

SERVICE PLAN 2018 – 2021: BUDGET COMMENTARY

A three year budget for 2018 to 2021 is in Appendix 4A. It shows for comparison the budget for 2017/18 including approvals made during the year and the forecast out-turn for 2017/18.

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 values, 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 4.3% increase in expenditure budgeted for 2018/19 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. This employer driven demand has increased the need to recruit additional resources. There is also a demand from the Pensions Regulator for improved quality of member data to meet legal requirements. In addition to this there is a recommendation from the Pensions Board to implement a one off project to trace deferred member's addresses and to action historic refunds.

When comparing the 2018/19 budget with the 2017/18 budget it should be noted that there has been some re-categorisation between Administration, communication and payroll communication costs.

Scheme Administration**1. Salaries**

The 2018/19 increase in salary costs includes increases resulting from the pay award, increases in Employer's National Insurance contributions and in Employer's Pension contributions together totalling around £60,000.

Two new posts in Administration have been created for the one off project to trace deferred members and make historic refunds. One of these will be funded from resources previously set aside for the IT Strategy. The cost of another additional half time post for a Fire Liaison Officer will be recharged to Avon Fire and Rescue. Three additional posts will be created to create cover for posts that become vacant as a result of staff turnover. Re-grading of a few posts have been made to assist in retention of staff.

In the Investments team four members of staff (3.5FTE posts) have left to join the Brunel Pensions Partnership and the team currently comprises three staff including the Investments Manager. The future functions of the Investments team under the new arrangements with the Brunel Pensions Partnership have yet to be finalised and will be reviewed during the year. The 2018/19 budget is set to meet the current needs of the team and includes an extra post to take the team through the transition of assets.

The increasing number of schools achieving academy status and the increasing outsourcing of services by academies has resulted in an increase in staff in the actuarial section within the Investments team in 2017/18, and the full cost is now reflected in the budgets for 2018/19 onwards. In 2018/19 it is anticipated another post will be required by the actuarial team to manage the ongoing workload arising from outsourcings, academy conversions and covenant monitoring.

2. Investment Expenses and Administration

The Investment Expenses budget has been reduced with the removal of the cost of Investment Performance Measurement as a separate item. This is now provided by the custodian and falls under Custody costs. In future, once assets transfer to Brunel portfolios, Brunel will provide performance measurement services via the custodian. The Administration budget has been reduced as some budget responsibilities have been transferred to Payroll and Communications to more closely match their functions. This reduction has largely been offset by an additional £12k for the one off project to trace deferred members and make historic refunds.

3. Communications

The Communications budget has been increased by the transfer of some budgets previously held under Administration. None of these areas of expenditure have increased other than as a result of inflation where it could not be absorbed.

4. Information Systems and Payroll Communication Costs

The Information Systems budget has risen to meet the cost of increased use of i-connect by small employers, reflecting the continued commitment to the use of digital technology. The Payroll Communications budget has been reduced due to the transfer of some budgets to the Administration budget to more closely reflect their functions. This reduction has been offset by the inclusion of £12k for the tri-annual overseas existence tracing exercise.

5. Central Allocated Costs

Central Allocated Costs have largely been held at the 2017/18 level. The only increases relate to increased internal audit coverage and recharges relating to a Data Protection Officer needed to meet the requirements of the GDPR (General Data Protection Regulation). The increased internal audit coverage includes officer support for the Pensions Board.

6. IT Strategy

Expenditure on the IT Strategy has previously been delayed as the suppliers have changed their product offer. The budget for 2018/19 reflects this. Part of the savings set aside for the three year IT Strategy have now been transferred to the Salaries budget to fund a post for a project to trace deferred members and make historic refunds. The remaining balance of the IT Strategy budget is retained to meet the costs of an enhanced Admin to payroll link and the implementation of employer self-service through i-connect. It is intended that some of the additional costs of the increased use of Employer Self Service will be recharged to the employers.

7. Administration Recharges

The increase in the budget for administration recharges is a result of the intended recharge of the cost of the Fire Liaison Officer and of the increased use of Employer Self Service.

Governance and Compliance

8. Governance

The increase in the budget reflects the additional expenditure on quarterly risk management reporting (for the Liability and Equity hedging strategies) as part of the Investment Strategy. In addition, anticipated projects have been provided for including a bespoke strategy for the employers on the Corporate Bond funding basis and exploration of options for further de-risking.

9. Compliance costs and Compliance costs recharged

The increased budget for Compliance costs includes the cost of an interim valuation and preparatory work for the Triennial Valuation. The budget also reflects the continued growth in the number of schools achieving academy status and the increasing number of services outsourced by academies. Wherever possible the cost of this work is recharged to the Academy or outsourcing employer.

10. Brunel expenses

The budget includes £25k to cover the costs to support the Client Group (Officer Group and Oversight Board) the Fund might incur in relation to the monitoring of the Brunel Pensions Partnership.

Investment Fees

11. 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 is based on the current manager's mandates and expected performance of the markets. Brunel Pensions Partnership management fees are shown separately. They will not be offset by savings until the transition of assets has been completed; no savings have been included in budget.

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 requirement of the Board is now more clearly established. The cost of officer support is now included in Central Allocated Costs. The budget for 2018/19 is set out below.

Pensions Board

	2018/19
Chairman's Allowance & Member's Expenses	8,000
Training	6,000
Meetings	6,000
	20,000