

SERVICE PLAN 2016 – 2019: BUDGET COMMENTARY

A three year budget for 2016 to 2019 is in Appendix 4A. It shows for comparison the budget for 2015/16 including approvals made during the year and the forecast out-turn for 2015/16. Major one off expenditure and new ongoing savings are also shown.

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 compliance and governance expenses which are a consequence of the Fund's policy response to regulations and investment strategy.

Administration Budget

The increased expenditure budgeted for 2016/17 reflects the Funds response to the increasing pressure of dealing with the continued growth in the number of employers, the anticipated cost of the triennial valuation and the costs involved in the pooling of investments (Project Brunel). Savings have been made through changes in working arrangements and the adoption of digital technology to promote efficiency while maintaining the level of service. Wherever possible the effect of inflation has been absorbed. Ongoing savings made in 2015/16 are to be invested in the IT Strategy that will realise further savings and or mitigate cost pressures in future years.

Scheme Administration**1. Salaries**

The 2016/17 increase in salary costs reflects the need for additional resources to maintain the standards of data quality and to manage the continued increase in the number of employers. The 2016/17 cost is partially reduced to reflect the likely timing of recruitments. The subsequent years show the full year costs, but these will coincide with the completion of the IT Strategy and the consequent reduction in expenditure in that area. The increased costs of salaries also allows for the change in the system of paying employer's National Insurance, increments and the expected pay award.

2. Investment Expenses and Administration

The reduction in the Investment Expenses budget is due to the redefinition of governance related subscriptions as Consultants fees. The increase in the Administration Costs budget is due to the increase in the training budget. This will be used to provide the necessary training relating to the increased resources required to maintain the standards of data quality and to manage the continued increase in the number of employers.

3. Communications

The increased use of electronic means of delivery and new arrangements for the distribution of newsletters has allowed further savings to be made in Communications.

4. Information Systems and Payroll Communication Costs

The completion of the development of Information Systems relating to changes in the Fire Fighters scheme and the new LGPS 2014 scheme has allowed a reduction in the budget. All costs relating specifically to the Fire Fighters pensions are recharged to Avon Fire and Rescue (see Administration Recharges below).

5. Central Allocated Costs

Central Allocated Costs for Accommodation, IT, Financial Management etc. have been reduced by £33,000 when compared with the 2015/16 budget level. The savings are largely a result of flexible working.

6. IT Strategy

2016/17 is the second year of the three year IT Strategy funded from ongoing savings largely identified in the 2015/16 budget. Costs include the use of consultants, systems set up, development support and maintenance, training, and the cost of additional support staff salaries.

7. Administration Recharges

The budget for income has been reduced reflecting the end of the secondment of a Senior Projects Officer to Bristol City Council and the completion of work changes in the Fire Fighter's scheme. These have been partially offset by the proposed recharging of a dedicated post to the Fire Service.

Governance and Compliance

8. Governance

The budget has been increased by £123,000 to provide for consultants fees mainly relating to

- (i) advice for Liability Driven Investing,
- (ii) advice for the Asset Liability Review,
- (iii) the expenditure on Responsible Investing Review moving from 2015/16 to 2016/17
- (iv) Project Brunel.

The budget also includes an additional £25,000 provision for the cost of recruiting an Independent Member (term expires 2017).

9. Compliance costs and Compliance costs recharged

The budget includes an additional £250,000 to meet the actuarial costs of the triennial valuation. The budget also includes provision for any other Actuarial Fees incurred either for the Fund or for the benefit of specific employers. Wherever these fees can be recharged they are and the recharges include an allowance for the time spent by the Fund in preparing data for the actuarial work.

Additional Legal fees have been included to provide the Fund with investment related advice as a result of Project Brunel.

Investment Fees

10. Investments fees

Expenditure on investment management fees is subject to the performance of the investment assets. In addition the Fund incurs performance fees which are subject to various arrangements which are usually phased over a number of years following the performance period. The budget includes savings that have been achieved following the appointment of new investment managers.

The Pensions Board

The Pension Fund is required to fund the costs of the Pensions Board. The Board became operational in July 2015. An initial budget for the operation of the Board of £37,400 was set. The budget for 2016/17 is set out below. The budget has been increased to allow for a full year of operation. This increase is partially offset by the reduced need for member training and by the reduction in communications costs following the completion of the required new developments.

Pensions Board

	2016/17
Chairman's Allowance & Member's Expenses	12,000
Training	3,000
Meetings	8,000
Officer Support	17,000
Communications	600
	40,600