

ABERDEEN CITY COUNCIL

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COMMITTEE	PENSIONS COMMITTEE
DATE	2 <sup>nd</sup> DECEMBER 2016
REPORT BY	HEAD OF FINANCE
TITLE OF REPORT	BUDGET/FORECAST & PROJECTED SPEND 2016/17
REPORT NUMBER	PC/DEC16/BUD

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**1. PURPOSE OF REPORT**

- 1.1 The purpose of this report is to give the Pensions Committee details of the Management Expenses Budget/Forecast and Projected Spend 2016/17 for the North East Scotland Pension Fund (NESPF).

**2. RECOMMENDATIONS**

- 2.1 It is recommended that the Pensions Committee:

- Note the update on the NESPF Management Expenses Budget/Forecast and Projected Spend for 2016/17;
- Note the update on Pension Fund Staff Costs resulting from the implementation of the new staffing structure
- Note the update on revised guidance on Accounting for Scheme Management Costs

**3. FINANCIAL IMPLICATIONS**

- 3.1 All Pension Fund costs are paid for by the Fund.

**4. OTHER IMPLICATIONS**

- 4.1 None

## **5. REPORT**

### **5.1 BUDGET/FORECAST AND PROJECTED SPEND 2016/17 (APPENDIX I)**

- 5.1.1 Administrative Expenses – all staff costs of the pension administration team are charged direct to the fund quarterly. Associated management, accommodation and other overheads are apportioned to this activity and charged annually as expenses to the Fund.
- 5.1.2 Oversight and Governance Expenses – all staff costs associated with oversight and governance are charged direct to the fund quarterly. Associated management costs are apportioned to this activity and charged annually as expenses to the Fund.
- 5.1.3 The staff costs budget for 2016/17 was based upon last year's actual plus 1%, i.e. the old grades for posts and the Fund not operating to a full complement of staff. However, the new staffing structure was implemented from 1 April 2016. Therefore, a projected overspend is anticipated if the Fund transitions during 2016/17 to a full staffing complement on the new posts and grades.
- 5.1.4 Investment Management Expenses – Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the market value of these investments change. Fund Managers charge their fees quarterly in arrears. In addition, the fund has negotiated performance related fees with a number of its investment managers and the forecast is based upon last year's actuals plus 1%. If applicable, performance fees are charged annually at the year end. The unpredictability of market forces for these elements makes forecasting extremely difficult with any degree of accuracy.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has reviewed and revised their guidance to Pension Funds on Accounting for Scheme Management Costs. As a result, the Fund no longer needs to account for the indirect limited partnership fees. The Forecast for Investment Management Expenses was based upon last year's actual spend plus 1%, i.e. this included the indirect expenditure. Hence, there is a projected 'underspend' as the figures for 2016/17 no longer include this expenditure.

Actuarial Fees for 2016/17 are anticipated to be particularly high when compared to 2015/16. The main reason for the increase in expenditure is due to recent market volatility and the Fund's decision to undertake an Interim Valuation.

Transaction costs, general investment expenses (e.g. Investment advice and litigation, etc.) and direct property expenditure are now included within the Investment Management Expenses heading.

General Investment Expenses are anticipated to significantly rise during 2016/17. The main reason for the increase in expenditure is expected to be because of the additional investment advice being sought from Klynveld Peat Marwick Goerdeler (KPMG), such as advice on transition and fund manager selection.

## **5.2 GOVERNANCE**

- 5.2.1 The Pension Fund projected costs for salaries and direct costs are included in monthly monitoring reports to the Service and Corporate Management Teams. The Head of Finance reports to the Pensions Committee on a quarterly monthly basis.

## **6. IMPACT**

- 6.1 The Pension Fund Budget or Forecast promotes accountability and gives reassurance to the stakeholders in the Pension Fund. This report ensures transparency in costs from the administrator of the fund.

## **7. BACKGROUND PAPERS**

North East Scotland Pension Fund Annual Report & Accounts (2015/16) and Fund Governance Policy Statement.

## **8. REPORT AUTHOR DETAILS**

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