

ITEM NO: 15

Report To:	Pension Fund Management Panel
Date:	6 th March 2009
Reporting Officer:	Peter Morris, Director of Pensions
Subject:	GMPF ADMINISTRATION EXPENSES BUDGET 2009/2010
Report Summary:	The report outlines the 2008/2009 revised estimate and the 2009/2010 original estimate for the Fund's cost of administration.
Recommendations:	To approve the budget for 2009/2010 at £13.9m.
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)	<p>Costs of £13.9m for 2009/2010 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 £306k 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>
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.

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 2008/2009 Financial Ledger
2. Budget Working Papers.

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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 2008/2009 and original estimate for 2009/2010 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 2008/2009 AND ORIGINAL ESTIMATE 2009/2010

- 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 The table below summarizes the changes in the 2008/2009 budget from that approved in November 2007 and the 2009/2010 original estimate.
- 2.3 In preparing the estimates for 2009/2010, 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 There has been a significant reduction in costs within the budget in relation to Telephone charges in the Pensions Administration office due to the negotiation of a lower cost contract.
- 2.6 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 Statement of Recommended Practice (SORP). However, activity in this area was suspended in November 2008 until further notice due to current market conditions. Hence, the income provision for 2009/2010 has been reduced to £nil.

Table 1

**Budget Summary for Revised Estimate 2008/2009
and Original Estimate 2009/2010**

	2008/2009 Revised Estimate	2009/2010 Original Estimate
Original Budget 2008/2009	12,452	12,452
Inflation Provision 2009/2010		
- General		591
	<hr/>	<hr/>
Original Budget at Outturn Prices	12,452	13,043
Proposed Development:		
Other Changes	<u>(306)</u>	<u>822</u>
	12,146	13,865

**Revised Estimate 2008/2009
Major Reasons for Variation from Original Estimate 2008/2009**

	£'000
a) Staff costs	
- Staff turnover and delays in recruitment of staff within the Property Investments, Pensions Accountancy and Administration teams have contributed to a net underspend on staff costs.	(242)
b) Office Equipment and Software	
- Increased Pensions Office system costs.	25
- An increase in the general provision for the purchase of equipment.	17
c) Bank charges and Custodian fees	
- Reduction in Global Custodian Charges, reflecting reduced asset values and reductions in fee levels	(50)
d) Managers and Professional Fees	
- Increase in Property Valuation Fee	37
- Increase in Managers Fees, mainly due to investment in pooled vehicles (which generates a fee rebate) being reduced	93
- Increase in external audit fee costs due to change of auditor and requirement for separate audit opinion	31
e) Postage, Printing, Telephone	
- Reduction in cost of Telephone & Postage Budget for Administration office following review of required provisions and new telephone price contract negotiated.	(74)
f) Recovery of Fees/Income	
- Increased level of Stock Lending Commission	(150)
- Increased level of Commission Recapture	(20)
g) Other minor variations - net	27
TOTAL	<hr/> (306)

Original Estimate 2009/2010
Major Reasons For Variation from Original Estimate 2008/2009

	£'000
a) Staff Costs	
- Reduced budget provision due to review of staffing budgets and anticipated delays in recruitment	(97)
b) Postage, Printing and Telephone	
- Reduction in cost of telephone charges for the Administration office following a new telephone reduced price contract negotiated. A review of working has resulted in some efficiency savings within the service overall and there was an overprovision in the original estimate for the impact of the changes to postal charging.	(76)
c) Office, Equipment and Software	
- An increase in the charges for other system maintenance	24
- Increase in Pensions Administration system costs	20
d) Managers and Professional Fees	
- Increase in provision required for Actuarial investment advice	90
- Reduced abatement arising from reduced investment in managers own funds	110
- Increase in external audit fee costs due to change of auditor and requirement for separate audit opinion	31
e) Central Establishment Charges	
- A review of charging processes by the administering authority has resulted in a reduction in central service charges	(35)
f) Income	
- Suspension of Stock Lending Commission due to current market conditions.	750
- Increased level of Commission Recapture, due to structural changes in the brokerage market	(20)
g) Other minor variations - net	25
 TOTAL	 <hr/> 822 <hr/>

A more detailed analysis of these budgets is provided in the appendices which are:-
Appendix 1 – Analysis of the 2008/2009 Revised Estimate by expenditure type (subjective analysis)
Appendix 2 – Subjective Analysis of the proposed 2009/2010 budget

APPENDIX 1

Greater Manchester Pension Fund

Administration Expenses Revised Estimate 2008/2009

<u>Type of Expenditure</u>	(1) Original Estimate <u>2008/2009</u> £'000	(2) Revised Estimate <u>2008/2009</u> £'000	(3) Variation <u>(2) - (1)</u> £'000
Staff Costs			
Direct Salaries	3,351	3,168	(183)
On-Costs	793	734	(59)
	4,144	3,902	(242)
Direct Costs			
Publications and Subscriptions	38	57	19
Travel and Subsistence	46	68	22
Premises	215	220	5
Postage, Printing, Telephone	347	273	(74)
Office Equipment and Software	355	397	42
Investment Advisory Expenses	47	50	3
Bank Charges and Custodian Fees	433	383	(50)
Managers and Professional Fees	7,162	7,323	161
Performance Measurement Services	85	84	(1)
Communications	143	138	(5)
	8,871	8,993	122
Central Establishment Charges	491	491	0
Less:			
Recovery of Management and Legal Fees	(264)	(280)	(16)
Admin Fees	0	0	0
Stock Lending Commission	(750)	(900)	(150)
Commission Recapture	(40)	(60)	(20)
	12,452	12,146	(306)

APPENDIX 2

Greater Manchester Pension Fund Administration Expenses Original Estimate 2009/2010

	(1)	(2)	(3)	(4)
				[(1)+(2)+(3)]
	Original Estimate		Other Changes incl Dev Items	Original Estimate
<u>Type of Expenditure</u>	<u>2008/2009</u>	<u>Inflation</u>		<u>2009/2010</u>
	£'000	£'000	£'000	£'000
Staff Costs				
Direct Salaries	3,351	84	(78)	3,357
On-Costs	793	51	(19)	825
	4,144	135	(97)	4,182
Direct Costs				
Publications and Subscriptions	38	0	19	57
Travel and Subsistence	46	0	22	68
Premises	215	7	27	249
Postage, Printing, Telephone	347	0	(76)	271
Office Equipment and Software	355	3	44	402
Investment Advisory Expenses	47	0	6	53
Bank Charges and Nominee Fees	433	(70)	0	363
Managers and Professional Fees	7,162	502	231	7,895
Performance Measurement Services	85	0	0	85
Communications	143	0	(5)	138
	8,871	442	268	9,581
Central Establishment Charges	491	14	(35)	470
Less:				
Recovery of Management and Legal Fees	(264)	0	(44)	(308)
Admin Fees	0	0	0	0
Stock Lending Commission	(750)	0	750	0
Commission Recapture	(40)	0	(20)	(60)
	12,452	591	822	13,865