

WIRRAL COUNCIL

PENSIONS COMMITTEE

1 JULY 2014

| | |
|-------------------------|--|
| SUBJECT: | BUDGET FINANCIAL YEAR 2014/2015 BUDGET OUT TURN 2013/14 AND ANNUAL REPORT 2013/14 |
| 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 note and approve:

- The finalised budget for the financial year 2014/15.
- The out-turn for the financial year 2013/14.
- The 3 year budget for MPF as required for the annual report

1.2 There are no significant changes to the 2014/15 budget and the actual out-turn for 2013/14 is £16.7m (in line with the original budget approved 24 June 2013 of £16.8m) and lower than the projected out-turn of £17.3m as reported at Pensions Committee on 20 January 2014.

2.0 BACKGROUND AND KEY ISSUES

2.1 Pensions Committee at its meeting on 20 January 2014 agreed the budget for 2014/15 subject to confirmation of departmental & central support charges. It was agreed to report back to Committee with the finalised budget.

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

- Staffing now reflects pension deficit recovery charges.
- Updated estimate for central establishment charges.
- Small reductions in transport and telephony to reflect corporate savings.

2.3 Pensions Committee, at its meeting on 20 January 2014, received an estimate of the out-turn for 2013/14 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 previously reported issues of coding and classification in supplies and third party payments, as well as the need to use estimates have been resolved and expenditure in these areas is now in line with the budget set. The actual out-turn for 2013/14 is lower than the projected out-turn reported in January 2014,

due to the number of estimates required for the January report. The main changes are as follows:

- Pension related recharges have now been included within other staffing costs
- The actual out-turn for supplies is higher than the projection, largely due to computer development & hardware and services & consultant fees expenditure in the final quarter; although this area is still below budget.
- The actual out-turn for third party payments is lower than the projection. The main reason is the investment management fees projected came in below budget. Third party payments overall are higher than the budget set largely due to increased expenditure for custody, actuarial services and other hired & contracted services.
- Reduction in central establishment charges from estimated to actual.

2.4 In appendix 1 the budget figures for 2013/14 have been amended to reflect the budget approved by Pensions Committee 24 June 2013.

2.5 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.

2.6 The projected 3 year budget for MPF is detailed in the table below.

| | 2014/15 | 2015/16 | 2016/17 |
|-----------------------------|--------------------|--------------------|--------------------|
| Employees | £3,104,022 | £3,166,102 | £3,229,424 |
| Premises | £214,638 | £220,433 | £226,385 |
| Transport | £29,530 | £30,327 | £31,146 |
| Investment fees | £13,153,617 | £14,061,217 | £15,031,441 |
| Other Supplies and Services | £1,292,296 | £1,327,188 | £1,363,022 |
| Third Party | £469,683 | £482,364 | £495,388 |
| Transfers | £0 | £0 | £0 |
| Recharges | £615,000 | £615,000 | £615,000 |
| (Income) | -£88,500 | -£90,890 | -£93,344 |
| Total | £18,790,286 | £19,811,741 | £20,898,462 |

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

| | |
|----------------------------|--|
| Staffing | Current Structure to be fully staffed throughout year 2% pay rises in subsequent years plus growth |
| Investment management Fees | Estimate based on 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 2.7% as at September 2013 |
| Investment Performance | | This has been derived from the long-term return assumptions for MPF by the Actuary. |

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 a national consultation on "LGPS: Opportunities for collaboration, cost savings and efficiencies is ongoing. Staffing arrangements remain under review in relation to the Future Council exercise.

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 a 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 finalised budget for 2014/15 with revised estimates for departmental & central support charges for 2014/15 and finalised salary costs.

12.2 Members approve other issues for inclusion in the 2013/14 Annual Report including 3 year financial estimates.

12.3 Members note the out turn for 2013/14.

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 2014/15 including the out-turn for 2013/14 is attached as appendix 1 to this report.

The original appendix as reported to Members on 20 January 2014 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 : | 20 January 2014 |
| Pension Fund Budget | 24 June 2013 |
| Pension Fund Budget | 15 January 2013 |
| Pension Fund Budget | 17 January 2012 |
| Pension Fund Budget | 11 January 2011 |

Appendix 1

| | | |
|------------------------------------|---------|--------------------------------|
| Value of the Fund | £5,796m | 30/09/2013 |
| Value of the Fund | £6,183m | <i>Projected</i> 30/09/2014 |
| Investment income Received | £95m | <i>Projected 2014/15</i> |
| Pensions Paid | £291m | <i>Projected 2014/15</i> |
| Contributions Received | £426m | <i>Projected 2014/15</i> |
| Active Contributing members | 45,583 | 31 st March 2014 |
| Deferred members | 35,786 | 31 st March 2014 |
| Pensioners | 45,819 | 31 st March 2014 |
| Total Members | 127,188 | 31 st March 2014 |

| | Budget 2013/14 Approved 24/6/14 £ | Actual Out-Turn 2013/2014 | Budget 2014/2015 £ |
|---------------------------|--|--------------------------------------|-----------------------------------|
| Employees | | | |
| Pay, NI and Pension | 2,522,638 | 2,261,606 | 2,644,322 |
| Training | 20,000 | 18,267 | 20,000 |
| Other Staffing Costs | 85,000 | 263,198 | 439,700 |
| | 2,627,638 | 2,543,071 | 3,104,022 |
| Premises | | | |
| Rents | 188,193 | 211,446 | 214,638 |
| | 188,193 | 211,446 | 214,638 |
| Transport | | | |
| Public Transport Expenses | 24,840 | 8,405 | 29,530 |
| Car Allowances | 3,200 | 1,158 | 0 |
| | 28,040 | 9,563 | 29,530 |
| Supplies | | | |

| | | | |
|---|-------------------|-------------------|-------------------|
| Furniture and Office Equipment | 25,000 | 5,606 | 20,000 |
| Printing and Stationery | 75,000 | 59,146 | 90,000 |
| Computer Development and Hardware | 315,000 | 298,840 | 390,000 |
| Postages and Telephones | 104,500 | 101,504 | 105,600 |
| External Audit | 40,000 | 30,815 | 41,000 |
| Services and Consultants Fees | 590,397 | 526,022 | 404,364 |
| Conferences and Subsistence | 34,540 | 40,406 | 41,320 |
| Subscriptions | 96,197 | 121,503 | 121,012 |
| Other | 65,000 | 25,219 | 79,000 |
| | 1,345,634 | 1,209,061 | 1,292,296 |
| Third Party | | | |
| Medical Fees | 5,000 | 2,547 | 8,500 |
| Bank Charges | 15,000 | 4,766 | 5,000 |
| Investment Management Fees | 11,555,999 | 11,301,091 | 13,153,617 |
| Custodian Fees | 0 | 246,938 | 200,000 |
| Actuarial Fees | 163,878 | 311,873 | 160,000 |
| Other Hired and Contracted Services | 60,000 | 193,070 | 96,183 |
| | 11,799,877 | 12,060,285 | 13,623,300 |
| Transfers | | | |
| Payments for Devolved Administration | 173,318 | 176,178 | 0 |
| | 173,318 | 176,178 | 0 |
| Departmental & Central Support Charges | 725,120 | 605,720 | 615,000 |
| | 725,120 | 605,720 | 615,000 |
| Total Expenditure | 16,887,820 | 16,815,324 | 18,878,786 |
| Income | | | |
| Fire Service Administration | 87,800 | 85,600 | 88,500 |
| | 87,800 | 85,600 | 88,500 |
| Total Net Expenditure | 16,800,020 | 16,729,724 | 18,790,286 |

Appendix 2 As reported on 20 January 2014

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

| | Budget 2013/14 £ | Probable Out-Turn 2013/2014 £ | Budget 2014/2015 £ |
|---------------------------|------------------------|-------------------------------------|--------------------------|
| 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 | 1214,638 |
| 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 | 25,000 | 5,605 | 20,000 |

| | | | |
|-----------------------------------|------------------|----------------|------------------|
| Equipment | | | |
| 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 |

Transfers

Payments for Devolved Administration

| | | | |
|---|----------------|----------------|----------------|
| Departmental & Central Support Charges | 675,400 | 676,661 | 675,400 |
| | 675,400 | 676,661 | 675,400 |

| | | | |
|--------------------------|-------------------|-------------------|-------------------|
| Total Expenditure | 16,684,782 | 17,395,805 | 18,846,937 |
|--------------------------|-------------------|-------------------|-------------------|

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 |
|------------------------------|-------------------|-------------------|-------------------|

