

# ITEM NO: 14(a)

|  |   |
|--|---|
| <b>Report To:</b>  | <b>Pension Fund Management Panel</b>  |
| <b>Date:</b>   | 5 March 2010  |
| <b>Reporting Officer:</b>  | Peter Morris, Executive Director of Pensions  |
| <b>Subject:</b>  | <b>GMPF ADMINISTRATION EXPENSES BUDGET 2010/2011</b>  |
| <b>Report Summary:</b>   | The report outlines the 2009/2010 revised estimate and the 2010/2011 original estimate for the Fund's cost of administration.   |
| <b>Recommendations:</b>  | To approve the budget for 2010/2011 at £12.9m.  |
| <b>Policy Implications:</b>  | The areas of additional expenditure are highlighted in the report. There is no material change in policy.   |
| <b>Financial Implications:<br/>(Authorised by the Borough<br/>Treasurer)</b> | <p>Costs of £12.9m for 2010/2011 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 £1,417k at revised estimate.</p> <p>The unit costs of the Fund continue to demonstrate that the Fund is a relatively low cost administering authority v other local authority funds.</p> |
| <b>Legal Implications: (Authorised<br/>by the Solicitor to the Fund)</b>     | It is necessary to ensure that an adequate budget is set to ensure the Administering Authority meets its statutory commitments.   |
| <b>Risk Management:</b>  | Effective budgetary control and approval of changes in expenditure is essential to the good management of the Fund.   |

## 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 2009/2010 Financial Ledger
2. Budget Working Papers.

Any enquiries should be directed to Tracey Boyle, 0161-342-2883 (email: [tracey.boyle@tameside.gov.uk](mailto: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 2009/2010 and original estimate for 2010/2011 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 2009/2010 AND ORIGINAL ESTIMATE 2010/2011**

- 2.1 No allowance has been made for general inflation except for those items where specific cost increases apply. Thus, the main elements of the inflation provision are the assumed annual pay increase and associated on-costs for NI and pensions plus managers fees.
- 2.2 Table 2 below summarises the changes in the 2009/2010 budget from that approved in March 2009 and the 2010/2011 original estimate.
- 2.3 In preparing the estimates for 2010/2011, 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 Other costs not capable of being quantified at this time are the external legal fees in respect of the procurement of the Custodian and any potential tax claims. These costs have not been provided for within either estimate and therefore additional provision may be required in the future, albeit the costs associated with the tax claims will be offset against the additional income generated.
- 2.5 The Stock Lending Commission that is included within the Administration Budget continues to be reported within Investment Income in the Fund's Annual Accounts, ensuring compliance with the Pensions SORP. However, activity in this area was suspended in November 2008 until further notice due to market conditions. Hence, the income provision for 2009/2010 and 2010/2011 has been maintained at £nil. It is expected that commission recapture will restart in 2010 and the income expected to be generated will be incorporated in the revised estimate for 2010/2011 (and be highlighted in subsequent budget monitoring reports).
- 2.6 There are a number of development items, detailed below in Table 1, for which no provision has been made in the budgets presented within this report.

### **TABLE 1 Development Items**

|   | <b>Year 1<br/>Cost<br/>£'000</b> | <b>On-<br/>going<br/>Annual<br/>Cost<br/>£'000</b> |
|---|----------------------------------|--|
| Replacement of Pensions Administration System (AXIS) - see item on March 2010 Pension Fund Management Panel Agenda    | 500 - 600                        | 20   |
| Additional post of Building Surveyor in the Property Investments Unit (estimated annual cost)                         | 46                               | 46   |
| Additional post of Pensions Trainee (estimated annual cost)   | 20                               | 20   |
| Legal document scanning project (estimated 5 year cost) - see item on March 2010 Pension Fund Management Panel Agenda | 40                               | 20   |
|   | <b>606 - 706</b>                 | <b>106</b>   |

**TABLE 2**  
**Budget Summary for Revised Estimate 2009/2010**  
**and Original Estimate 2010/2011**

|  | <b>2009/2010<br/>Revised Estimate<br/>£'000</b> | <b>2010/2011<br/>Original Estimate<br/>£'000</b> |
|--|---|--|
| Original Budget 2009/2010                  | 13,865  | 13,865   |
| Inflation Provision 2010/2011<br>- General |   | 414  |
| Original Budget at Outturn Prices          | <u>13,865</u>                                   | <u>14,279</u>                                    |
| Proposed Development:                      |   |  |
| Other Changes                              | <u>(1,417)</u>                                  | <u>(1,352)</u>                                   |
|  | <b>12,448</b>                                   | <b>12,927</b>                                    |

### 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 2008/2009 is detailed in Table 3 below.

**Table 3**  
**LA Pension Funds – Unit Cost Comparisons 2008/2009 (based on SF3 returns)**

|                      | <b>GMPF</b> | <b>Met Funds</b> | <b>All Funds</b> |
|----------------------|-------------|------------------|------------------|
|                      | <b>£</b>    | <b>£</b>         | <b>£</b>         |
| Administration costs | 14.35       | 20.75            | 29.08            |
| Investment costs     | 34.00       | 29.99            | 63.35            |

**Revised Estimate 2009/2010**  
**Major Reasons for Variation from Original Estimate 2009/2010**

|  | <b>£'000</b>          |
|--|-----------------------|
| <b>a) Staff costs</b>  |                       |
| - Staff turnover and delays in recruitment of staff within the Property Investments, Pensions Accountancy, Legal and Administration teams have contributed to a net underspend on staff costs. | (156)                 |
| <b>b) Travel and Subsistence</b>   |                       |
| - Reduction in costs following a review of required provisions   | (5)                   |
| <b>c) Office Equipment and Software</b>  |                       |
| - Decrease in Investment accounting system costs, following review of budget set.  | (8)                   |
| - decrease in other Pensions areas provisions for purchase.  | (8)                   |
| <b>d) Bank charges and Custodian fees</b>  |                       |
| - Increase in Global Custodian Charges, reflecting increased asset values.   | 88                    |
| <b>e) Managers and Professional Fees</b>   |                       |
| - decrease in Property Valuation Fee   | (37)                  |
| - increase in Property strategic adviser fee due to a widening of the brief  | 40                    |
| - decrease in Managers Fees, mainly due to investment in pooled vehicles (which generates a fee rebate) being increased  | (1,309)               |
| - removal of over-provision for actuary fees   | (94)                  |
| - increase in professional fees relating to tendering advice for property development  | 15                    |
| <b>f) Postage, Printing, Telephone</b>   |                       |
| - Reduction in cost of Telephone & Postage budget for Pensions Office following review of required provisions and new telephone price contract negotiated.                                     | (32)                  |
| <b>g) Performance Measurement Services</b>   |                       |
| - Risk management costs in Investments unit deferred to 2010/2011  | (15)                  |
| <b>h) Recovery of Fees/Income</b>  |                       |
| - Increased level of Commission Recapture  | (55)                  |
| - Decreased level of Legal recharges charged to investment transactions  | 145                   |
| <b>i) Other minor variations - net</b>   | <u>14</u>             |
| <b>TOTAL</b>   | <u><b>(1,417)</b></u> |

**Original Estimate 2010/2011**

## Major Reasons For Variation from Original Estimate 2009/2010

|  | £'000                 |
|--|-----------------------|
| a) <b>Postage, Printing and Telephone</b>  |                       |
| - Reduction in cost of telephone charges for the Pensions Office arising from a new telephone reduced price contract. Removal of overprovision in the original estimate for the impact of changes to postal charging | (32)                  |
| b) <b>Bank Charges and Custodian Fees</b>  |                       |
| - increase in Global Custodian Charges, reflecting increased asset values  | 88                    |
| c) <b>Managers and Professional Fees</b>   |                       |
| - provision for 2010 Actuarial Valuation fee   | 120                   |
| - decrease in Property Valuation Fee   | (30)                  |
| - increase in Property Strategic advisor fees to support broadening of property brief  | 40                    |
| - cessation of Ventures North West contract  | (16)                  |
| - removal of net overprovision in original estimate for other actuarial advice/fees  | (8)                   |
| - increase in professional fees relating to tendering advice for property development  | 10                    |
| - decrease in Managers fees, taking account of the switch from a fixed fee to a performance fee basis for one of the Fund's managers and the scale of fee rebate from investment in a manager's pooled vehicle       | (1,620)               |
| d) <b>Income</b>   |                       |
| - Decreased level of Legal recharges charged to investment transactions  | 132                   |
| - Increased level of Commission Recapture  | (55)                  |
| e) <b>Other minor variations - net</b>   | 19                    |
| <b>TOTAL</b>   | <u><u>(1,352)</u></u> |

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

**Appendix 1** – Analysis of the 2009/2010 Revised Estimate by expenditure type (subjective analysis)

**Appendix 2** – Subjective Analysis of the proposed 2010/2011 budget

**Greater Manchester Pension Fund**

**Administration Expenses Revised Estimate 2009/2010**

| <b><u>Type of Expenditure</u></b>            | <b>(1)</b><br><b>Original</b><br><b>Estimate</b><br><b><u>2009/2010</u></b><br><b>£'000</b> | <b>(2)</b><br><b>Revised</b><br><b>Estimate</b><br><b><u>2009/2010</u></b><br><b>£'000</b> | <b>(3)</b><br><b>Variation</b><br><b><u>(2) - (1)</u></b><br><b>£'000</b> |
|--|---|--|---|
| <b>Staff Costs</b>                           |   |  |   |
| Direct Salaries                              | 3,357   | 3,264  | (93)  |
| On-Costs                                     | 825   | 762  | (63)  |
|  | 4,182   | 4,026  | (156)   |
| <b>Direct Costs</b>                          |   |  |   |
| Publications and Subscriptions               | 57  | 70   | 13  |
| Travel and Subsistence                       | 68  | 63   | (5)   |
| Premises                                     | 249   | 253  | 4   |
| Postage, Printing, Telephone                 | 271   | 239  | (32)  |
| Office Equipment and Software                | 402   | 386  | (16)  |
| Investment Advisory Expenses                 | 53  | 53   | 0   |
| Bank Charges and Custodian Fees              | 363   | 451  | 88  |
| Managers and Professional Fees               | 7,895   | 6,510  | (1,385)   |
| Performance Measurement Services             | 85  | 70   | (15)  |
| Communications                               | 138   | 135  | (3)   |
|  | 9,581   | 8,230  | (1,351)   |
| <b>Central Establishment Charges</b>         | 470   | 470  | 0   |
| <b>Less:</b>                                 |   |  |   |
| <b>Recovery of Management and Legal Fees</b> | (308)   | (163)  | 145   |
| <b>Admin Fees</b>                            | 0   | 0  | 0   |
| <b>Stock Lending Commission</b>              | 0   | 0  | 0   |
| <b>Commission Recapture</b>                  | (60)  | (115)  | (55)  |
|  | 13,865  | 12,448   | (1,417)   |

**APPENDIX 2**

**Administration Expenses Original Estimate 2010/2011**

|  | (1)                          | (2)                     | (3)   | (4)<br>[(1)+(2)+(3)]         |
|--|------------------------------|-------------------------|---|------------------------------|
|  | <b>Original<br/>Estimate</b> |                         | <b>Other<br/>Changes<br/>incl Dev<br/>Items</b> | <b>Original<br/>Estimate</b> |
| <b><u>Type of Expenditure</u></b>                | <b><u>2009/2010</u></b>      | <b><u>Inflation</u></b> |   | <b><u>2010/2011</u></b>      |
|  | <b>£'000</b>                 | <b>£'000</b>            | <b>£'000</b>                                    | <b>£'000</b>                 |
| <b>Staff Costs</b>                               |                              |                         |   |                              |
| Direct Salaries                                  | 3,357                        | 34                      | 24  | 3,415                        |
| On-Costs   | 825                          | 42                      | (12)  | 855                          |
|  | <u>4,182</u>                 | <u>76</u>               | <u>12</u>                                       | <u>4,270</u>                 |
| <b>Direct Costs</b>                              |                              |                         |   |                              |
| Publications and Subscriptions                   | 57                           | 0                       | 11  | 68                           |
| Travel and Subsistence                           | 68                           | 0                       | 0   | 68                           |
| Premises   | 249                          | 7                       | (3)   | 253                          |
| Postage, Printing, Telephone                     | 271                          | 0                       | (32)  | 239                          |
| Office Equipment and Software                    | 402                          | 4                       | 0   | 406                          |
| Investment Advisory Expenses                     | 53                           | 0                       | 1   | 54                           |
| Bank Charges and Nominee Fees                    | 363                          | 34                      | 88  | 485                          |
| Managers and Professional Fees                   | 7,895                        | 293                     | (1,504)   | 6,684                        |
| Performance Measurement Services                 | 85                           | 0                       | 0   | 85                           |
| Communications                                   | 138                          | 0                       | 0   | 138                          |
|  | <u>9,581</u>                 | <u>338</u>              | <u>(1,439)</u>                                  | <u>8,480</u>                 |
| <b>Central Establishment Charges</b>             | 470                          | 0                       | (2)   | 468                          |
| <b>Less:</b>                                     |                              |                         |   |                              |
| <b>Recovery of Management and<br/>Legal Fees</b> | (308)                        | 0                       | 132   | (176)                        |
| <b>Admin Fees</b>                                | 0                            | 0                       | 0   | 0                            |
| <b>Stock Lending Commission</b>                  | 0                            | 0                       | 0   | 0                            |
| <b>Commission Recapture</b>                      | (60)                         | 0                       | (55)  | (115)                        |
|  | <u>13,865</u>                | <u>414</u>              | <u>(1,352)</u>                                  | <u>12,927</u>                |