

A three year budget for 2012 to 2015 is included as **APPENDIX 3A**. The proposed budget includes the variations resulting from expected developments shown in the Service Plan.

The budget is split between those areas that relate to the administration of the Fund in terms of providing the administration service to members and employers, and those areas where there is less scope to directly control the costs. The latter areas include Investment Management and Custody costs where the fee structure is agreed by the Fund but the actual costs incurred are dependent upon investment performance and the volume of transactions. They also include governance expenses which are a consequence of the Fund's policy response to regulations and investment strategy.

The budget approved for Administration in 2011/12 was £2,078,300. In the proposed budget for 2012/13 this has had to be increased to £2,149,100 in order to provide the necessary resources to meet the increased administrative pressures on the Fund. Wherever possible the increased demand for resources has been met by savings in other areas. A detailed analysis of the necessary growth, savings and one-off items is given below:

### **Scheme Administration**

#### **1. Salaries**

There is an increase in salary costs of £95,000 partly offset by a saving of £24,000 mainly as a result changes in National Insurance bands. The growth is due to the creation of three new posts in order to increase capacity and resilience within the Investments team. Over time the headcount will reduce by 1.5 posts (giving a net increase of 1.5 posts) but in the interim there will be a period of higher costs.

The need to increase resource has arisen from two drivers. Firstly, there has been a significant proliferation of employers in recent years due to outsourcing by scheme employers and as a result of government policy e.g. academies. In addition, the risks associated with the funding of pension liabilities and financial budgeting for employers have become more material and as a result, employers require more support from the Fund in dealing with such issues. Secondly, the workload in the Investments team has increased driven by the investment strategy and management structure and greater governance requirements, both in terms of investments and the committee/panel.

The additional posts are:-

#### **Valuation Accountant**

Currently the actuarial capability consists of the Investments Manager supported by a part time Investment Manager (who will be retiring) and a Senior Project Officer (half of the post-holder's role). In addition, the Finance Manager (Pensions) assists in the monitoring of the financial standing of admitted bodies.

It is proposed that a new post of Valuation Accountant is created to provide day to day support on all valuation and actuarial issues, including employer admissions and cessations and financial monitoring of admitted bodies, eliminating the current part time post.

### **Investments Officer**

The Investments Team currently consists of three posts. Since 2007, the team resource has remained static despite significant increases in workload, arising primarily from the increase in investment managers from five to sixteen generating more monitoring and due diligence work, and the increase in governance requirements which are mainly managed by the Investments Team. As a result the team has struggled to cope with the increased workload, in particular the development of investment strategy.

It is proposed that a new post of Investment Officer is created to provide support for the Assistant Investments Manager, taking responsibility for the monitoring of specific aspects of investment policy.

### **Investment Custody Officer**

In addition the Investments & Custody Relationship Officer is nearing retirement. The role requires specialist and technical knowledge which will require a prolonged handover period given the wide scope of the role which performs a critical quality assurance and compliance function. When the incumbent retires the extra post will be eliminated.

## **2. Investment Administration**

There is a small reduction in costs as savings have been identified in the training and travel budget.

## **3. Administration**

There is a small increase in 2013/14 to fund the periodic AVC monitoring exercise

## **4. Communications**

Growth in Communication costs of £18,000 is for leaflets and a DVD to meet the statutory requirement to inform members of any changes in the Scheme. This cost is partly offset by savings to be made in the production and distribution of the Annual Report, *Avon Pension News* and *At Ease*.

## **5. Payroll Communication**

The reduction in Payroll Communication costs is due to a re-classification of Payroll Maintenance costs to more properly describe them. These have been transferred to Information Systems (see below).

## **6. Information Systems**

Information Systems costs have grown by £47,000. As described above £16,000 of this relates to Payroll Maintenance costs previously included under Payroll Communications costs. An additional £25,000 is included for the "I Connect" system which will allow the more efficient uploading of employer's data in to Altair. This will be of particular importance when Auto Enrolment starts. A further £6,000 is included following a tender process and the letting of a contract for an improved disaster recovery programme.

## **7. Central Allocated Costs**

The small reduction in Central Allocated Costs is the result of improved budgeting in this area.

## **8. Administration Recharges**

The budget for income from recharges of administrative work has increased from £134,000 to £166,000. This reflects the increased amount of rechargeable work that is required of the Fund from external bodies, for example in regard to their outsourcings, academies and the preparation of their statements of accounts.

## **Governance and Compliance**

### **9. Governance**

The increase in Governance costs is primarily due to the cost of the Strategic Investment Review due to commence in 2012/13. In addition £30,000 one-off recruitment costs have been included to provide for the possible appointment of new Independent Members when the term of the current independent members expires in June 2013.

### **10. Compliance costs and Compliance Costs Recharged**

The 2012/13 budget for Compliance costs includes £15,000 as provision for preparatory work ahead of the 2013 valuation. Further increases in Compliance costs mainly relate to increased work carried out by the Actuary on behalf of Academies and outsourced employers. The recharges for this work are reflected by the increase in the Compliance Costs Recharged budget.

The 2013/14 budget for Compliance costs include £100,000 for the costs of the 2013 triennial valuation that will fall in that year.

## **Investment Fees**

### **11. Investments fees**

There are savings in custody fees following the contract being retendered in 2011. Partially offsetting lower fee rates is the currency hedging mandate that was not previously included in the custody fees budget.

The investment management fees assume a 6% increase in asset values during 2012/13. In addition the increase is also due to the currency hedging management fees being added to the budget.

**END**