

WIRRAL COUNCIL

PENSIONS COMMITTEE

20 JANUARY 2014

SUBJECT:	MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2014/2015
WARD/S AFFECTED:	ALL
REPORT OF:	STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES
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 2014/15.
- 1.2 The headline figures are that during the financial year 2014/15, we are estimating that MPF will pay £291m in pensions and receive £246m in contributions from employers and employees. The Fund has a value of £5,796m at 30th September 2013 and projected to be £6,183m at September 2014. The proposed administration costs of £18.8m including £13.2m of investment management charges to external managers represent a cost of £151.35 per member of the scheme. Taken separately the external investment management costs are approximately £106.13 per member or 0.21% of total assets on a projected basis.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The method used to compile estimates of expenditure for 2014/15 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	CPI 2.7% as at September 2013
Investment Performance	4% bonds 8% equities 50% of performance targets met for active management

- 2.2 This report includes a predicted out-turn for 2013/14. 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 is at present to be higher than predicted largely due to investment management fees. The budget for 2014/15 is higher at £18.8m to £16.6m in 2013/14 primarily 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 2013/14 the out-turn is expected to be significantly higher than the estimate made last year due to investment performance during the year being significantly higher than the long term average. For 2014/15 the budget is around 14% higher for Investment management fees than 2013/14 due largely to changes in valuations as a result of strong performance and improved performance relative to benchmark from active fund managers..
- 2.4 The second highest expenditure is on staffing. The estimates for this allows for increased deficit pension costs for past service and retired members of staff and also for £100,000 of growth for increased administration staffing for new scheme and increased investment resources. The aim of the increased expenditure on internal investment resources is to improve investment returns net of costs, the tax accountant post being an example. The increase to administration staffing is in response to the mounting complexity of the scheme in particular moving to a career average basis whilst retaining the previous schemes. Further reports will follow on staffing if and when extra resources are utilised. The out-turn for staffing in 2013/14 will be lower than budget due to unpaid leave and unfilled vacancies. The unpaid leave reduces the budget by around £40,000.
- 2.5 For premises, the budget has been over spent as the office space taken up by MPF in Castle Chambers has not been consolidated. There will be a further review of operations. There is less urgency on this at present as there are several vacancies in Castle Chambers at present so the Fund would be unlikely to re-let any space vacated immediately. For this reason the budget is slightly higher this year.
- 2.6 There have been some issues of coding, classification and profiling in the areas of transport, supplies and third party payments (excluding investment management fees) which make the estimates for probable out turn unclear at this stage. These will be resolved and reported on in June. The budget for next year for these items is £1.76m in 2014/15 compared to £1.6m in 2013/14. The main reasons for this are increases in costs for Custody, Computer Development and Hardware plus other minor increases, which are partially offset by reductions in Investment Consultancy fees.

- 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 £675,400. The out-turn is predicted to be very close to this figure. However the back office functions of Wirral Council, the administering authority are subject to significant review, with a likely outcome of improved efficiencies. Officers at the Fund are at present continuing to negotiate service level agreements with Wirral support service functions. This process has been delayed due to uncertainties over the proposed shared services arrangements.

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. 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 £151.35 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. Any staffing changes made from current structure will be subsequently reported to Pensions Committee.

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 2014/15. (Subject to review of charges from the administering authority for support services and changes in recharges for pension deficit recovery)

12.2 I will report on the out turn for 2013/14 to Pensions Committee in June together with finalised estimates in particular for salary overheads and departmental & central support charges for 2014/15.

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 2014/15 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 :	15th January 2013
Pension Fund Budget	17th January 2012
Pension Fund Budget	11th January 2011

Appendix 1

Value of the Fund	£5,796m	30/09/2013
Value of the Fund	£6,183m	Projected 30/09 2014
Investment income Received	£95m	Projected 2014/15
Pensions Paid	£291m	Projected 2014/15
Contributions Received	£246m	Projected 2014/15
Active Contributing members	44,707	31 st March 2013
Deferred members	34,481	31 st March 2013
Pensioners	44,753	31 st March 2013
Total Members	123,941	31 st March 2013

	Budget 2013/14	Probable Out-Turn 2013/14	Budget 2014/15
	£	£	£
Employees			
Pay, NI and Pension	2,522,638	2,278,115	2,586,345
Training	20,000	13,046	20,000
Other Staffing Costs	85,000	224,899	344,500
	2,627,638	2,516,060	3,011,274
Premises			
Rents	188,193	188,194	214,638
	188,193	188,194	214,638
Transport			
Public Transport Expenses	24,840	9,595	29,830
Car Allowances	3,200	1,712	0
	28,040	11,307	29,830

Supplies

Furniture and Office Equipment	25,000	5,605	20,000
Printing and Stationery	75,000	50,954	90,000
Computer Development and Hardware	315,000	77,309	390,000
Postages and Telephones	104,500	95,858	105,800
External Audit	40,000	39,062	41,000
Services and Consultants Fees	590,397	465,774	404,364
Conferences and Subsistence	34,540	33,184	41,320
Subscriptions	96,197	102,010	121,012
Other	65,000	17,078	79,000
	1,345,634	886,834	1,292,496

Third Party

Medical Fees	5,000	4,118	8,500
Bank Charges	15,000	4,900	5,000
Investment Management Fees	11,555,999	12,788,800	13,153,617
Custodian Fees	0	72,401	200,000
Actuarial Fees	163,878	164,383	160,000
Other Hired and Contracted Services	80,000	82,148	96,183
	11,819,877	13,116,750	13,623,300

Recharges

Inter Departmental Recharges	675,400	676,661	675,400
	675,400	676,661	675,400

Total Expenditure

	16,684,782	17,395,805	18,846,937
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Income

Fire Service Administration	85,500	85,500	88,500
	85,500	85,500	88,500

Total Net Expenditure

	16,599,282	17,310,305	18,758,437
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