
PENSION FUND BUDGET MONITORING TO 31 DECEMBER 2017

Report by Chief Financial Officer

JOINT PENSION FUND COMMITTEE AND PENSION FUND BOARD

8 March 2018

1 PURPOSE AND SUMMARY

- 1.1 The purpose of this report is to provide the Pension Fund Committee and Pension Fund Board with an update position of the Pension Fund budget to 31 December 2017 including projections to 31 March 2018.**
- 1.2 The Local Government Pension Scheme (Scotland) Regulation 2014 requires Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against.
- 1.3 To ensure the Fund meets the standards, a budget was approved on 16 March 2017 following the standard presentation recommended by the CIPFA accounting guidelines. This report is the third quarterly monitoring report of the approved budget for 2017/18.
- 1.4 The total expenditure to 31 December 2017 is £0.623m with a projected total expenditure of £8.208m. This is against an approved budget of £3.928m giving a negative projected variance of £4.280m.
- 1.5 The negative variance is due to mainly the increased fees associated with the increased value of the fund and one off transaction costs associated with stamp duty incurred due to the rebalancing of the fund to the revised strategy.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Pension Fund Committee:-**
 - (a) Notes the actual expenditure to 31 December 2017 and the projected out-turn.**
 - (b) Agrees the budgets are amended to reflect the projected out-turn.**

3 BACKGROUND

- 3.1 The Local Government Pension Scheme (Scotland) Regulation 2014 require Administering Authorities to ensure strong governance arrangements and sets out the standards they are to be measured against. The Fund is required to report compliance with these standards within its Annual Report. To demonstrate full compliance requires the setting and monitoring of a budget for the Fund.
- 3.2 The 2017/18 budget was approved at the Joint Pension Fund Committee and Pension Fund Board meeting on 16 March 2017. The approved budget follows the Local Government Pension Scheme management costs guidance issued by CIPFA into the following 3 categories.

Category	Costs included
Investment Management	All expenses incurred in relation to management of pension fund assets. Including costs invoiced direct and fees deducted from fund assets. Custody and performance fees also included
Administration	Costs incurred in administration of the fund including staff, IT costs and associated overheads, benefits consultants.
Oversight and governance	Costs incurred in the selection & appointment of managers, audit fees, investment advisory services, tax advisory, accounting services, banking service and support to the pensions committee and board.

- 3.3 There has been growing pressure to improve the level of transparency of fees for investors. The Scheme Advisory Board for England and Wales has also been working on this area and has produced a Code of Transparency which the Scheme Advisory Board Scotland has recommended funds adopt the code. Scottish Borders Pension Fund has, for the last few years, been reflecting both fees paid direct to managers and fees deducted at source. This code requires the Fund to also show the lower level transaction costs previously not shown, as this data has not previously been available from investment managers.

4 MONITORING TO 31 DECEMBER 2017

4.1 The table below shows the expenditure to 31 December 2017, projected out-turn to 31 March, full year budget

	Expenditure to 31 December 17 £000's	Projected to 31 March 18 £000's	2017/18 Budget £000's	2017/18 Variance £000's
Investment Management Fees	567	7,594	3,330	4,264
Administration	17	385	385	0
Oversight & Governance	39	229	213	16
Total	623	8,208	3,928	4,280

4.2 The Investment Management fees are directly related to the value of the investments held. The value the fund has increased from £653m on 31 March 2017 to £700m as at 31 December 2017, an increase of 7%. This has resulted in increased fees from the Managers.

4.3 The Pension Fund has also incurred additional costs due to the ongoing work to rebalance of the Fund to the revised investment strategy. The investments made in long lease property have incurred dealing charge for each investment made. This is a transaction cost which under the Transparency code, will be shown under Investment Management Fees. This is a one off charge of £3.6m, mainly due to the requirement to pay stamp duty on long leased property. The rebalancing has also increased the custodian fees due to the increased activity and number of accounts held.

4.4 Investment Management fees are charged on a quarterly basis in arrears or deducted directly based on the value of assets held on a quarterly basis. The second quarter charged investment management fees are not therefore included in the expenditure to 31 December totals. The fees deducted directly are not currently reflected for quarter 1, 2 or 3. Estimates of both fees are however reflected in projected costs to the year end.

4.5 The rebalancing of the fund to the investment strategy has also resulted in additional fees to the custodian for performance and accounting. This is due to the increased number of accounts and transactions as the fund restructures.

5 IMPLICATIONS

5.1 Financial

There are not costs attached to any of the recommendations contained in this report.

5.2 Risk and Mitigations

This report is part of the governance framework to manage the operation of the Pension Fund and reflects compliance with the best practice recommendations.

5.3 Equalities

It is anticipated that there are no adverse impact due to race, disability, gender, age, sexual orientation or religion/belief arising from the proposals in this report.

5.4 Acting Sustainably

There are no direct economic, social or environmental issues with this report which would affect the Council's sustainability policy.

5.5 Carbon Management

There are no direct carbon emissions impacts as a result of this report.

5.6 Rural Proofing

It is anticipated there will be no adverse impact on the rural area from the proposals contained in this report.

5.7 Changes to Scheme of Administration or Scheme of Delegation

There are not changes to the Scheme of Administration or the Scheme of Delegation required as a result of this report.

6 CONSULTATION

- 6.1 The Monitoring Officer, the Chief Legal Officer, the Chief Officer Audit and Risk, the Service Director HR and the Clerk to the Council have been consulted and their comments have been included in the report.

Approved by

David Robertson
Chief Financial Officer

Signature

Author(s)

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Background Papers:

Previous Minute Reference: Joint Pension Fund Committee and Pension Fund Board 12 December 2017

Note – You can get this document on tape, in Braille, large print and various computer formats by contacting the address below. The Capital and Investment Team can also give information on other language translations as well as providing additional copies.

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