

SERVICE PLAN 2013 - 2016

A three year budget for 2013 to 2016 is included as Appendix 3A. The proposed budget includes the variations resulting from expected developments shown in this 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 table below shows the change in the budget for the Fund between 2012/13 and 2013/14, excluding Investment Management and Custody costs that are dependent upon investment performance and the volume of transactions:

Change in Administration, Governance and Compliance Budget	£
Budget for Administration, Governance and Compliance 2012/13	2,716,800
Additional Recurring Costs	
Additional resources for Salaries, Software and IT costs to meet demands of Auto-enrolment and the new scheme LGPS2014, approved by the Committee in September 2012.	125,000
One off costs 2013/14 (and 2014/15 where indicated)	
Triennial Valuation	120,000
Investments Strategic Review (Work spread over two years)	50,000
Investments New Mandates (following strategic review)	90,000
Investments Transition Manager (following strategic review)	25,000
Apprentices (Two years only) to meet demands of Auto-enrolment and the new scheme LGPS2014 approved by the Committee in September 2012	18,000
Removal of 2012/13 One Off costs	
Appointment of Independent Trustees (one off cost)	-30,000
SRI Tender advice	-20,000
Recurring savings partly offset by inflation	-85,300
Proposed Administration, Governance and Compliance Budget	3,009,500

The budget has had to be increased to in order to provide the necessary resources to meet the increased administrative pressures on the Fund and the one off costs relating to the strategic review of investments. The increase includes £125,000 relating to the re-structure of the Benefits section that has already been approved by the Committee in September 2012. Savings have been found across the budget, including the absorption of the effect of inflation. A detailed analysis of the necessary growth, savings and one off items is given below.

In the subsequent two years of the service plan the budget is expected to reduce to c. £2,800,000 based on current assumptions of service delivery, governance and compliance.

Scheme Administration

1. Salaries

There is an increase in salary costs of £104,200. Of this £77,000 is to fund the restructure of the Benefits section and creation of the Data Quality and Management Team as approved by the September Committee. A further £18,000 is to provide for the cost of two apprentices for 2013/14 and 2014/15 also as approved by the September Committee. The balance of the increase is the net result of some grade confirmations of new posts offset by a reduction in the provision for overtime and temps.

The 2013/14 salaries budget is based on an assumed 1% increase in pay rates. The same level of increase is also assumed for subsequent years.

2. Investment Administration

There is a small reduction in costs from savings in Investment Accounting as a result of the new custody contract and from a reduction in expenditure on publications.

3. Administration

There is a small increase in the budget for tracing that will improve the quality of data held in relation to deferred members. This is largely off-set in 2013/14 by the removal of the cost of the periodic AVC monitoring exercise that will not be required until 2014/15.

4. Communications

The Communications budget has had to be increased by £9,000 to meet the cost of producing two editions of the Pensioner Member's magazine "At Ease". It was previously intended that the cost of producing the magazine would be substantially reduced through a partnership arrangement. Unfortunately it has not been possible to implement this arrangement. If an alternative partnership can be found the budget for the magazine may not all be required.

5. Payroll Communication

The Payroll Communication budget that is mainly made up of postage costs has been increased with inflation.

6. Information Systems

Information Systems costs have increased by £30,000. Of this increase £15,000 is to fund the full year cost of the "i-Connect" system that was previously only budgeted for part of the year. The system will allow the more efficient uploading of employer's data in to Altair, of particular importance when Auto Enrolment starts. The other £15,000 is to

fund the cost of the necessary updates to the Altair system in preparation for the LGPS 2014 scheme.

7. Central Allocated Costs

Central Allocated Costs are budgeted to increase by £30,700.

- £10,000 of this relates to the additional IT costs of the restructure that were approved by the September 2012 Committee.
- £10,000 is to fund the research and acquisition of a suitable Employer Document Management System (central storage for employer related documents and correspondence). With the growing number of employers in the Fund and their increasingly complex and diverse situations it is becoming imperative to maintain their documents in a well ordered and manageable system.
- £10,700 is to fund additional corporate legal fees that are expected to result from the various activities of employers (mainly admission agreements). Such costs arising from outsourcings are recharged to the relevant employer.

8. Administration Recharges and Compliance Costs Recharged

The budget for income from recharges has been increased by £9,000 to £325,000. Within this total there has been a greater increase in recharges for actuarial work offset by a reduction in recharges for administration. The budget reflects the expectation that there may be a slow-down in the number of schools converting to Academy status and thus becoming new employers in the Fund. It is accepted that this may be an underestimate if the rate of conversion to Academies does not slow or if there is an increase in out-sourcing of services such as cleaning and catering.

The Fund intends to impose recharges on employers for additional work incurred as a result of their late or inappropriate submission of data/information. However, it is intended that these recharges should stimulate a change in behaviour rather than produce additional income.

Governance and Compliance

9. Governance

The budget for Governance Costs, including Member's allowances and Independent members' costs has been reduced by £3,000 due to a combination of factors, mainly:

- Investment Consultancy fees have increased £20,000 including the advice required to implement potential changes to the investment management structure.
- This has been more than offset by the removal of the one off cost in 2012/13 for appointing independent trustee.

10. Compliance costs

The 2013/14 budget for Compliance costs is £132,000 more than the budget for 2012/13. The budget increase is mainly due to:-

- Actuarial costs of £105,000 for the 2013 Triennial Valuation, the costs of which will fall mainly in 2013/14.
- A £37,000 increase in Actuarial fees (excluding the valuation) that will wherever possible be recharged to the relevant employer. These recharges are shown

separately in the budget as income, but offset £37,000 of the total increase in Compliance costs.

- A £5,000 increase in the budget for External Legal Services for new Investment Management Agreements.
- The above are partly offset by a £17,000 reduction in the expected external audit fee.

Investment Fees

11. Investments fees

The investment management fees budget is based on the assumption that there will be a 6% increase in asset values during 2013/14.

In addition to the assumed 6% growth, the budget includes estimated net additional Investment Manager's fees of £1,760,000 arising from the new investment strategy. The revised strategy will include more actively managed mandates structured to generate the same overall return objective but with lower volatility of returns which is intended to maintain stability in employer contribution costs. The budget also includes £25,000 for Transition Manager Fees that may be incurred in implementing the new strategy.