**WIRRAL COUNCIL**

**CABINET**

**3 FEBRUARY 2011**

**REPORT OF THE DIRECTOR OF FINANCE**

**PENSION FUND BUDGET 2011-2012**

## 1. EXECUTIVE SUMMARY

1.1. This report outlines the Pension Fund budget incorporating the administration and investment costs for 2011-12, and also shows a revised budget for 2010-11. The Pensions Committee approved the budget on 11 January 2011.

## 2. PROBABLE OUTTURN 2010-2011

2.1 The Probable Outturn for 2010-11 shows a projected overspending of £144,000 on a budget of £13.8m. In making such projections, assumptions need to be made regarding the change in value of the Fund during the final quarter of 2010-2011.

2.2 Those budget headings related to the value of the Fund are expected to overspend by £650,000. Increased ad valorem fees are payable to fund managers to reflect the increase of £500m in the value of the Fund over the previous 12 months. The same applies to custody fees.

2.2 Apart from the above expenditure which is directly related to the value of the Fund, most other budgets are projected to underspend.

2.3 Staffing is expected to return an underspending. Savings which resulted both from holding vacancies, reduced expenditure on pension costs and staff departing due to EVR/Voluntary severance are expected to more than offset the one-off costs of severance and ongoing costs of the pension strain.

2.4 There is a projected £134,000 underspending on supplies and services, including furniture (£35,800) and use of external services. External audit costs are expected to come in under budget.

2.5 There is an underspending of £45,000 on manager selection costs as the consultants fees in respect of the recently- tendered Japan, Far East and Emerging Markets mandates will be met by the successful fund managers.

2.6 Costs of monitoring the increasingly complex investment portfolio have exceeded budget.

## 3 BUDGET 2011-2012

3.1 The staff re-structuring is in the final stages of approval. Generally, severance costs, pension strain and the resultant savings of those staff departing from MPF during the period 31 December 2010 to 30 June 2011, are known. One-off severance costs, and costs of the pension strain, are shown under “Other staffing costs”.

3.2 The budget excludes certain costs which are, or are expected to be, reflected in increases in the value of the Fund. This includes payments to tax advisers who are assisting with the pursuit of further recoveries of UK tax, European Withholding Tax and USA tax. Performance payments to managers to exceed out-performance targets are covered by the related change in Fund value, hence are not explicitly budgeted for.

3.3. The detailed budget is shown as the appendix to this report, and totals £16,601,900. It reflects decisions previously taken by the Pensions Committee, including the following:

- additional ad valorem fees to investment managers reflecting the outcome of the award of the Japan, Far East and Emerging Markets mandates
- the resultant increased costs of performance measurement and performance monitoring by the internal team
- the deletion of the additional provision of £163,000 in 2010-2011 only to reflect the new Pensions Administration System.
- the full year effect of the reduction in the budget for Independent Advisors

3.4 Increases Linked to the Value of the Fund

a. There is an increase in the budget for investment management expenses, which are estimated to total £10,908,300 in 2011-2012. These fees vary according to the value of each portfolio. The increase reflects the higher Fund values over the last 12 months, and assumes a further modest increase in the Fund value during 2011- 2012.

b. Custodian fees have also increased, as the basic custody element is also charged on an ad valorem basis.

3.5 The budget for rental of Castle Chambers will reduce due to the competitiveness of office rents in Liverpool.

3.6 The reduction in actuarial fees reflects the fact that 2011-2012 is not a Triennial Valuation year.

3.7 A virement of £11,000 is proposed from IT development to printing costs associated with the effective communication of the anticipated fundamental changes of LGPS regulations.

3.8 A further reduction of £16,400 is proposed for furniture and office equipment, to reflect lower staffing levels.

4. **FINANCIAL IMPLICATIONS**

4.1. The estimates cover the administrative costs of MPF together with the investment management costs. The costs of administering the pensions service are recoverable from employers by inclusion in their contributions and currently amount to around 0.5% of the employer contribution rates which have been revised with effect from 1 April 2011. The next revision of contribution rates will follow the Triennial Valuation scheduled for March 2013, for implementation in April 2014.

5. **STAFFING IMPLICATIONS**

5.1. These are covered in more detail in a separate report to this Committee.

6. **EQUAL OPPORTUNITY IMPLICATIONS**

6.1. There are none arising directly from this report.

7. **HUMAN RIGHTS IMPLICATIONS**

7.1. There are none arising directly from this report.

8. **COMMUNITY SAFETY IMPLICATIONS**

8.1. There are none arising directly from this report.

9. **LOCAL MEMBER SUPPORT IMPLICATIONS**

9.1. There are none arising directly from this report.

10. **LOCAL AGENDA 21 IMPLICATIONS**

10.1. There are no implications in this report.

11. **PLANNING IMPLICATIONS**

11.1. There are none arising directly from this report.

12. **BACKGROUND PAPERS**

12.1 None were used in the preparation of this report.

## 13. RECOMMENDATION

13.1. That Members note the estimates for 2011-2012.

IAN COLEMAN
DIRECTOR OF FINANCE

FNCE/10/11