

ITEM NO: 12

Report To:	Pension Fund Management Panel
Date:	4 March 2011
Reporting Officer:	Peter Morris, Executive Director of Pensions
Subject:	GMPF ADMINISTRATION EXPENSES BUDGET 2011/2012
Report Summary:	The report outlines the 2010/2011 revised estimate and the 2011/2012 original estimate for the Fund's cost of administration.
Recommendations:	To approve the budget for 2011/2012 at £12.9m.
Policy Implications:	The areas of additional expenditure are highlighted in the report. There is no material change in policy.
Financial Implications: (Authorised by the Borough Treasurer)	Costs of £12.9m for 2011/2012 are estimated to be met by the Fund. An analysis is detailed in the report, together with the reasons for variation. The report also explains a decrease in cost of £502k at revised estimate. The unit costs of the Fund continue to demonstrate that the Fund is a relatively low cost administering authority -v- other local authority funds.
Legal Implications: (Authorised by the Solicitor to the Fund)	It is necessary to ensure that an adequate budget is set to ensure the Administering Authority meets its statutory commitments.
Risk Management:	Effective budgetary control and approval of changes in expenditure is essential to the good management of the Fund. The report also highlights potential material changes to the Fund's cash-flow. Such changes have an impact on existing risks, such as increasing volatility risks. Further reports will be submitted to future meetings examining the risks and the case for taking measures to mitigate those risks.

ACCESS TO INFORMATION

NON-CONFIDENTIAL

This report does not contain information which warrants its consideration in the absence of the Press or members of the public.

Background Papers

The background papers used in the preparation of this report were:

1. The 2010/2011 Financial Ledger
2. Budget Working Papers.

Any enquiries should be directed to Tracey Boyle, 0161-342-2883 (email: tracey.boyle@tameside.gov.uk)

1. INTRODUCTION

- 1.1 Expenditure on administration is a charge on the Pension Fund. There is no direct charge to local authorities or other employer bodies for the costs detailed in this report.
- 1.2 The report looks at the revised budget for 2010/2011 and original estimate for 2011/2012 and describes the reasons for the changes.
- 1.3 The estimates do not incorporate any provision for performance related fees incurred by the Securities Managers.

2. REVISED ESTIMATE 2010/2011 AND ORIGINAL ESTIMATE 2011/2012

- 2.1 No allowance has been made for general inflation except for those items where specific cost increases apply. Thus, the main element of the inflation provision relates to managers fees. In line with the administering authority budget process, no provision has been made for pay increases for 2011/2012. Provision has been built in for increase in employer pension contributions effective from 1 April 2011.
- 2.2 Table 2 below summarises the changes in the 2010/2011 budget from that approved in March 2010 and the 2011/2012 original estimate.
- 2.3 In preparing the estimates for 2011/2012, the budgets for manager fees are the most subjective in their assessment, because of the importance of market values in determining the fees for some managers and the impact of fee rebates from investment in pooled funds.
- 2.4 External legal fees in respect of the procurement of the Custodian and any potential tax claims have been provided for within the estimates.
- 2.5 Stock Lending Commission is not included in these estimates as activity in this area was suspended in November 2008 until further notice due to market conditions. It is expected that commission recapture will restart and any income generated will be incorporated in the revised estimate (and be highlighted in subsequent budget monitoring reports).
- 2.6 The administering authority are currently finalising their budget. This means that 2011/2012 Central Establishment Charges have yet to be confirmed. Provision has been made at the same level as the original estimate 2010/2011. Once accurate figures are available, any changes required to the provision will be reflected in budget monitoring reports.
- 2.7 There are a number of development items, detailed in Tables 1 and 1A below, for which no provision has been made in the budgets presented within this report:

TABLE 1 Development Items

	Year 1 Cost £'000	On-going Annual Cost £'000
Upgrade of Agresso Financial Ledger and Creditor payments modules and replacement of Powersolve Debtors and in-house E-Proc systems. The Fund utilises these corporate systems that are being upgraded/replaced and the Year 1 costs reflect the Fund's proportionate share of this expenditure.	58	0
<p>Pensions Office currently use 4 computers for different applications and an IBM UNIX server that hosts the AXISE system. These computers are 3-7 years old and are vital in the operation of the Pensions Office.</p> <p>The Council's IT Department recommend that the 2 oldest computers be replaced immediately and the operating system be upgraded on a 3rd one. This is because Microsoft has stopped supporting Windows Server 2000 and will not be releasing security updates. In the event of a security risk being identified, one or more of the computers will be exposed to a possible security breach.</p> <p>Investigations are also being made into purchasing a package that will enable employer related data to be stored more efficiently. This may require a 3rd computer to be replaced. There would be no increase to on-going annual costs in respect of these purchases.</p>	32	0
	90	0

TABLE 1A
Potential Development Items

<p>Property Co-ordination - at the June 2010 Panel meeting, approval was given to a more diverse property benchmark. The report flagged that these proposals would have significant staffing and resource implications. This matter will be the subject of a separate report to the June 2011 Panel meeting.</p>
<p>Local Investment - a further report will be submitted to the Panel, examining the existing parameters, the case for and scope for increasing local investment. Whilst the norm has been to use external managers or advisors to assist in investment decision making, such potential investments need significant in-house involvement.</p>
<p>Pensions Administration System - the Fund uses a product called AXIS, as do the large majority of other LGPS administering authorities. The Fund is also a member of the Computerised LA Superannuation Scheme (CLASS), which includes the user group of AXIS.</p> <p>Each administering authority contracts individually for the system it uses and can go out to tender for a replacement system by itself. However, once it is known how the LGPS is going to develop, the intention is that CLASS will create a consortium, or a framework agreement, of which the Fund could be a member. Currently it is not known how the LGPS will develop and thus the likely cost of a new system is as yet unknown.</p>

TABLE 2

**Budget Summary for Revised Estimate 2010/2011
and Original Estimate 2011/2012**

	2010/2011 Revised Estimate £'000	2011/2012 Original Estimate £'000
Original budget 2010/2011	12,927	12,927
Inflation provision 2011/2012		
- Pay		(34)
- General		332
Original budget at out-turn prices	12,927	13,225
Proposed other changes	(502)	(351)
Total	12,425	12,874

**Revised Estimate 2010/2011
Major Reasons for Variation from Original Estimate 2010/2011**

	£'000
(a) Staff Costs	
- removal of over-provision in original estimate for pay award.	(34)
- a combination of turnover, delay in the appointment of staff, review of operations and take-up of flexible working opportunities have contributed to staff costs being under budget.	(198)
(b) Premises	
- reduction in administration building recharges following a review of charge rates by administering authority (landlord)	(14)
(c) Postage, Printing and Telephone	
- increase in communications costs with members	19
(d) Office Equipment and Software	
- decrease in Investment accounting system costs, following review of budget set	(12)
- reduction in banking data retrieval system charges arising from transfer to a web-based solution	(9)
(e) Bank charges and Custodian Fees	
- reduction in Global Custodian, reflecting negotiated decrease in fee charges applied and reduction in forecast Fund value growth assumption	(75)
- increase in bank charges due to higher transaction volumes	7
(f) Managers and Professional Fees	
- provision for external legal fees relating to tax claims	74
- decrease in Managers Fees, mainly due to investment in pooled vehicles (which generates a fee rebate) being increased	(177)
- decrease in Property Valuation Fee	(10)
- removal of net overprovision in original estimate for other professional advice/fees	(74)
(g) Communications	

	- increase in income from sale of GMPF communications material to other funds	(6)
(h)	Income	
	- increased level of Legal recharges to investment transactions	(22)
	- decreased level of Commission Recapture	44
(i)	Other minor variations - net	(15)
	TOTAL	(502)

Original Estimate 2011/2012
Major Reasons For Variation from Original Estimate 2010/2011

		£'000
(a)	Staff Costs	
	- a combination of review of operations, removal of pay protection effective from July and take up of flexible working/retirement opportunities requires a reduction in staff costs	(114)
(c)	Premises	
	- reduction in administration building recharges following a review of charge rates by administering authority (landlord)	(14)
(d)	Postage, Printing and Telephone	
	- provision for increased cost of communications with members relating to anticipated scheme changes and increased postal charges effective April 2011	19
(e)	Office Equipment and Software	
	- decrease in Investment accounting system costs, following review of budget set	(18)
	- reduction in banking data retrieval system charges arising from transfer to a web-based solution	(9)
	- decrease in spend on Pensions Administration system maintenance and training	(8)
(f)	Bank charges and Custodian Fees	
	- reduction in Global Custodian, mainly reflecting negotiated decrease in fee tariffs	(60)
	- increase in bank charges due to higher transaction volumes	6
(g)	Managers and Professional Fees	
	- provision for external legal fees relating to tax claims	63
	- net decrease in Managers Fees, mainly due to investment in pooled vehicles (which generates a fee rebate) being increased	(130)
	- decrease in Property Valuation Fee	(8)
	- removal of net overprovision in original estimate for other professional advice/fees	(55)
	- no provision required for actuarial valuation fee	(120)
	- reduction in conference/seminar attendance	6
	- provision for external fees relating to Custodian review	65
(k)	Income	
	- increased level of Legal recharges to investment transactions	(22)
	- decreased level of Commission Recapture	44
(l)	Other minor variations - net	4
	TOTAL	(351)

A more detailed analysis of these budgets is provided in the appendices which are:-

Appendix 1 – Analysis of the 2010/2011 Revised Estimate by expenditure type (subjective analysis)

Appendix 2 – Subjective Analysis of the proposed 2011/2012 budget

3. UNIT COST COMPARISONS

3.1 CLG collects and publishes details of local authority pension fund unit costs per scheme member. The latest comparison for administrative and investment unit costs in 2009/2010 is detailed in Table 3 below.

TABLE 3
LA Pension Funds – Unit Cost Comparisons 2009/2010 (based on SF3 returns)

	GMPF	Met Funds	All Funds
	£	£	£
Administration costs	14.77	22.48	28.31
Investment costs	31.75	32.39	68.41

4. GMPF CASH FLOWS

4.1 In the current climate, the scale of uncertainty makes it exceptionally difficult to make meaningful forecasts of cash-flow.

However, it is clear that:

- (i) The number of employee members will fall;
- (ii) The number of pensioner and deferred members will increase; and
- (iii) Employers will make few new appointments over the next 3 years

4.2 This means that:

- Employee contributions will fall;
- Employer contributions will fall, but less in percentage terms than employees as employer contribution rates increase and additional payments are made to meet the capital cost/strain cost of early retirements;
- Retirement pensions will increase;
- In the short term, lump sum/retirement grants could increase materially; and
- Net outflows of cash (benefits paid less contribution income) will increase significantly but the Fund will remain cash flow positive when investment income is taken into account.

4.3 A very approximate illustration is shown in Table 4, which highlights the potential scale of change. More importantly, at the individual employer level the impact will reflect the individual employer's circumstances, which could be materially different than the Fund as a whole. The projection is that the Fund as a whole will become more mature.

4.4 This will have long term implications for funding and employer contributions:

- Deficit payments may be less than expected;
- The average age of the workforce is likely to increase and that will add to employer costs;
- An increase in deferred members may be beneficial to funding levels; and
- The smaller employer base means employer costs are likely to be more volatile as a percentage of pay.

4.5 There are also investment strategy implications for the Fund as a whole and at the individual employer level. These will be considered as part of the investment strategy report.

TABLE 4
GMPF Historical Cash Flows and Illustrative Projections

	Actual	Actual	Actual	Estimate	Estimates - Future years		
	2008	2009	2010	2011	2012	2013	2014
	£m	£m	£m	£m	£m	£m	£m
Contribution Income							
Employees	(106)	(118)	(123)	(123)	(113)	(104)	(100)
Employer	(236)	(264)	(286)	(311)	(288)	(266)	(257)
Total	(342)	(382)	(409)	(434)	(401)	(370)	(357)
Benefits payable							
Retirement Pensions	274	292	313	328	356	386	407
Retirement Grants	67	72	88	108	140	110	100
Death Grants	6	9	11	11	12	13	13
Dependants' Pensions	29	30	32	33	34	35	36
Less "agency" payments	(22)	(22)	(23)	(21)	(21)	(20)	(20)
	354	381	421	458	521	524	536
Net Conts less Benefits	12	(1)	12	24	120	154	179
Net transfers out	3	3	12	28	10	10	10
Investment and Admin	12	12	12	13	12	13	14
Investment Income	(292)	(279)	(222)	(245)	(270)	(290)	(310)
Net for investment	(265)	(265)	(186)	(181)	(150)	(136)	(131)
Membership				Feb-11			
Employees	102,413	101,707	101,544	97,181	89,000	81,000	75,000
Deferreds	71,007	76,913	81,009	84,529	88,000	92,000	96,000
Pensioners	76,282	78,553	81,447	84,281	88,000	92,000	95,000
Total	249,702	257,173	264,000	265,991	265,000	265,000	266,000

APPENDIX 1

Greater Manchester Pension Fund

Administration Expenses Revised Estimate 2010/2011

<u>Type of Expenditure</u>	(1) Original Estimate <u>2010/2011</u> £'000	(2) Revised Estimate <u>2010/2011</u> £'000	(3) Variation <u>(2) - (1)</u> £'000
Staff Costs			
Direct Salaries	3,415	3,246	(169)
On-Costs	855	791	(64)
	<u>4,270</u>	<u>4,037</u>	<u>(233)</u>
Direct Costs			
Publications and Subscriptions	68	63	(5)
Travel and Subsistence	68	63	(5)
Premises	253	239	(14)
Postage, Printing, Telephone	239	258	19
Office Equipment and Software	406	382	(24)
Investment Advisory Expenses	54	52	(2)
Bank Charges and Custodian Fees	485	417	(68)
Managers and Professional Fees	6,684	6,497	(187)
Performance Measurement Services	85	88	3
Communications	138	132	(6)
	<u>8,480</u>	<u>8,191</u>	<u>(289)</u>
Central Establishment Charges	468	466	(2)
Less:			
Recovery of Management and Legal Fees	(176)	(198)	(22)
Commission Recapture	(115)	(71)	44
	<u>12,927</u>	<u>12,425</u>	<u>(502)</u>

APPENDIX 2

Greater Manchester Pension Fund Administration Expenses Original Estimate 2011/2012

	(1)	(2)	(3)	(4) [(1)+(2)+(3)]
	Original Estimate			Original Estimate
<u>Type of Expenditure</u>	<u>2010/2011</u> £'000	<u>Inflation</u> £'000	<u>Other Changes</u> £'000	<u>2011/2012</u> £'000
Staff Costs				
Direct Salaries	3,415	(34)	(78)	3,303
On-Costs	855	34	(36)	853
	<u>4,270</u>	<u>0</u>	<u>(114)</u>	<u>4,156</u>
Direct Costs				
Publications and Subscriptions	68	0	1	69
Travel and Subsistence	68	0	(3)	65
Premises	253	3	(14)	242
Postage, Printing, Telephone	239	0	19	258
Office Equipment and Software	406	0	(35)	371
Investment Advisory Expenses	54	1	3	58
Bank Charges and Nominee Fees	485	0	(54)	431
Managers and Professional Fees	6,684	294	(179)	6,799
Performance Measurement Services	85	0	4	89
Communications	138	0	0	138
	<u>8,480</u>	<u>298</u>	<u>(258)</u>	<u>8,520</u>
Central Establishment Charges	468	0	(1)	467
Less:				
Recovery of Management and Legal Fees	(176)	0	(22)	(198)
Commission Recapture	(115)	0	44	(71)
	<u>12,927</u>	<u>298</u>	<u>(351)</u>	<u>12,874</u>