



SUPPLEMENTARY AGENDA (2)

Pensions Committee

Date:	Tuesday, 15 January 2013
Time:	6.00 pm
Venue:	Committee Room 1 - Wallasey Town Hall

Contact Officer: Pat Phillips
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AGENDA

4. PENSION FUND BUDGET (Pages 1 - 8)

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WIRRAL COUNCIL

PENSIONS COMMITTEE

15 JANUARY 2013

SUBJECT:	MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2013/2014
WARD/S AFFECTED:	ALL
REPORT OF:	DIRECTOR OF FINANCE
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 2012/13.
- 1.2 The headline figures are that during the financial year 2013/14, we are estimating that MPF will pay £259m in pensions and receive £248m in contributions from employers and employees. The Fund has a value of £5,149m at 30th September 2012. The proposed administration costs of £16.8m including £11.5m of investment management charges to external managers represent a cost of £145.17 per member of the scheme. Taken separately the investment management costs are approximately £12.8m or 0.25% of total assets.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The method used to compile estimates of expenditure for 2012/13 is as follows:

Staffing	Current Structure to be fully staffed throughout year
Investment management Fees	Estimate based on normal market conditions and 50% of investment mandates achieving performance targets.
Rent	Agreed as a 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	RPI 2.6% as at September 2012
Investment Performance	4% bonds 8% equities 50% of performance targets met for active management

- 2.2 This report includes a predicted out-turn for 2012/13. However, due to the volatility in financial markets and issues with billing from certain third party suppliers it is not possible to predict the out-turn with complete accuracy. Therefore some estimates have been used, and it is proposed to report on out-turn at the June meeting of Pensions Committee. The out-turn will be marginally less than budgeted due to staffing vacancies and investment market volatility. The budget for 2013/14 is higher at £16.8m to £15.8m in 2012/13 largely due to higher external investment 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 outweighs the increase in fees paid. For 2012/13 the out-turn is expected to be in line with the estimate made last year. For 2013/14 the budget is around 12% higher for Investment management fees than 2012/13 due largely to changes in valuations and the balance of investments across the portfolio and improved performance relative to benchmark.
- 2.4 For staffing, the out-turn for 2012/13 will be under-spent due to long term sickness and vacancies, the budget for 2013/14 is largely unchanged from the previous year.
- 2.5 For premises the budgeted figure last year was incorrect, hence the over-spend. There is a reduction in the budget for 2013/14 from out-turn for 2012/13 as the Fund is intending to take up less space in Castle Chambers.
- 2.6 There have been some issues of coding and classification in the areas of supplies and third party payments resulting in movements of budgets as shown in the appendix (these are in the areas of subscriptions, IT, services and consultants fees and other hired and contracted services). Excluding investment management expenses the out-turn for 2012/13 is predicted at £1.8m compared to a budget of £1.8m, the budget for 2013/14 is £1.6m Within this overall position the key items to report are:
- Custodian fee budget was too high in 2012/13 and under new arrangements the fee is discounted to zero in 2013/14.
 - Investment Consultancy and actuarial fees rise in 2013/14 due to actuarial valuation and resulting review of investment strategy.
- 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 £719,300, which ended up being £725,120 after adjustments which is the figure provisionally budgeted for 2013/14. However the back office functions of Wirral Council, the administering authority are subject to significant review, with a likely outcome of reduction in costs. Officers at the Fund are at present negotiating service level agreements with Wirral support service functions. In terms of the out-turn for 2012/13 this is predicted to be over budget largely due to additional IT costs associated with the implementation of the new Pensions Administration system.

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 another on-going and there was a comprehensive review of staffing arrangements in previous years as part of the EVR exercise. As described earlier, the administering authority is also undertaking a review of its back office services with an aim of reducing costs which should result in a decrease in charges to the Fund. For all other expenditure there has been a careful review process culminating in a planning meeting at which the Head of Service approved the proposals for discretionary expenditure in this report.

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 full costs are estimated to be 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.

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 approve the budget for 2013/14. (Subject to potential reductions in charges from the administering authority for support services)

12.2 I will report on the out turn for 2012/13 to Pensions Committee in June together with finalised estimates for departmental & central support charges for 2013/14.

13.0 REASON FOR RECOMMENDATIONS

13.1 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 2013/14 is attached as appendix 1 to this report.

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	17th January 2012
Pension Fund Budget	11th January 2011
Pension Fund Budget	13th January 2010

Appendix 1

Value of the Fund	£5,149,000,000	30/09/2012
Investment income Received	£93.4m	Projected 2012/13
Pensions Paid	£258.9m	Projected 2012/13
Contributions Received	£247.9m	Projected 2012/13
Active Contributing members	45,521	31 st March 2012
Deferred members	32,912	31 st March 2012
Pensioners	37,314	31 st March 2012
Total Members	115,747	31 st March 2012

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	Budget 2012/13	Probable Out-Turn 2012/2013	Budget 2013/2014
	£	£	£
Employees			
Pay, NI and Pension	2,534,400	2,265,133.74	2,522,638.16
Training	40,100	10,220.00	20,000.00
Other Staffing Costs	82,200	76,597.56	85,000.00
	2,656,700	2,351,951.30	2,627,638.16
Premises			
Rents	114,700	208,593.08	188,193.08
	114,700	208,593.08	188,193.08
Transport			
Public Transport Expenses	31,450	13,826.12	24,840.00
Car Allowances	2,000	2,689.66	3,200.00
	33,450	16,515.78	28,040.00
Supplies			
Furniture and Office Equipment	40,000	16,668.34	25,000.00

Printing and Stationery	197,500	69,852.70	75,000.00
Computer Development and Hardware	55,000	295,106.98	315,000.00
Postages and Telephones	138,500	129,478.90	104,500.00
External Audit	59,200	40,000.00	40,000.00
Services and Consultants			
Fees	200,000	268,948.92	590,397.00
Conferences and Subsistence	40,520	14,024.88	34,540.00
Subscriptions	230,000	39,869.90	96,197.36
Other	0	10,955.96	65,000.00
	960,720.00	884,906.58	1,345,634.36
Third Party			
Medical Fees	10,000	5,778.80	8,500.00
Bank Charges	15,000	14,459.42	15,000.00
Investment Management Fees	10,300,000	10,258,077.24	11,555,999.08
Custodian Fees	450,000	240,000.00	0.00
Actuarial Fees	150,000	150,000.00	163,877.56
Other Hired and Contracted Services	235,000	509,454.33	60,000.00
	11,160,000	11,177,769.79	11,803,376.64
Transfers			
Payments for Devolved Administration	199,200.00	168,925.80	173,317.87
	199,200.00	168,925.80	173,317.87
Departmental & Central Support Charges	719,300	896,811.14	725,120.00
	719,300.00	896,811.14	725,120.00
Total Expenditure	15,844,070.00	15,705,473.47	16,891,320.12
Income			
Fire Service Administration	85,500	85,500.00	87,800.00
	85,500	85,500.00	87,800.00
Total Net Expenditure	15,758,570	15,619,973.47	16,803,520.12

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