



## Pension Fund Committee

27 July 2020

<b>Title</b>	<b>Pension Fund Costs and Expenses</b>
<b>Report of</b>	Director of Finance
<b>Wards</b>	n/a
<b>Status</b>	Public with exempt appendices.
<b>Urgent</b>	No
<b>Key</b>	No
<b>Enclosures</b>	Appendix 1 - Pension scheme costs year to 31.3.2020 Appendix 2 – Notes on costs and expenses <b>(to follow)</b>  <b>Exempt enclosures - Not for publication by virtue of paragraphs 3 of Schedule 12A of the Local Government Act 1972 as amended.</b>
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### Summary

This report summarises the Pension Fund costs in the year to 31 March 2020, with a comparison to the previous year.

### Officer Recommendations

**(1) That the Committee note the scheme costs in the year to 31 March 2020.**

#### 1. WHY THIS REPORT IS NEEDED

- 1.1 Pension fund costs are significant, £9.536 million in the year to March 2020. The attached breakdown (appendix 1) of costs is to enable the Committee to monitor scheme expenditure.

- 1.2 Attached to the paper are two appendices detailing costs in the year to 31 March 2020 with a comparison to the two previous years.
- 1.3 Costs charged directly to funds in which we invest, including transaction costs, are based on reports from managers and cannot be accurately verified. The reporting of costs is becoming standardised with the introduction of a widely used template for expense reporting. Part of the upward trend in costs is due to more complete reporting of costs.
- 1.4 Costs which are invoiced, are reviewed by the Pension Finance team and if necessary, discussed with the Director of Finance.
- 1.5 The increase in reported costs of £1.462 million is due to the following:

New Mandates – the four new mandates in the year (Aberdeen, CBRE, LCIV Emerging Markets & Adams Street) add £0.9 million to costs, whereas savings from sales of DGF's are £0.2 million. Private equity is expensive in the early years as fees are charged based on the value committed (\$67m) and not the amount invested (\$2.5m).

Legal and General internal costs – passive equities remain low cost at 0.13% of average value overall but this compared with 0.06% last year. The increase is due to the switch to hedged overseas equities as these carry the cost of the currency hedges and to including of trading costs for the first time.

Alcentra Direct European Lending – the manager has accrued by not received £0.66m of carried interest (10% share of profits provided Barnet earns a minimum 5% return) in the year as compared with nil last year. Carried interest is charged when assets are realised and accumulate when the fund is in its distribution phase. Costs for this mandate look high, although it should be noted that the since inception annualised return of 7.5% after fees is higher than all the other mandates with the exception of IFM.

IFM costs – savings of £0.3 million compared with the prior year due both to lower performance fees and transaction cost. The overall cost remains high at 2.13% of average value, however the since inception annualised return of 13.7% is by far the highest of all the managers.

LBB recharges to the pension fund the cost of internal staff and also costs related to the outsourcing of pension administration services to Capita. Costs in the year are shown in the table below:

	<b>2019-20</b>	<b>2018-19</b>
	<b>£'000</b>	<b>£'000</b>
<b>LBB Finance Staff</b>	409,179	176,100
<b>Other LBB staff</b>	190,006	501,171
<b>Pension Admin Team</b>	474,165	478,685
<b>Pension Admin Projects</b>	213,000	149,000
<b>IT</b>	14,112	13,570
<b>Legal</b>	10,000	0
<b>Subscriptions</b>	1,500	1,500
	<u>1,311,962</u>	<u>1,320,026</u>

Oversight of the pension administration contract moved from HR to Finance at the start of 2019 and three additional staff (Mark Fox, Gavin Roberts and Nigel Keogh) have been recruited to the Finance team to manage the Capita administration relationship and also the transition of administration to West Yorkshire Pension Fund. The Pension Administration project work in both years relates to the reconciliation of GMP records with HMRC and the correcting of members records following these reconciliations.

Hymans actuarial charges of £0.22 million mainly related to the triennial valuation and the work to verify and correct data that was provided to the Actuary.

Audit fees within the accounts are £63,000 compared with £26,000 the previous year. In reality the audit fee this year and last is £36,000. The amount charged in 2019-20 is the full year for this year together with additional fees billed for the two earlier years.

The costs relating to the Local Authority Pension Fund Forum covers two years.

1.6 Reporting of costs to the Committee will help to ensure that these are properly scrutinised and challenged by officers prior to payment.

1.7 Internal Audit have recommended that the reporting of costs include reporting of contributions and benefits. The table below summarises contribution income and benefit expenditure in the last two years.

	31 March 2020	31 March 2019
	£000	£000
<b>Employees' contributions:</b>	<b>11,543</b>	<b>11,169</b>
<b>Employers' contributions:</b>		
Normal contributions	30,948	30,731
Deficit recovery contributions	16,785	15,098
Augmentation contributions	4,142	2,530
<b>Total employers' contributions</b>	<b>51,875</b>	<b>48,359</b>
<b>Total contributions receivable</b>	<b>63,418</b>	<b>59,528</b>

Pensions	47,873	45,507
Commutation and lump sum retirement benefits	8,638	8,662
Lump sum death benefits	909	986
<b>Total benefits payable</b>	<b>57,420</b>	<b>55,154</b>

<b>Net Contributions received</b>	<b>5,998</b>	<b>4,374</b>
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Contribution income exceeded benefits paid by £6.0 million in the last 12 months. That position is expected to remain into 2020-21 with the implication that there is no requirement to sell investments to meet benefit expenditure.

## **2. REASONS FOR RECOMMENDATIONS**

2.1 The report is for noting.

## **3. ALTERNATIVE OPTIONS CONSIDERED AND NOT RECOMMENDED**

3.1 None

## **4. POST DECISION IMPLEMENTATION**

4.1 N/A.

## **5. IMPLICATIONS OF DECISION**

### **5.1 Corporate Priorities and Performance**

5.1.1 To ensure that the Pension Fund is being invested prudently and to the best advantage in order to achieve the required funding level. Effective monitoring of the Pension Fund will ensure that long term investment targeted returns are achieved and will provide support towards the Council's corporate priorities.

### **5.2 Resources (Finance and Value for Money, Procurement, Staffing, IT, Property, Sustainability)**

5.2.1 The Pension Fund costs are ultimately reflected in the employers' contribution rates and good management of costs will help to control contribution rates.

### **5.3 Social Value**

5.3.1 Membership of the Pension Fund ensures the long term financial health of contributing employees on retirement.

### **5.4 Legal and Constitutional References**

5.4.1 Constitution – Under article 7 one of the responsibilities of the Pension Fund Committee is 'To meet review and consider approval of the Pension Fund Statement of Accounts, income and expenditure and balance sheet or record of payments and receipts'. A review of expenses falls within that remit.

5.4.2 There are no relevant legal references.

### **5.5 Risk Management**

5.5.1 Monitoring of expenditure is a key element of protecting the assets of the pension fund.

## **5.6 Equalities and Diversity**

5.6.1 Pursuant to the Equalities Act 2010, the Council is under an obligation to have due regard to eliminating unlawful discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Act; advancing equality of opportunity between persons who share a relevant 'protected characteristic' and those who do not share it; and fostering good relations between persons who share a relevant 'protected characteristic' and persons who do not share it. The 'protected characteristics' are: age, disability, gender reassignment, pregnancy, and maternity, race, religion or belief, sex and sexual orientation, marriage and civil partnership.

5.6.2 The rules governing admission to and participation in the Pension Fund are in keeping with the public-sector equality duty. The public sector equality duty requires public authorities in carrying out their functions to have due regard to the need to achieve the objectives set out under s149 of the Equality Act 2010. Good governance arrangements and monitoring of the Pension Fund's managers will benefit everyone who contributes to the fund.

## **5.7 Consultation and Engagement**

5.7.1 Not applicable

## **5.8 Insight**

5.8.1 Not applicable

## **6. BACKGROUND PAPERS**

6.1 None