



North East Scotland Pension Fund

nespf

Budget/Forecast & Projected Spend 2021/22

Quarterly Reporting to December 2021

1. Budget/Forecast and Projected Spend 21/22

Sections 3 – 6 below show the NESPF Budget 2021/22. 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.

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.

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.

Investment Management Expenses – Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointment. 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 few of its 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 degrees 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 accounts for indirect partnership fees.

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'.

2. Governance

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.

3. Budget and Projected Spend for NESPF Administration Expenses

	Notes	Full Year Budget 2021/22 £'000	Budget to 31/12/21 £'000	Actual Spend to 31/12/21 £'000	Accrual to 31/12/21 £'000	Amended Spend to 31/12/21 £'000	Over or (Under) to 31/12/21 £'000	Proj Annual Spend 2021/22 £'000	Proj Over or (Under) Spend 2021/22 £'000
Administrative Staff Costs	1	1,615	1,211	627	337	964	(247)	1,360	(255)
Information Technology	2	516	387	404	26	430	43	441	(75)
Supplies & Services	3	151	113	75	27	102	(11)	128	(23)
Accommodation		385	289	103	226	329	40	401	16
Printing & Publications	4	20	15	10	1	11	(4)	11	(9)
Administration Expenses Total		2,687	2,015	1,219	617	1,836	(179)	2,341	(346)

Note (Spend Variance \pm 5%):

1. Underspend – Vacancies pending recruitment process and limited staff travel during lockdown.
2. Underspend – Robotic task automation project(s) delayed till 2022-23. Reduction in new IT equipment.
3. Underspend – Reduction in postages/pension administration.
4. Underspend – Across the board savings in printing/design and ad hoc requests.

4. Budget and Projected Spend for NESPF Oversight & Governance Expenses

	Notes	Full Year Budget 2021/22 £'000	Budget to 31/12/21 £'000	Actual Spend to 31/12/21 £'000	Accrual to 31/12/21 £'000	Amended Spend to 31/12/21 £'000	Over or (Under) to 31/12/21 £'000	Proj Annual Spend 2021/22 £'000	Proj Over or (Under) Spend 2021/22 £'000
Investment Staff Costs	1	243	182	90	54	144	(38)	193	(50)
Pension Fund Committee	2	15	11	0	1	1	(10)	2	(13)
Pension Board	3	10	8	0	1	1	(7)	2	(8)
External Audit Fee		43	32	0	31	31	(1)	43	0
Internal Audit Fee		6	5	0	5	5	0	6	0
Actuarial Fees	4	300	225	171	19	190	(35)	253	(47)
General Expenses	5	180	135	93	65	158	23	196	16
Oversight & Governance Expenses Total		797	598	354	176	530	(68)	695	(102)

Note (Spend Variance \pm 5%):

1. Underspend – same as Admin Staff Costs note.
2. Underspend – Saving based upon the annual training event held in London not proceeding.
3. Underspend – Saving based upon the annual training event held in London not proceeding.
4. Underspend – Slowing down of costs associated with Project Dallas.
5. Overspend – Increase in legal advice regarding limited partnerships.

5. Forecast and Projected Spend for NESPF Investment Management Expenses

	Notes	Full Year Forecast 2021/22 £'000	Forecast to 31/12/21 £'000	Actual Spend to 31/12/21 £'000	Accrual to 31/12/21 £'000	Amended Spend to 31/12/21 £'000	Over or (Under) to 31/12/21 £'000	Proj Annual Spend 2021/22 £'000	Proj Over or (Under) Spend 2021/22 £'000
Investment Management	1	12,679	9,509	2,339	5,920	8,259	(1,250)	11,601	(1,078)
Performance Fees		10,430	7,823	0	7,822	7,822	(1)	10,430	0
Direct Property Expenses	2	533	400	539	0	539	139	563	30
Transaction Costs	3	1,183	887	1,629	0	1,629	742	2,172	989
Custody Fees	4	146	109	106	13	119	10	159	13
Investment Management Expenses Total		24,971	18,728	4,613	13,755	18,368	(360)	24,925	(46)

Note (Spend ± 5%):

1. Investment Management costs as at the reporting date are projected for the remaining part of the year. However, costs associated with private equity are not calculated until the year end. Therefore, uncertainty in projecting these costs carries the risk of over/under stating the spend for the year. It is anticipated that there will be an under spend.
2. The Forecast for 2021/22 is based upon the Fund Manager's estimation for the year. It is anticipated that there will be an overspend, which is largely associated with an ad hoc write off for a former tenant who was responsible for the letting of student flats.
3. Transaction Costs are reported by the Custodian (HSBC) as at the reporting date (see further analysis) then projected for the remaining part of the year. Albeit a useful guide, using past transaction activity as a basis for projecting costs carries the risk of over/under stating the spend for the year. If current transaction activity continues then it is anticipated that there will be an overspend.
4. Overspend - Custody Fees have increased across all subheadings of Accounting & Performance, Custody, and Transaction Charges.

Important to Note:

The above is a forecast of costs for Investment Management Expenses rather than a traditional budget. This is due to the level of estimation involved and the extent of the unknown, especially given that Investment Management and Performance Fees are based upon an unpredictable Market Value. This terminology has been adopted following discussions with the CIPFA Pensions Network.

6. Analysis of Transaction Costs for the Period 1 April 2021 to 31 December 2021

	Commission (£)	Expenses (£)	Tax (£)	Total (£)
Equities	614,210.92	2,459.98	972,899.12	1,589,570.02
Pooled – Unit Trust	0.00	39,280.49	0.00	39,280.49
Grand Total (£)	614,210.92	41,740.47	972,899.12	1,628,850.51