

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	PENSIONS COMMITTEE
<b>DATE</b>	30 NOVEMBER 2018
<b>REPORT TITLE</b>	BUDGET/FORECAST & PROJECTED SPEND 2018/19
<b>REPORT NUMBER</b>	PC/NOV18/BUD
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<b>TERMS OF REFERENCE</b>	PENSIONS COMMITTEE 1.3

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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 2018/19 for the North East Scotland Pension Fund (NESPF).

### **2. RECOMMENDATIONS**

That the Committee: -

- 2.1 note the update on the NESPF Management Expenses Budget/Forecast and Projected Spend for 2018/19;
- 2.2 note the update on Pension Fund staff costs and staffing vacancies; and
- 2.3 note the update on the ongoing work with the NESPF Accounting team and the Global Custodian and its impact upon the reporting of Investment Management Expenses.

### **3. BACKGROUND/MAIN ISSUES**

#### **3.1 BUDGET/FORECAST AND PROJECTED SPEND 2018/19 (APPENDIX I)**

- 3.1.1 Appendix I shows the NESPF Budget 2018/19. The budget includes a re-alignment of cost headings that follows guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) for Pension Funds. Additional NESPF Budget is added for costs outwith the Council's Budget and for those costs directly paid for by the Fund.
- 3.1.2 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.

- 3.1.3 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.
- 3.1.4 A potential underspend has been identified for the Administrative and Investment Staff Costs. This is largely associated with staffing vacancies.
- 3.1.5 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 several investment managers. 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.
- 3.1.6 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 accounts for indirect limited partnership fees.
- 3.1.7 Transaction Costs and Direct Property Expenses are included within the section 'Investment Management Expenses'. Other investment related expenses (e.g. investment advice and litigation, etc.) are included within the section 'Oversight & Governance Expenses'.
- 3.1.8 The NESPF Accounting team is working together with the newly appointed Global Custodian, the Hongkong and Shanghai Banking Corporation (HSBC), regarding the reporting and accounting of the Pension Funds' Investments. The aim is to ensure that the Custodian's reporting most closely fits the accounting requirements of the Pension Fund. As a result, only a limited amount of data to date has been captured by the Council's financial ledger system. For the purposes of this report, this adds to the difficulty of forecasting with any degree of accuracy. However, steady progress is being made with the above approach and the Pension Fund believes that this will be advantageous for the remaining part of the year 2018/19.

## **3.2 GOVERNANCE**

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

## **4. FINANCIAL IMPLICATIONS**

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

## **5. LEGAL IMPLICATIONS**

5.1 There are no direct legal implications arising from the recommendation of this report.

## **6. MANAGEMENT OF RISK**

6.1 There are no direct risk implications arising from the recommendation of this report.

## **7. OUTCOMES**

7.1 This report does not impact either the Local Outcome Improvement Plan or the Target Operating Model.

## **8. IMPACT ASSESSMENTS**

<b>Assessment</b>	<b>Outcome</b>
<b>Equality &amp; Human Rights Impact Assessment</b>	Not required
<b>Privacy Impact Assessment</b>	Not required
<b>Duty of Due Regard / Fairer Scotland Duty</b>	Not applicable

## **9. BACKGROUND PAPERS**

North East Scotland Pension Fund (NESPF) Annual Report & Accounts (2017/18) and Fund Governance Policy Statement.

## **10. APPENDICES**

Appendix I, Budget/Forecast and Projected Spend 2018/19

## **11. REPORT AUTHOR CONTACT DETAILS**

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