

PENSION FUND COMMITTEE – 2 SEPTEMBER 2016

PENSION FUND BUDGET OUTTURN REPORT FOR THE YEAR ENDED 31 MARCH 2016.

Report by Chief Finance Officer

Introduction

1. In March 2015 the Pension Fund Committee agreed a budget in respect of the Pension Fund for the 2015/16 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 outturn figures against the budget and shows the variations for each budget line. The overall outturn position was an underspend of £950,000. The reasons for any material variations are explained below.

Scheme Administration Expenses

3. **Administrative Employee Costs** were underspent by a total of £164,000. This was due to several vacancies within the team. Overall it has taken several attempts to fill each vacancy but where successful the calibre of candidates has been high. The training budget has been used to provide some group training for specific subjects rather than overall qualifications this year, which has been a much cheaper alternative.
4. The budget for **Support Services Including ICT** was underspent by £86,000 with various implementation projects being put on hold. Members are already aware of the pressures on the team to get employer data ahead of the valuation submission so this is where resources have been targeted.
5. **Other Costs** were overspent by £140,000. The major part of this related to the cost to the fund in respect of an early retirement previously agreed to be funded by this Committee. The provision for Pension Board meetings and training is also underspent.

Investment Management Expenses

6. **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 actual spend on fund management fees for 2015/16 was £430,000 below the budget forecast. The underspend was spread across the fund's portfolios so did not relate to lower than forecast performance on any particular portfolio. The underspend was also partly due to lower fees being implemented on some portfolios.
7. It should be noted that for the 2015/16 accounts and 2016/17 budget CIPFA guidance has been adopted in calculating management fees and on this basis management fees for 2015/16 were £7.007m. This higher figure represents the fees paid on pooled funds, which traditionally have been netted off at source by the Fund Manager. The increase in fees is matched by an equal increase in investment returns, so there is no impact on net performance.
8. The **Global Custody Fee** is dependent upon the market value of assets held, the type of investments 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 Global Custody Fee budget was underspent by £38,000 during 2015/16. As with management fees this was due to lower than forecast balances across the portfolios.

Oversight & Governance Expenses

9. **Investment Employee Costs** were underspent by £81,000 due to the carrying of a vacancy within the team and changes to the team during the year which meant there were periods where staffing levels were lower.
10. **Advisory & Consultancy Fees** were underspent by £162,000. This was primarily due to the £100,000 being included in the budget for project BOB work which was not required. There was a small amount of spend in the year on project Brunel but the majority of the consultancy and advisory fees on this project are expected to be incurred in future years. There was also an element of the budget allocated for investment changes from the fundamental review where the fund was considering new investments in infrastructure. However this budget did not need to be used, as no suitable infrastructure investment opportunities were identified.

RECOMMENDATIONS

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

Lorna Baxter
Chief Finance Officer

Background Papers: None

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August 2016

Pension Fund Budget Outturn for the Financial Year ended 31 March 2016

	Budget £'000	Actual £'000	Variance £'000
Administrative Expenses			
Administrative Employee Costs	915	751	-164
Support Services Including ICT	343	257	-86
Printing & Stationary	40	48	8
Advisory & Consultancy Fees	30	0	-30
Other	39	179	140
Total Administrative Expenses	1,367	1,235	-132
Investment Management Expenses			
Management Fees	4,290	3,860	-430
Custody Fees	100	62	-38
Other	50	26	-24
Total Investment Management Expenses	4,440	3,948	-492
Oversight & Governance			
Investment Employee Costs	260	179	-81
Support Services Including ICT	50	7	-43
Actuarial Fees	75	42	-33
External Audit Fees	25	18	-7
Internal Audit Fees	14	14	0
Advisory & Consultancy Fees	275	113	-162
Other	48	48	0
Total Oversight & Governance Expenses	747	421	-326
Total Pension Fund Budget	6,554	5,604	-950