Division(s):N/A

PENSION FUND COMMITTEE – 2 SEPTEMBER 2011

PENSION FUND INVESTMENT AND ADMINISTRATION EXPENSES OUTTURN REPORT FOR THE YEAR ENDED 31 MARCH 2011.

Report by Assistant Chief Executive & Chief Finance Officer

Introduction

1. In March 2010 the Pension Fund Committee agreed a budget in respect of the Pension Fund's investment and administration expenses for the 2010/11 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 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 £3,000,000 but the actual fees were £2,706,000. The majority of the difference was a £228,000 under spend on Alliance Bernstein's fees. This was due to poor performance over the twelve month period ended 31 March 2011. This led to a fall in market value which subsequently led to a fall in fees due. The UBS Overseas Equity was also under spent by £132,000 due to the omission of a rebate in the budget. UBS Property was £66,000 over budget due to increased activity on the fund. The fund is now fully invested in property which wasn't the case in previous years.

4. The **Global Custody Fee** is dependent upon market value of assets held and the number and type of trades arranged by the fund managers. It is not possible to accurately predict the total fee for the year. The £39,000 under spend on the Global Custody Fee budget for 2010/11 related to a contingency element of the budget which was not required and a prudent approach to the levels of fund manager transactions.

5. The **Independent Financial Adviser** and **Consultancy Fee** budgets include an annual estimate for special project work not included within the advisory contract. During 2010/11 special projects, including the Fundamental Review and set-up of a new bank account, were not

sufficiently covered by the contingency budget. This led to an over spend of £15,000.

6. The income fees derived from **stock lending** were much lower than forecast, £162,503 against the budgeted figure of £230,000. Market flow rates have been down due to hedge funds not leveraging back to their levels prior to the Lehman Brothers collapse.

Scheme Administration Expenses

7. Overall there was an underspend on the administration budget of £186,000. Just under half of this variation resulted from the budget for **Financial Services Recharges** being underspent by £90,000. The two key elements of this figure are an underspend of £66,000 on staffing costs, and £19,000 on legal fees. The saving on staffing results from carrying the equivalent of one vacant post for the year, plus a small number of staff not being part of the Pension Scheme (thereby saving the employers contribution). The saving on legal fees results from greater use of in-house resources.

8. The **Software Support and Licensing** budget provision was underspent by £17,000. The budget included a £10,000 contingency for miscellaneous development work which was not required. There was also provision of £5,000 to implement new payment arrangements directly from the Axise system which was deferred due to other pressures of work.

9. **Postage** costs were underspent by £16,000. We are currently reviewing the budget provision which appears to have been over-stated in light of actual expenditure over the last two years.

10. **Actuarial Fees** were underspent by £24,000. The budget provision was increased for 2010/11 in line with the expected additional work associated with the 2010 Valuation. The Valuation process went much smoother than expected, leading to less re-work and query resolution being required by the Actuary, and hence significantly cheaper costs than expected.

11. There was an underspending of £26,000 on **Audit Fees**, reflecting a review of all local government pension fund fees by the Audit Commission. This review based on the actual costs of the 2008/09 audit programme delivered significant reductions in audit fees levels for all local government pension funds.

RECOMMENDATIONS

12. The Committee is RECOMMENDED to receive the report and note the out-turn 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

August 2011