

Bath & North East Somerset Council

MEETING:	AVON PENSION FUND COMMITTEE	<input type="text"/>
MEETING DATE:	18 MARCH 2011	
TITLE:	2011-14 SERVICE PLAN AND BUDGET	
WARD:	'ALL'	
AN OPEN PUBLIC ITEM		
List of attachments to this report: Annex: 2011 – 2014 Service Plan and Budget (including 5 Appendices)		

1. THE ISSUE

- 1.1 The purpose of this report is to present to Committee the 3-Year Service Plan and Budget for the period 1 April 2011 to 31 March 2014.
- 1.2 The Service Plan (Annex) reports on progress made against 2010/11 planned actions and then details new development proposals that are planned to be undertaken during the next 3 financial years. These are designed to respond to known legislative changes and Committee initiatives as well as to take the Service forward by improving performance and overall quality of service to its stakeholders.

2 RECOMMENDATION

- 2.1 **That the Committee approves the 3-Year Service Plan and Budget for 2011-14 for the Avon Pension Fund.**

3 FINANCIAL IMPLICATIONS

- 3.1 The administrative and management costs incurred by the Avon Pension Fund are recovered from the employing bodies through the employers' contribution rates.
- 3.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 provide that any costs, charges and expenses incurred administering a pension fund may be paid from it.
- 3.3 Financial implications are contained within the body of the Report.

4 SERVICE PLAN 2011/14

- 4.1 The Service Plan sets out the Pension Fund's objectives for the next three years. The three year budget supports the objectives and actions arising from the plan including work relating to the investment strategy and improvements in the administration of the Fund. Specifically the Fund is developing an administration strategy that incorporates working more closely (as partners) with the Fund's employing bodies.
- 4.2 Full details of the 2011/14 Service Plan are included in the Appendices. Appendix 3 shows progress of the 2010/13 plan as well as the new medium term targets for 2011/12.

5 BUDGET 2011/12 TO 2013/14

- 5.1 The total budget for the Pension Fund for 2011/12 is £11,330,900, an increase of £1,020,400 over the budget for 2011/12 previously approved in March 2010 as part of the three year budget. The increase of £1,020,400 is broken down as follows:
 - (i) The increase in expenditure as a result of investment management fees and governance and compliance costs is £1,130,300.
 - (ii) The budget for administration costs shows a saving of £109,900 representing a saving of 5.03% on the 2011/12 budget previously approved as part of the three year budget in March 2010.
- 5.2 The administration budget for 2011/12 is £2,073,000. The total budget for investment, governance and compliance for 2011/12 is £9,257,900. A detailed breakdown of the three year budget 2011/12 to 2013/14 is shown in Appendix 4 of the Service Plan.
- 5.3 **Savings and Inflation:** The savings are calculated by comparison of the proposed 2011/12 budget with the 2011/12 budget approved on 26 March 2010 as part of the three year budget commencing 2010/11. The inflation rate over 2010/11 assumed in the preparation of that three year budget at that time was 2% p.a. for all expenditure other than Investment Management Fees and Global Custody fees, which were increased by 6% p.a. in line with the actuarial assumption for investment returns.

In preparing the proposed 2011/12 budget salary inflation has been assumed at zero in line with the freeze on pay awards; however, some increase in costs has been assumed due to increases in pension contributions, increments and national insurance. Increases in expenditure on Investment Management Fees are still assumed to rise by 6% in line with the actuarial assumption. In all other areas the proposed budget is based on estimates of specific costs. Consequently there is no uniformly assumed inflation rate. Where inflation has been assumed for 2011/12, it has been between 2% and 3%. For 2012/13 and 2013/14 the rates of inflation assumed are between 2.5% and 3% per annum on all non salary costs apart from Investment

Management Fees which increase by 6% p.a. as explained above. The inflation rate assumed for salaries is zero for 2012/13 and 1% for 2013/14.

- 5.4 The Pension Fund continuously strives to reduce its costs whilst maintaining the level of services it provides through improvements in its use of resources. However within the budget, there are areas of expenditure, specifically investment management and custody fees, where although the contract sets the fee base the costs incurred are determined by the performance of the underlying markets or volume of transactions. In addition, governance costs are incurred which are a consequence of the Fund's policy response to regulations (for example, the requirement to obtain proper advice, to have a representative governance structure and to provide member training). Therefore the Fund has less scope to directly control these costs compared to the costs relating to the administration of the service provided to Fund members and employers.

BREAKDOWN OF BUDGET

6 ADMINISTRATION COSTS

- 6.1 The total administration budget for 2011/12 is £2,073,000. This represents a saving of £109,900 (5%) over the three year budget approved in March 2010. It is intended that these savings will be made through greater efficiency without any reduction in the level of service provided.
- 6.2 A detailed description of how the savings to the administration budget have been achieved is given in Section 8 of the Service Plan.

7 INVESTMENT, GOVERNANCE AND COMPLIANCE COSTS

- 7.1 The total investment, governance and compliance budget for 2011/12 is £9,257,900 an increase of £1,130,300 (14%) over the 2011/12 budget approved in March 2010 as part of the three year budget. A detailed breakdown of the increase in budget is given below.
- 7.2 **Global Custodian Fees:** Increase in Budget of £49,900 is due to the increased value of the fund and an expected one off increase in the number of transactions as a result of the appointment of the new global equity segregated manager. This budget is reduced again in 2012/13 with the removal of the cost of the one off transactions.
- 7.3 **Investment Management Fees:** Increase in Budget of £1,013,800 including ad valorem and performance fees. These fees are budgeted to increase by 6% per annum approximately in line with the actuarial assumption for investment returns. The increase of 13% over the previous 2011/12 budget, set as part of the three year budget in March 2010, is a result of the positive performance of investments since that time. This has raised the base level on which the 6% increase for 2011/12 is then added.
- 7.4 **Investment Governance and Member Training:** Increase in Budget £19,700. The increase includes advice for re-tendering the custody contract, the Socially Responsible Investing and Hedge Fund reviews (some of which have been carried forward from the 2010/11 budget). These costs are partly offset by reduction in the cost of performance monitoring. There is also a £4,000 increase in expenditure on Investment Training for Members.

7.5 **Members (and Independent Members) Allowances:** Reduction in Budget £6,700. This has been possible as the cost of allowances for the additional voting members, introduced in the budget approved in March 2010, has been less than was originally anticipated.

7.6 **Compliance Costs (net of Compliance costs recharged):** Increase in Budget £53,900 reflects the increase in work undertaken by the actuary and of legal advice relating to actuarial issues, partly offset by the reduction in external audit fees. Wherever possible actuarial costs and legal fees are recharged to the parties concerned.

8 RISK MANAGEMENT

8.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. In addition it monitors the benefits administration, the risk register and compliance with relevant investment, finance and administration regulations. The creation of an Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

9 EQUALITIES

9.1 An equalities impact assessment is not necessary.

10 CONSULTATION

10.1 N/a

11 ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 Are detailed in the report.

12 ADVICE SOUGHT

12.1 The Council's Monitoring Officer and Section 151 Officer (Divisional Director - Finance) have had the opportunity to input to this report and have cleared it for publication.

Contact persons	Budget – Martin Phillips, Finance & Systems Manager (Pensions) (Tel: 01225 395259) Service Plan – Tony Bartlett, Head of Business, Finance and Pensions (Tel: 01225 477302) & Steve McMillan, Pensions Manager (Tel: 01225 395254)
Background papers	Various Accounting Records