

HAMPSHIRE COUNTY COUNCIL

Decision Report

Decision Maker:	Pension Fund Panel and Board
Date:	28 July 2022
Title:	Governance – Annual Report and Pension Fund Costs 2021/22
Report From:	<i>Director of Corporate Operations</i>

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Purpose of this Report

1. The purpose of this paper is to introduce the 2021/22 draft Pension Fund Annual Report to the Panel and Board.
2. The report also provides an analysis of costs incurred in managing the Pension Fund during 2021/22.

Recommendations

3. That the Panel and Board notes the contents of the draft Annual Report for 2021/22 and approves its publication.
4. That the Director of Corporate Operations is authorised to make any necessary minor amendments to the Annual Report prior to publication as detailed in paragraphs 13-14.
5. That the Panel and Board notes the total cost of managing the Fund.

Executive Summary

6. The requirement to publish an annual report was introduced into the Local Government Pension Scheme (LGPS) Regulations in 2013, with the aim of promoting awareness of the scheme and providing members and stakeholders with relevant information in an accessible and consistent manner.

7. The draft Annual Report for 2021/22 has been prepared and is presented to the Panel and Board for review and approval for publication, with further information provided in paragraphs 10 to 14.
8. There are a variety of costs that are incurred in the management of the Pension Fund, which are disclosed in the Pension Fund's annual report and accounts under the following three categories:
 - Investment management costs – the cost of managing the Fund's assets, which includes fees paid to the Fund's investment managers and its custodian. This includes fees that are incurred by the Pension Fund directly but also indirect fees that are not paid directly but that reduce investment returns, such as those for investments held through ACCESS and other pooled funds.
 - Administration expenses – all activities the Administering Authority must perform to administer entitlements and provide members with scheme and benefit entitlement information.
 - Oversight and governance – the costs of accounting for and monitoring the Pension Fund, plus the additional professional advice and support that is required by the Fund.
9. The Fund is required to report on the costs and savings achieved through pooling; paragraphs 15 to 26 provide further detail on this as well as the three elements of the Pension Fund's management costs described above.

Annual Report

10. The Pension Fund publishes an annual report each year to promote awareness of the scheme and provide members and stakeholders with relevant information in an accessible and consistent manner.
11. The Annual Report includes details of the Fund's governance, administration, and investments, as well as the Fund's accounts. The annual report also includes additional information on pooling, including:
 - details of the ACCESS pool's annual report
 - an update on progress with investment pooling
 - updates to sections of the report including investment performance and the risk register to reflect the impact of pooling.
12. The Annual Report contains the Pension Fund's Risk Register. An assessment of each risk is conducted by officers with the assistance of the Fund Actuary. An update on the Fund's approach to measuring and capturing risks and the current version of the risk register is included in a report elsewhere on this agenda.

13. The current draft Annual Report is attached and has been reviewed by officers and the Director of Corporate Operations. Amendments to the Annual Report following this review by officers will be made prior to the report being finalised, however it was not possible to make these amendments ahead of the publication of papers for the Panel and Board meeting.
14. The Pension Fund's accounts are included in the Annual Report. The accounts are subject to audit and it may therefore be necessary to make minor changes to the Annual Report at the conclusion of the audit, which is scheduled to be by the end of September. It is recommended that the Panel and Board authorise the Director of Corporate Operations to make any necessary minor amendments to the final Annual Report prior to publication on the Pension Fund's website. Any significant changes will be reported back to the Panel and Board at a future meeting.

Pension Fund costs 2021-22

15. The total cost of managing the Pension Fund is shown in Table 1 and also as a percentage of the average value of the Pension Fund in 2021/22 (2020/21 and 2019/20 costs are shown as a comparison):

Table 1 – Pension Fund management costs

	2021/22		2020/21		2019/20	
	£'000	%	£'000	%	£'000	%
Investment management	60,722	0.63	50,799	0.60	47,780	0.64
Administration	2,455	0.03	2,306	0.03	2,196	0.03
Oversight and governance	779	0.01	766	0.01	722	0.01
Total	63,956	0.66	53,871	0.63	50,698	0.68

Investment management costs

16. As part of the statutory CIPFA guidance on preparing the Pension Fund Annual Report additional data is provided, most notably about investment pooling. Investment management costs are separated between costs incurred from investments held through the pool and those that continue to be held directly.

17. Table 2 shows the actual cost of investment management for 2021/22, as well as providing a meaningful comparison by presenting the costs in terms of basis points.

18. The data in Table 2 is based on data provided by the Pension Fund's investment managers who have all completed the Cost Transparency Initiative template produced by the LGPS Scheme Advisory Board (SAB). The Fund's investment management costs shown in Table 2 are broken down into the following categories:

- Management fees – this includes direct fees that are invoiced to the Pension Fund by its investment managers, as well as indirect fees charged by investment managers which are charged directly against the Fund's investments within investment vehicles such as pooled funds within the ACCESS pool.
- Transaction and alternative investment costs – such as broker commission paid in the purchase and sale of investments, costs within the alternative investment funds, as well as the costs of maintaining the Fund's directly held property.
- Custody and other costs – the fees paid to the Fund's custodian for the safe custody and administration of the Fund's investments, and consultancy costs on tax and legal where they specifically relate to investments.

Table 2 – Investment management costs 2021/22

	Pooled		Non-pooled		Total	
	£'000	%	£'000	%	£'000	%
Management fees	11,931	0.21	13,883	0.87	25,814	0.27
Transaction costs	1,217	0.02	33,472	1.05	34,689	0.36
Custody and other costs	-	-	219	0.00	219	0.00
Total	13,148	0.23	47,574	1.92	60,722	0.63

19. The investment management costs of pooled investments are disproportionately lower than the non-pooled investments because the assets that have not been pooled, specifically property and alternative assets, attract significantly higher costs, but these assets are held to ensure the Pension Fund's investment strategy is suitably diversified. The costs of the Pension Fund's investments are considered by the Panel and Board in considering investment returns on a net of costs basis when evaluating investment performance and options.

20. Investment management fees in 2021/22 increased in comparison to the previous year, from £50.8m to £60.7m which as a proportion of the total asset value is a move from 0.60% to 0.63%. Although this is an increase this is a reduction in comparison to 2019/20 where on average investment management fees cost the fund 0.64%. During 2021/22 the total asset value of the Fund rose from £9,073m to £9,627m (6.1%) and as the investment managers are paid as a proportion of the asset portfolios they manage, then naturally the cost of investment management in monetary terms rose. In the final quarter of 2021/22 the Pension Fund's equity holdings were negatively affected by high inflation, resulting interest rate rises, global supply issues and a commodities crisis which were all exacerbated by the Russian invasion of Ukraine, and therefore the investment management fees associated with these investments also reduced in comparison to previous quarters.
21. By comparison the value of the Pension Fund's alternative investment portfolios increased significantly during the year due to the investment managers working hard towards investing the full strategic asset allocation assigned to them by the Panel and Board. As a result of both the reduction in value of equities and the investment managers investing towards the asset allocation targets, the alternative investment portfolios became a greater proportion of the overall Pension Fund. As mentioned in paragraph 19 the costs of these portfolios attract significantly higher costs than those portfolios that are pooled, and therefore as a result the overall investment cost for the Fund rose in 2021/22.
22. Table 1 in the exempt appendix provides a breakdown of the investment management costs for 2021/22 by investment manager. Total fees include management fees and transactions fees.
23. The Annual Report also includes analysis of the pool's ongoing costs and savings achieved to date both at the pool level and for Hampshire specifically. Hampshire's costs and savings as a result of being invested in the ACCESS pool are shown in Table 3.

Table 3 – Pool costs and savings

	Hampshire	
	2021/22	Cumulative
	£'000	£'000
Pool setup and on-going costs	(94)	(553)
Transition costs	0	(539)
Investment management fee savings	1,260	3,681
Total net savings / (costs)	1,166	2,589

24. During 2021/22, Hampshire's continued to save costs through its involvement in ACCESS. This saving was achieved through the following activity in the year:

- The pool setup and on-going cost during 2021/22 is Hampshire's proportion of the total ACCESS budget which is split 11 equal ways. This includes the cost of the ACCESS Support Unit including technical support provided by lead officers, any procurement carried out in year, the cost of any advice received from consultants or lawyers, as well as the Member Support service provided by Kent County Council;
- Hampshire has benefited from a full year of savings on investment management fees on its ACCESS investments during 2021/22 as no investment portfolios transitioned into the pool part-way through the year.

Administration costs

25. Administration costs during 2021/22 were in line in percentage terms at 0.03% in comparison to 2020/21 (0.03%). Staff costs make up the majority of the administrative costs though investment in technology has produced more efficient processes and a reduction in budgeted printing and postage costs.

Oversight and governance costs

26. Oversight and governance costs during 2021/22 were in line with both 2020/21 and 2019/20 in percentage terms at 0.01%.

Climate Change Impact Assessments

27. Hampshire County Council utilises two decision-making tools to assess the carbon emissions and resilience of its projects and decisions. These tools provide a clear, robust, and transparent way of assessing how projects, policies and initiatives contribute towards the County Council's climate change targets of being carbon neutral and resilient to the impacts of a 2°C temperature rise by 2050. This process ensures that climate change considerations are built into everything the Authority does.

28. The Pension Fund itself has a negligible carbon footprint, but it recognises that the companies and other organisations that it invests in will have their own carbon footprint and a significant role to play in the transition to a lower carbon economy. Therefore the Pension Fund recognises the risk that environmental, social and governance (ESG) factors including the impact of climate change can materially reduce long-term returns. The Pension Fund has a role to play as an investor, in ensuring that its investment managers are suitably considering the impact and contribution to climate change in their investment decisions and acting as a good steward to encourage these companies to play their part in reducing climate change. This is explained further in the Pension Fund's RI policy [InvestmentStrategyStatementincludingRIpolicy.pdf \(hants.gov.uk\)](https://documents.hants.gov.uk/pensions/InvestmentStrategyStatementincludingRIpolicy.pdf).

29. For the investment portfolios that can report carbon footprint data, the Pension Fund collates and reports this to the RI sub-committee, and reports at the Fund level in the Fund's RI annual update and Task Force on Climate Change Financial Disclosure (TCFD) report <https://documents.hants.gov.uk/pensions/TCFD-report.pdf>. As summary of the Pension Fund's TCFD report and its RI activities are included in the Pension Fund's Annual Report, which is the subject of this report.

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.)

Document

Location

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.