

SERVICE PLAN 2017 – 2020: BUDGET COMMENTARY

A three year budget for 2017 to 2020 is in Appendix 4A. It shows for comparison the budget for 2016/17 including approvals made during the year and the forecast out-turn for 2016/17.

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 2017/18 reflects the Funds response to the increasing pressure of dealing with the continued growth in the number of employers and the importance of maintaining accurate and up to date data. Savings have been made through changes in working arrangements and the adoption of digital technology to promote efficiency while maintaining the level of service. Savings made in the 2015/16 Service Plan continue to be invested in the IT Strategy that will realise further savings and or mitigate cost pressures in future years. Wherever possible the effect of inflation has been absorbed.

Scheme Administration**1. Salaries**

The 2017/18 increase in salary costs is more than offset by the transfer of the Fund's IT Support Team to the Council's Financial Systems team to provide greater resilience . This transfer is also reflected in the increase in the Central Allocated Costs budget. The increase in the salaries budget gross of this transfer was due to the effects of the pay award and the full year effects of the restructure of the Administration section staff that was agreed in the previous Service Plan to focus on the demands of dealing with the increased number of employers and the increased importance of membership data. There is also an increase in the salaries budget for a dedicated part time post relating to Fire Brigade pensions. The cost of this post will be recharged to the Avon Fire & Rescue Service.

2. Investment Expenses and Administration

The Investment Expenses budget has been held close to the same level as in 2016/17 with inflation absorbed wherever possible. The potential savings in Investment Team and investment related costs following the introduction of the BPP have not been included since the timing of these is currently uncertain. It is also possible that some additional resources may be required as the transfer of assets to BPP impacts on the Investment Team's service delivery. If this is identified as a risk it will be reported to Committee with a request for additional resources. The Administration budget has been reduced as some budget responsibilities have been transferred to Payroll and Communications to more closely match their functions. Taken together there has been a net saving of c£4k on Administration, Communications and Payroll Communications budgets.

3. Communications

The Communications budget has been increased by the transfer of some budgets previously held under Administration. The budget reflects the increasing need to communicate with members in response to the future legislative agenda and the consequent changes in, for example taxation and exit caps. The budget also includes savings in the costs of delivering newsletters and the Employer Conference.

4. Information Systems and Payroll Communication Costs

The increase in the Information Systems budget reflects the continued commitment to the use of digital technology. The increase in the Payroll Communications budget is due to the transfer of some budgets previously held under the Administration budget to more closely reflect their functions.

5. Central Allocated Costs

Central Allocated Costs have been held at the 2016/17 level including the year on year savings made last year, largely as a result of flexible working. The increase in 2017/18 reflects the transfer of the Fund's IT Support Team to the Council's Financial Systems team to provide greater resilience resulting in their removal from the Fund's Salaries budget.

6. IT Strategy

2017/18 is the third year of the IT Strategy funded from savings made 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. The Fund is working closely with its supplier in implementing IT developments. Part of this budget has been rolled forward to 2018/19 as the product offer from the systems supplier is changing.

7. Administration Recharges

The reduction in the budget for income has been reduced to more accurately reflect the distinction between Administration Recharges and Compliance Costs Recharged. This reduction is offset by the increase budget for Compliance Costs recharged. In making these recharges the Fund only seeks to recover costs it has incurred. The budget also includes the recharge of the cost of a part time post dedicated to Fire Brigade pensions.

Governance and Compliance

8. Governance

The budget provides for recurring investment consultants fees and vote monitoring. The budget also includes a provision for the cost of recruiting an Independent Member (current term expires 2017).

9. Compliance costs and Compliance costs recharged

The reduction in the Compliance costs budget is largely as a result of the removal of 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. The Compliance Costs Recharged budget has increased largely due to the more accurate distinction between Compliance costs recharged and Administration recharges.

10. Project Brunel

The budget for Project Brunel relates to the initial development cost, largely relating to consultants fees.

Investment Fees

11. Investment 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 additional management fees relating to Liability Driven Investing and the increased value of the Fund. The fees budget for BPP in 2017/18 includes the estimated operating costs, working and regulatory capital required before the company starts to manage the investment assets. The budgets for 2018/19 and 2019/20 include estimated costs that will be due to the BPP once it comes in to operation. No allowance has been made for any fee savings that should result from pooling since the timing of these are as yet unknown. **The Pensions Board**

The Pension Fund is required to fund the costs of the Pensions Board. The Board became operational in July 2015. The budget for 2017/18 is set out below.

Pensions Board

	2017/18
Chairman's Allowance & Member's Expenses	8,000
Training	3,000
Meetings	9,000
Officer Support	15,000
Communications	2,000
	37,000