



North East Scotland Pension Fund

nespf

Budget/Forecast & Projected Spend 2022/23

Reporting Period to December 2022

1. Budget/Forecast and Projected Spend 22/23

Sections 3 – 6 below show the NESPF Budget 2022/23. 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 costs 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 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 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 2022/23 £'000	Budget to 31/12/22 £'000	Actual Spend to 31/12/22 £'000	Accrual to 31/12/22 £'000	Amended Spend to 31/12/22 £'000	Over or (Under) to 31/12/22 £'000	Proj Annual Spend 2022/23 £'000	Proj Over or (Under) Spend 2022/23 £'000
Administrative Staff Costs		1,626	1,219	779	440	1,219	0	1,625	(1)
Information Technology		488	366	433	25	458	92	473	(15)
Supplies & Services	1	140	105	90	29	119	14	153	13
Accommodation		543	407	415	97	512	105	526	(17)
Printing & Publications		13	10	10	0	10	0	13	0
Administration Expenses Total		2,810	2,107	1,727	591	2,318	211	2,790	(20)

Note (Spend Variance \pm 5%):

1. Overspend – Increase in postage and stationery costs. In particular, the recharges from Aberdeen City Council.

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

	Notes	Full Year Budget 2022/23 £'000	Budget to 31/12/22 £'000	Actual Spend to 31/12/22 £'000	Accrual to 31/12/22 £'000	Amended Spend to 31/12/22 £'000	Over or (Under) to 31/12/22 £'000	Proj Annual Spend 2022/23 £'000	Proj Over or (Under) Spend 2022/23 £'000
Investment Staff Costs	1	265	199	99	60	159	(40)	214	(51)
Pension Fund Committee	2	18	13	0	4	4	(9)	5	(13)
Pension Board	3	13	10	0	5	5	(5)	7	(6)
External Audit Fee		47	35	0	13	13	(22)	45	(2)
Internal Audit Fee		12	9	0	9	9	0	12	0
Actuarial Fees	4	180	135	223	22	245	110	327	147
General Expenses	5	297	223	133	44	177	(46)	233	(64)
Oversight & Governance Expenses Total		832	624	455	157	612	(12)	843	11

Note (Spend Variance \pm 5%):

1. Underspend – Vacancies pending the recruitment process.
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. Overspend - Increase in Actuarial advice on several matters, e.g. Valuation, Projects, Market Volatility, Deferred Debt, etc.
5. Underspend – Delayed Project Costs, i.e. Task force on Climate related Financial Disclosures (TCFD).

5. Forecast and Projected Spend for NESPF Investment Management Expenses

	Notes	Full Year Forecast 2022/23 £'000	Forecast to 31/12/22 £'000	Actual Spend to 31/12/22 £'000	Accrual to 31/12/22 £'000	Amended Spend to 31/12/22 £'000	Over or (Under) to 31/12/22 £'000	Proj Annual Spend 2022/23 £'000	Proj Over or (Under) Spend 2022/23 £'000
Investment Management	1	14,304	10,728	1,777	7,336	9,113	(1,615)	12,149	(2,155)
Performance Fees		8,817	6,613	(129)	6,613	6,484	(129)	8,688	(129)
Direct Property Expenses	2	1,184	888	568	0	568	(320)	757	(427)
Transaction Costs	3	2,226	1,669	766	0	766	(903)	1,021	(1,205)
Custody Fees	4	177	133	73	22	95	(38)	128	(49)
Investment Management Expenses Total		26,708	20,031	3,055	13,971	17,026	(3,005)	22,743	(3,965)

Note (Spend ± 5%):

1. Management Costs are reported by the Custodian (HSBC) as at the reporting date then projected for the remaining part of the year. Albeit a useful guide, using past costs as a basis for projecting the remaining costs carries the risk of over/under stating the spend for the year. If current cost trend continues then it is anticipated that there will be an underspend.
2. Underspend – Decrease in Bad Debt Write Off.
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 underspend.
4. Underspend – Rebates relating to previous years and a reduction in transaction activity when compared to that budgeted.

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 2022 to 31 December 2022

	Commission (£)	Expenses (£)	Tax (£)	Total (£)
Equities	222,188.35	23,042.99	458,158.68	703,390.02
Pooled – Unit Trust	0.00	62,098.06	0.00	62,098.06
Grand Total (£)	222,188.35	85,141.05	458,158.68	765,488.08