

WIRRAL COUNCIL

PENSIONS COMMITTEE

23 JANUARY 2017

SUBJECT:	MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2017/18
WARD/S AFFECTED:	ALL
REPORT OF:	MANAGING DIRECTOR FOR DELIVERY
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to request that Members approve the budget for the financial year 2017/18.
- 1.2 The headline figures are that during the financial year 2017/18, we are estimating that MPF will pay £283m in pensions and receive £286m in contributions from employers and employees. The Fund has a value of £7.7bn at 30 September 2016. The proposed administration costs of £21.0m including £14.1m of investment management charges to external managers represent a cost of £160.29 per member of the scheme or £0.27% of assets under management. Taken separately the external investment management costs are approximately £107.80 per member or 0.18% of assets under management.
- 1.3 The budget for 2017/18 is higher at £21.0m to £19.2m in 2016/17 primarily due to higher external investment management fees.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The method used to compile estimates of expenditure for 2017/18 is as follows:

Staffing	Current Structure to be fully staffed throughout year.
Investment management Fees	Estimate based on normal market conditions.
Premises	Agreed as a notional charge based on market rates (MPF owns building).
Transport, Conferences and Subsistence	Estimated requirements for current year.
Services and Supplies	Contracts where usage and cost is fixed, plus estimate for variable elements.
Inflation adjustments	CPI 1.0% as at September 2016.
Investment Performance	4% bonds; 8% equities; 50% of performance targets met for active management.

- 2.2 This report includes a predicted out-turn for 2016/17. However, due to the volatility in financial markets and delays in billing from certain third party suppliers it is not possible to predict the outturn with complete accuracy. Therefore some estimates have been used, and it is proposed to report on outturn at the June meeting of Pensions Committee. At present, the outturn is higher than estimated largely due to external management fees.
- 2.3 The Fund's major expenditure is on investment management fees. These are mostly charged on an ad-valorem basis with, on some occasions, a performance fee. This means that when the Fund's investments rise in value and/or outperform benchmarks, the fees can rise substantially. Therefore, when this expenditure rises there is a benefit to the Fund in terms of capital appreciation that far exceeds the increase in fees paid. For 2016/17 the outturn is expected to be higher than the estimate made last year due to changes in valuations and improved performance relative to benchmark. The changes in valuations and the strong performance and improved performance relative to benchmark from active fund managers have been reflected in setting the budget for 2017/18.
- 2.4 The second highest expenditure is on staffing. The outturn for 2016/17 will be underspent due to vacancies and growth in administration and investments yet to be implemented. The budget for 2017/18 is largely unchanged from the previous year, however the Fund is currently reviewing its structure and any changes as a result of this review will be reported in June.
- 2.5 The predicted 2016/17 outturn for supplies is lower than estimated largely due to computer development and hardware and delays in planned IT projects. These budgets have been carried forward to the 2017/18, with updated costs reflected, along with additional IT projects for 2017/18, including system upgrades.
- 2.6 Services and consultant fees rise in 2017/18 due to an increased budget provision for pooling as previously reported to Committee.
- 2.7 For departmental & central support charges, at present the estimates have been left the same as last year, the figure reported to Committee last year was £529,700. Officers at the Fund will continue to negotiate service level agreements with Wirral support service functions.

3.0 RELEVANT RISKS

- 3.1 The Fund has recently reviewed its Risk Register and identified key risks and mitigating controls for these risks. A key feature of the controls is having appropriate resources available to administer the fund adequately and to manage investments. This budget provides adequate resources for these two core functions.

4.0 OTHER OPTIONS CONSIDERED

- 4.1 The majority of the Pension Fund budget is taken up by investment management costs and staffing. The investment management arrangements

have recently been subject to review with further reviews being undertaken on an on-going basis. For all other expenditure there has been a careful review process culminating in a planning meeting at which the Director of Pensions approved the proposals for discretionary expenditure in this report.

5.0 CONSULTATION

5.1 Not relevant for this report.

6.0 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are no implications arising directly from this report.

8.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

8.1 The costs of the Pension Fund are charged directly to the Pension Fund and are then ultimately covered by investment income and employee and employer contributions, the full costs are estimated to be £160.29 per member (including active contributors, deferred and pensioners). The costs per member at Merseyside Pension Fund are competitive with other pension funds of similar size in both the public and private sector particularly when analysed net of investment performance.

9.0 LEGAL IMPLICATIONS

9.1 There are no implications arising directly from this report.

10.0 EQUALITIES IMPLICATIONS

10.1 Has the potential impact of your proposal(s) been reviewed with regard to equality?

(b) No because there is no relevance to equality.

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

11.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

12.1 There are no planning or community safety implications arising from this report.

13.0 RECOMMENDATION/S

13.1 Members approve the budget for 2017/18. (Subject to review of charges from the administering authority for support services and changes in recharges for pension deficit recovery)

13.2 That a further report on the outturn for 2016/17 with finalised estimates in particular for salary overheads and departmental & central support charges for 2017/18 be presented to Pensions Committee Members in June.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 The approval of the budget for Merseyside Pension Fund by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund.

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APPENDICES

The budget for 2017/18 is attached as appendix 1 to this report.

BACKGROUND PAPERS/REFERENCE MATERIAL

Internal working papers were used in the production of this report.

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee:	
Pension Fund Budget	4 July 2016
Pension Fund Budget	25 January 2016
Pension Fund Budget	22 June 2015
Pension Fund Budget	19 January 2015
Pension Fund Budget	1 July 2014
Pension Fund Budget	20 January 2014