

PENSION FUND COMMITTEE – 7 SEPTEMBER 2012

PENSION FUND INVESTMENT AND ADMINISTRATION EXPENSES OUTTURN REPORT FOR THE YEAR ENDED 31 MARCH 2012.

Report by Assistant Chief Executive & Chief Finance Officer

Introduction

1. In March 2011 the Pension Fund Committee agreed a budget in respect of the Pension Fund's investment and administration expenses for the 2011/12 financial year. The production of an annual budget is in accordance with a recommendation of best practice set out in the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme.
2. Annex 1 compares the Investment Management and Scheme Administration outturn figures against the budget and shows the variations against each budget head. The reasons for any material variations are explained below.

Investment Management Expenses

3. The largest component of the Investment Management expenses budget is the **Fund Management Fees**. Although a budgeted sum is agreed for this item it is not possible to accurately estimate the annual charges because they are linked to the market values of the assets being managed, which continually fluctuate. The budgeted sum for management fees was £2,800,000 but the actual fees were £2,097,000 a variance of £703,000. The majority of the difference was due to a budget of £450,000 for a new global equities manager not being used as an appointment was not made during the financial year. Poor performance of world equity markets resulted in fees for funds invested in overseas equities being lower than forecast due to lower market values of the funds under management. There was a one-off fee for Legal and General for the transition from Alliance Bernstein.
4. The **Global Custody Fee** is dependent upon the market value of assets held, the type of investments held and the number and type of trades arranged by the fund managers. It is therefore not possible to accurately predict the total fee for the year. The £38,000 under spend on the Global Custody Fee budget for 2011/12 arose from a contingency element of the budget which was not required and was also a result of the transfer of the

global equities allocation of approximately £250m from active to passive management. Assets under passive management have lower custody fees as transactions are not effected through the custodian and have lower associated account fees.

5. The **Consultancy Fees** budget included an amount for consultancy in relation to the appointment of a new global equities manager. There was no charge for the consultant used in the appointment process as the fees were recovered from the successful fund manager. This contributed to the £101,000 under spend for special projects. A further £10,000 under spend was realised due to the termination of a consultancy contract.
6. **Pensions Investment Team and Other Support Services** costs were lower than forecast due to temporary vacancies within the Pensions Investment Team.
7. The income fees derived from **Stock Lending** were much lower than forecast, £40,000 against the budgeted figure of £171,000. This is partly due to a reduction in stocks available to lend as a result of the transfer of the active global equity mandate to passive management. Regulatory changes have also contributed to a reduction in demand for stock lending.

Scheme Administration Expenses

8. Overall there was an under spend on the administration budget of £200,000. Just over half of this variation resulted from the budget for **Financial Services Recharges** being underspent by £102,000. The key elements of this figure are an under spend of £86,000 on staffing costs and £18,000 on legal fees, with a small £2,000 over spend resulting from revised recharges for committee expenses. The reduction in staffing costs is due to losing two members of the team during the year, neither of whom was replaced; the provision for the changing of part time hours was not used; and less training was identified. The budget for legal fees was left at previous levels when the provision should be reduced to reflect greater use of in-house resources.
9. The **Software Support and Licensing** budget provision was underspent by £22,000. The budget included a £20,000 contingency for development work which was not required.
10. **Postage** costs were underspent by £15,000. This budget provision has been over-stated against actual expenditure.
11. **Actuarial Fees** were underspent by £30,000. The budget provision was set using a previous (inflated) figure.
12. There was an under spend of £51,000 on **Audit Fees**. The level of these fees had been maintained in anticipation of the Audit Commission's expected increase. Confirmation that no increases were to be applied was not received until after the budget setting process was completed.

RECOMMENDATIONS

13. The Committee is RECOMMENDED to receive the report and note the outturn position.

SUE SCANE

Assistant Chief Executive and Chief Finance Officer

Background Papers: Nil

Contact Officers:

**Donna Ross, Principal Financial Manager
(01865) 323976**

**Sally Fox, Pensions Administration Manager
(01865) 797111**

August 2012

Comparison of Budget and Actual for the Financial Year ended 31 March 2012

| | Budget | Actual | Variation |
|--|---------------|---------------|------------------|
| | £000 | £000 | £000 |
| <u>Investment Management</u> | | | |
| Fund Management Fees | 2,800 | 2,097 | -703 |
| Global Custody Fee | 80 | 42 | -38 |
| Independent Financial Adviser | 57 | 56 | -1 |
| Consultancy Fees | 112 | 1 | -111 |
| Performance Measurement Service | 13 | 13 | 0 |
| Member Training | 12 | 1 | -11 |
| Pensions Investment Team and Other Support Services | 252 | 233 | -19 |
| Other | 5 | 0 | -5 |
| | 3,331 | 2,443 | -888 |
| LESS: Stock lending fees Commission Recapture | -171 | -40 | 131 |
| Total Investment Management | 3,160 | 2,403 | -757 |
| <u>Scheme Administration</u> | | | |
| Pensions Admin Team and Other Support Services | 904 | 802 | -102 |
| Printing & Stationery | 35 | 28 | -7 |
| Postage | 23 | 8 | -15 |
| Software Support & Licensing | 134 | 112 | -22 |
| Actuary Fees | 90 | 60 | -30 |
| External Audit Fees | 83 | 32 | -51 |
| Appointed Person Fees | 3 | 1 | -2 |
| Other | 44 | 72 | 28 |
| | 1,316 | 1,115 | -201 |
| LESS: Income (e.g. Fire & Teacher Admin) | -29 | -28 | 1 |
| Total Scheme Administration | 1,287 | 1,087 | -200 |
| | | | |
| Total Investment Management and Scheme Administration | 4,447 | 3,490 | -957 |