included the 2019/20 budget.
4. The Pension Fund categorises its expenditure for the management of the Pension Fund according to CIPFA's definitions; investment management, administration and governance, which include the following:
 - Investment management – the cost of managing the Fund's assets, which includes fees paid to the Fund's investment managers and its custodian. This includes the fees that are not paid directly for pooled and other investments, such as sub-funds managed by Link as part of the ACCESS pool and alternative investments like Infrastructure and Private Equity.
 - Administration – all activities the Administering Authority must perform to administer entitlements and provide members with scheme and benefit entitlement information.

- Governance – the costs of accounting for and monitoring the Pension Fund, plus the additional professional advice and support that is required by the Fund.
5. The 2020/21 budget that has been prepared reflects the costs of delivering the Pension Fund's statutory responsibilities for the administration of the scheme and management of investments. The resources contained within the budget are sufficient to meet the Fund's regulatory requirements and deliver at the standards for administration that are reported to the Panel and Board. The new developments and initiatives that are included in the Fund's Business Plan are also included in the budget.

2020/21 Budget

Investment management

6. Investment management costs are derived from the percentage fees charged by the Fund's investment managers, applied to the market value of the portfolios that they manage. Future years market values have been calculated based on the expected annual increases that the Fund's Actuary has used in the 2019 Valuation applied to the investment management contracts that the Fund has in place. Actual investment management costs may be more or less than the budget depending on the market values each year.
7. The budget for investment management costs has increased to £44.8m in 2020/21, and £48.4m and £53.0m the following 2 years. This reflects both the assumed increase in the market value of the Fund and an increasing allocation to alternative investments (property, infrastructure, private equity and private debt), which incur higher fees than listed investments, as set out in the Fund's Investment Strategy.

Administration

8. The two key expenses for pension administration are staff and IT costs. Pension Services use the Civica UPM system which continues to drive efficiency savings allowing the service to be delivered in a cost effective way despite increasing pressures and growth in workloads.
9. The budget for administration remains well within the 0.3% of pensionable payroll for the Fund assumed by the Fund's Actuary, and results in a cost per member of around £13 which is one of the lowest across LGPS funds. No allowance has been made in the budget for the costs of GMP rectification work or for the implementation of the McCloud remedy which will be separately costed once the full scope of this work is known.

Governance

10. Governance costs fall into three main areas:
 - The internal costs of providing the administration and accounting function for the Pension Fund, managing its investment management contracts and providing the governance support to the Pension Fund Panel and Board.
 - The ongoing costs of setting up and running the ACCESS pool.
 - The external services required by the Pension Fund: internal and external audit, investment consultancy, actuarial services, independent advice to the Panel and Board, and internal and external legal support.

11. Governance costs are expected to be relatively static in 2020/21 and the following 2 years. There are minor variations with increased investment consultancy costs in 2020/21 and 2021/22 for retendering the Fund's UK property portfolio and any changes resulting from the review of the Fund's asset allocation following the 2019 Actuarial Valuation. There are additional costs projected in 2022/23 for the next Actuarial Valuation as at 31 March 2022.

REQUIRED CORPORATE AND LEGAL INFORMATION:**Links to the Strategic Plan**

Hampshire maintains strong and sustainable economic growth and prosperity:	No
People in Hampshire live safe, healthy and independent lives:	No
People in Hampshire enjoy a rich and diverse environment:	No
People in Hampshire enjoy being part of strong, inclusive communities:	No
OR	
This proposal does not link to the Strategic Plan but, nevertheless, requires a decision because: For the ongoing management of the Hampshire Pension Fund.	

Section 100 D - Local Government Act 1972 - background documents

The following documents discuss facts or matters on which this report, or an important part of it, is based and have been relied upon to a material extent in the preparation of this report. (NB: the list excludes published works and any documents which disclose exempt or confidential information as defined in the Act.)

DocumentLocation

None

EQUALITIES IMPACT ASSESSMENT:

1. Equality Duty

The County Council has a duty under Section 149 of the Equality Act 2010 ('the Act') to have due regard in the exercise of its functions to the need to:

- Eliminate discrimination, harassment and victimisation and any other conduct prohibited by or under the Act with regard to the protected characteristics as set out in section 4 of the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion or belief, sex and sexual orientation);
- Advance equality of opportunity between persons who share a relevant protected characteristic within section 149(7) of the Act (age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation) and those who do not share it;
- Foster good relations between persons who share a relevant protected characteristic within section 149(7) of the Act (see above) and persons who do not share it.

Due regard in this context involves having due regard in particular to:

- The need to remove or minimise disadvantages suffered by persons sharing a relevant protected characteristic that are connected to that characteristic;
- Take steps to meet the needs of persons sharing a relevant protected characteristic that are different from the needs of persons who do not share it;
- Encourage persons sharing a relevant protected characteristic to participate in public life or in any other activity in which participation by such persons is disproportionately low.

2. Equalities Impact Assessment:

Equality objectives are not considered to be adversely affected by the proposals in this report as the proposals do not directly affect scheme members.

Pension Fund Budget

	Budget 2019/20 £000	Budget 2020/21 £000	Projection 2021/22 £000	Projection 2022/23 £000
Investment management fees	41,300	44,751	48,352	52,960
Staff	1,560	1,630	1,679	1,720
Premises	60	61	62	63
IT	280	285	290	296
Supplies & Services	230	234	239	243
Other	0	0	0	0
Administrative costs	2,130	2,210	2,270	2,322
Staff	330	375	385	395
Premises	5	5	5	5
IT	5	5	5	5
Supplies & Services	350	335	325	345
Other	5	5	5	5
Governance costs	695	725	725	755
Management Expenses	44,380	47,653	51,303	55,991