

WIRRAL COUNCIL
PENSIONS COMMITTEE
16 JULY 2019

SUBJECT:	BUDGET OUT-TURN 2018/19 AND BUDGET FINANCIAL YEAR 2019/20
WARD/S AFFECTED:	ALL
REPORT OF:	DIRECTOR OF PENSIONS
KEY DECISION	NO

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to request that Members note and approve:

- The out-turn for the financial year 2018/19.
- The finalised budget for the financial year 2019/20.
- The 3 year budget for MPF as required for the annual report.

1.2 The actual out-turn for 2018/19 is £17.6m, lower than the original budget approved 16 July 2018 of £22.0m and lower than the projected out-turn of £19.4m as reported at Pensions Committee on 21 January 2019. This lower figure is principally due to the Q4 sell-off in equity markets which reduced investment management costs.

1.3 The 2019/20 budget reported in January has been updated to reflect agreed reduction in unpaid leave, along with revised salary overheads, IT, actuary and departmental & central support charges; the finalised 2019/20 budget is £22.3m.

2.0 BACKGROUND AND KEY ISSUES

2.1 Pensions Committee, at its meeting on 21 January 2019, received an estimate of the out-turn for 2018/19 and it was also agreed that I would report back on the final out-turn. The finalised out-turn is included in appendix 1. The actual out-turn for 2018/19 is lower than the projected out-turn reported in January 2019, due to the number of estimates required for the January report.

2.2 Pensions Committee at its meeting on 21 January 2019 agreed the budget for 2019/20 subject to confirmation of departmental & central support charges. It was agreed to report back to Committee with the finalised budget.

2.3 The finalised budget is included in this report in appendix 1, the variances from that reported in January are:

- Staffing now reflects the reduction in unpaid leave and salary related recharges.
- Updated IT budget to reflect planned IT projects.

- Updated actuary fees to reflect valuation work and other planned projects.
- Updated estimate for central establishment charges.

2.4 CIPFA have published a document outlining best practice for the contents of the annual reports of LGPS Funds, this includes financial performance including 3 year budgets.

2.5 The projected 3 year budget for MPF is detailed in the table below:

	2019/20	2020/21	2021/22
Employees	3,799,384	3,875,372	3,952,879
Premises	197,259	201,401	205,631
Transport	54,052	55,187	56,346
Investment fees	14,044,397	15,013,460	16,049,389
Other Supplies and Services	2,750,369	2,808,127	2,867,097
Third Party	1,113,510	1,136,894	1,160,768
Recharges	359,641	359,641	359,641
Total	<u>£22,318,612</u>	<u>£23,450,082</u>	<u>£24,651,751</u>

2.6 The assumptions used in the preparation of these 3 years budgets are as follows:

Staffing	Proposed Structure to be fully staffed throughout year 2% pay rises in subsequent years.
Investment management Fees	Estimate based on existing mandates with normal market conditions and 50% of investment mandates achieving performance targets.
Rent	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 2.1% as at April 2019.
Investment Performance	This has been derived from the long-term return assumptions for MPF by the Actuary.

2.7 Reduced costs and excellent value for money is a pooling criterion and Investment management fees are a significant element of the Fund's costs. The Fund and Northern LGPS use CEM to benchmark investment management fees and analyse these costs in the context of risk and return, and relative to other LGPS funds and private pension funds internationally. The information is used by the Fund and the Northern LGPS to ensure the effectiveness of the Fund's expenditure in this key area. The CEM benchmarking report for 2018/19 will be presented to a future Investment Monitoring Working Party.

3.0 RELEVANT RISKS

3.1 This has not changed since the report in January as below.

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 This has not changed since the report in January as below.

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 and the Fund is part of the “Northern LGPS” working on proposals for pooling LGPS investments to deliver reduced costs. Staffing arrangements were reviewed during 2017/18.

5.0 CONSULTATION

5.1 Not relevant for this report.

6.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

6.1 There are no implications arising directly from this report.

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

7.1 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 proposed costs of £22.3m including £14.0m of investment management charges to external managers represent a cost of £161.06 per member of the scheme. Taken separately the investment management costs of £14.0m are £101.35 per member of the scheme and 0.16% of total assets under management.

8.0 LEGAL IMPLICATIONS

8.1 There are no implications arising directly from this report.

9.0 EQUALITIES IMPLICATIONS

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

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

10.0 CARBON REDUCTION IMPLICATIONS

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

11.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

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

12.0 RECOMMENDATION/S

12.1 Members note the out turn for 2018/19.

12.2 Members approve the finalised budget for 2019/20.

12.3 Members approve other issues for inclusion in the 2018/19 Annual Report including 3 year financial estimates.

13.0 REASON FOR RECOMMENDATIONS

13.1 The approval of the budget and annual report 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 2019/20 including the out-turn for 2018/19 is attached as appendix 1 to this report.

The original appendix as reported to Members on 21 January 2019 is attached as appendix 2 to this report for information.

REFERENCE MATERIAL

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

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee :	
Pension Fund Budget	21 January 2019
Pension Fund Budget	16 July 2018
Pension Fund Budget	22 January 2018
Pension Fund Budget	16 July 2017
Pension Fund Budget	23 January 2017
Pension Fund Budget	4 July 2016

Appendix 1

Value of the Fund	£8.9bn	31/03/2019
Investment income Received	£231m	Projected 2019/20
Pensions Paid	£348m	Projected 2019/20
Contributions Received (see note 1)	£214m	Projected 2019/20
Active Contributing members	46,726	31 March 2019
Deferred members	40,259	31 March 2019
Pensioners	51,585	31 March 2019
Total Members	138,570	31 March 2019

	Budget 2018/19 (£)	Actual Out-Turn 2018/19	Budget 2019/20 (£)
Employees			
Pay, NI and Pension	3,339,555	2,770,381	3,511,972
Training	20,000	10,625	20,000
Other Staffing Costs	270,758	250,762	267,412
	3,630,313	3,031,768	3,799,384
Premises			
Rents	190,608	190,608	197,259
	190,608	190,608	197,259
Transport			
Public Transport Expenses	53,733	31,706	52,190
Car Allowances	1,630	1,581	1,862
	55,363	33,287	54,052
Supplies			
Furniture and Office Equipment	14,000	6,310	14,000

Printing and Stationery	32,000	20,791	23,800
Computer Development and Hardware	643,000	470,404	703,000
Postages and Telephones	97,250	87,402	94,000
External Audit	41,000	30,579	30,000
Services and Consultants			
Fees	1,588,350	930,109	1,638,680
Conferences and Subsistence	47,893	24,913	40,097
Subscriptions	147,360	140,496	145,392
Other	65,835	59,212	61,400
	2,676,688	1,770,216	2,750,369
Third Party			
Medical Fees	3,500	840	3,500
Bank Charges	20,000	14,996	10,000
Investment Management Fees	14,235,600	11,205,327	14,044,397
Custodian Fees	300,000	200,975	300,000
Actuarial Fees (net)	280,000	485,088	500,000
Other Hired and Contracted Services	277,033	308,725	300,010
	15,116,133	12,215,951	15,157,907
Departmental & Central Support Charges	363,879	348,134	359,641
	363,879	348,134	359,641
Total Expenditure	22,032,984	17,589,964	22,318,612

Note 1 The estimated contributions for 2019/20 are lower than reported in previous years due to a number of employers of the Fund opting to pay their 3 year deficit calculated by the actuary as part of the 31 March 2016 triennial valuation as a one off payment. This has resulted in the Fund receiving additional contributions during 2017/18, with the subsequent 2 years contributions being lower to account for the upfront payments.

Appendix 2

Value of the Fund	£8.9bn	30/09/2018
Investment income Received	£221m	Projected 2019/20
Pensions Paid	£332m	Projected 2019/20
Contributions Received (see note 1)	£213m	Projected 2019/20
Active Contributing members	49,151	31 March 2018
Deferred members	38,176	31 March 2018
Pensioners	50,160	31 March 2018
Total Members	137,487	31 March 2018

	Budget 2018/19 (£)	Probable Out-Turn 2018/19	Budget 2019/20 (£)
Employees			
Pay, NI and Pension	3,339,555	2,706,004	3,498,471
Training	20,000	11,533	20,000
Other Staffing Costs	270,758	276,217	267,360
	3,630,313	2,993,754	3,785,831
Premises			
Rents	190,608	190,608	197,259
	190,608	190,608	197,259
Transport			
Public Transport Expenses	53,733	28,007	52,190
Car Allowances	1,630	1,838	1,862
	55,363	29,845	54,052
Supplies			
Furniture and Office Equipment	14,000	7,630	14,000

Printing and Stationery	32,000	14,333	26,500
Computer Development and Hardware	643,000	634,406	668,000
Postages and Telephones	97,250	88,053	94,000
External Audit	41,000	41,000	30,000
Services and Consultants			
Fees	1,588,350	985,542	1,638,680
Conferences and Subsistence	47,893	22,123	40,097
Subscriptions	147,360	139,972	145,392
Other	65,835	57,804	61,400
	2,676,688	1,990,863	2,718,069
Third Party			
Medical Fees	3,500	840	3,500
Bank Charges	20,000	12,426	10,000
Investment Management Fees	14,235,600	13,202,978	14,044,397
Custodian Fees	300,000	172,434	300,000
Actuarial Fees	280,000	280,000	310,000
Other Hired and Contracted Services	277,033	242,829	300,010
	15,116,133	13,911,507	14,967,907
Departmental & Central Support Charges	363,879	363,879	363,879
	363,879	363,879	363,879
Total Expenditure	22,032,984	19,480,456	22,086,997

Note 1 The estimated contributions for 2019/20 are lower than reported in previous years due to a number of employers of the Fund opting to pay their 3 year deficit calculated by the actuary as part of the 31 March 2016 triennial valuation as a one off payment. This has resulted in the Fund receiving additional contributions during 2017/18, with the subsequent 2 years contributions being lower to account for the upfront payments.