

## PENSION FUND COMMITTEE – 3 SEPTEMBER 2010

### PENSION FUND INVESTMENT AND ADMINISTRATION EXPENSES OUTTURN REPORT FOR THE YEAR ENDED 31 MARCH 2010

Report by Assistant Chief Executive & Chief Finance Officer

#### Introduction

1. In February 2009 the Pension Fund Committee agreed a budget in respect of the Pension Fund's investment and administration expenses for the 2009/10 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 **external fund management fees**. Although a budgeted sum is agreed for this item it is not possible to estimate accurately 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 £2,400,000 but the actual fees were £2,470,000. The difference was due to a higher than expected increase in the market value of assets managed over the twelve month period ended 31 March 2010.
4. The **Global Custody Fee** is dependent upon the number and type of trades arranged by the fund managers. It is not possible to predict accurately the total fee for the year. The £11,000 underspend on the **Global Custody Fee** budget for 2009/10 related to a contingency element of the budget which was not required.
5. The **Independent Financial Adviser** and **Consultancy Fee** budgets include an annual estimate for special project work not included within the advisory contract. No additional project work was charged to the consultancy or advisory budgets during 2009/10.
6. The **Member Training** budget was underspent by £10,000 due to a low level of attendance at external training events and conferences. During 2009/10 2 committee members attended external training events, 2 committee members attended conferences and 1 member attended training and conference events. An in-house member training session was arranged in July 2009 and was attended by 4 committee members. 3 committee members were unable

to attend either the in-house training event or external training during 2009/10. No additional costs were incurred during 2009/10 for the half-hour training sessions provided prior to each committee meeting. All committee members attended at least one pre-committee training session.

7. The Investment **Financial Services recharge** was underspent during 2009/10 due to a temporary staff vacancy.
8. The 2009/10 budget did not include an estimate for **commission recapture** because priority is given to 'best execution' and the income had diminished over previous years. However, during 2009/10 £4,820.58 commission recapture income was generated by Alliance Bernstein.
9. The income fees derived from **stock lending** were much higher than forecast, £205,371.38 against the budgeted figure of £125,000. This was due to higher premiums received for the value of stock lent during the year.
10. The budget for **other** investment costs was overspent during 2009/10 due to external legal fees relating to the initial investment in Partners Group Real Estate SICAR and fees paid to McGriggors and KPMG for foreign tax reclaims.

### **Scheme Administration Expenses**

11. Overall there was an underspend on the administration budget of £179,000.
12. The main items resulting in the budget for **Financial Service Recharges** being underspent by £103,000 were staffing costs of £71,000 as a result of vacant posts; £12,000 as a result of the introduction of new professional qualifications being delayed until 2010/2011 and the increased provision of £20,000 for legal fees not materialising during the year.
13. The **Software Support & Licensing** budget provision for development work was underspent by £8,000.
14. **Postage costs** were underspent by £16,000.
15. **Actuarial Fees** were underspent by £21,000, partly as a result of work to be completed by previous actuaries by end of March 2010 which has not yet been finalised and partly as a result of the lower charges made by our new actuaries.
16. **Audit Fees** had been increased in anticipation of new costing structure and whether Oxfordshire would be categorised as a medium or large sized pension fund. At the end of the year it was confirmed that charges would be made on the basis of a medium sized fund which resulted in the underspend of £19273.68.

17. **Other Charges** were underspent by £15,000 with the main variances arising from storage costs being underspent by £3,000; provision for advertising costs underspent by £5,000 and subscriptions and memberships being underspent by £6,000.

## **RECOMMENDATIONS**

18. **The Committee is RECOMMENDED to receive the report and note the out-turn position.**

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Assistant Chief Executive & Chief Finance Officer

Background Papers: Nil

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August 2010

### Comparison of Budget and Actual for the Financial Year ended 31 March 2010

	Budget	Actual	Variation
	£000	£000	£000
<b>Investment Management</b>			
External Fund Management Fees	2,400	2,470	70
Global Custody Fee	70	59	- 11
Independent Financial Adviser	60	50	- 10
Consultancy fees	62	9	- 53
Performance Measurement Service	12	13	1
Member Training	12	2	- 10
Financial Services Recharges	216	211	- 5
Other	5	29	24
	2,837	2,843	6
LESS: Commission recapture	-	-5	- 5
Stock lending fees	-125	-205	- 80
<b>Total Investment Management</b>	2,712	2,633	- 79
<b>Scheme Administration</b>			
Financial Services Recharges	936	833	-103
Printing & Stationery	35	33	- 2
Postage	23	7	- 16
Software Support & Licensing	125	117	- 8
Actuary Fees	90	69	- 21
District Audit Fees	50	38	- 12
Appointed Person Fees	2	0	- 2
Other	50	35	- 15
	1,311	1,132	- 179
LESS: Recharge for Fire & Teachers Administration	- 28.0	- 29	- 1
Other Income (SIB & Divorce)			
<b>Total Administration Management</b>	1,283	1,103	- 180
<b>Total Investment Management and Pensions Admin</b>	3,995	3,676	- 259