

WIRRAL COUNCIL

PENSIONS COMMITTEE

19 January 2015

SUBJECT:	MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2015/16
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 2015/16.
- 1.2 The headline figures are that during the financial year 2015/16, we are estimating that MPF will pay £267m in pensions and receive £184m in contributions from employers and employees. The Fund has a value of £6.4bn at 30 September 2014. The proposed administration costs of £17.2m including £11.2m of investment management charges to external managers represent a cost of £135.61 per member of the scheme. Taken separately the external investment management costs are approximately £88.29 per member.
- 1.3 The estimated contributions for 2015/16 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 2013 triennial valuation as a one off payment. This has resulted in the Fund receiving additional contributions of £165m during 2014/15, with the subsequent 2 years contributions being lower to account for the upfront payments.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The method used to compile estimates of expenditure for 2015/16 is as follows:

Staffing	Current Structure to be fully staffed throughout year.
Investment management Fees	Estimate based on normal market conditions.
Premises	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 1.2% as at September 2014.
Investment Performance	4% bonds 8% equities 50% of performance targets met for active management.

- 2.2 This report includes a predicted out-turn for 2014/15. 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 outturn at the June meeting of Pensions Committee. The out-turn is at present to be lower than predicted largely due to investment market volatility.
- 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 2014/15 the outturn is expected to be lower than the estimate made last year due to market volatility and efficiencies gained through renegotiated fees.
- 2.4 The second highest expenditure is on staffing. The budget for 2015/16 is largely unchanged from the previous year. The additional £100,000 of growth for increased administration staffing for the new scheme agreed as part of last year's budget but still to be implemented has been carried forward to 2015/16. 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.
- 2.5 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 £2.1m in 2015/16 compared to £2.0m in 2014/15. 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. Expenditure included within the 2015/16 budget relating to the requirements of Pension Boards is with reference to training events to ensure knowledge and skills are sufficient and maintained. Any further expenditure on Pension Boards will be reported in the June report.
- 26 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 £615,000. 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 will continue to negotiate service level agreements with Wirral support service functions.

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 OUTSTANDING PREVIOUSLY APPROVED ACTIONS

6.1 There are no previously approved actions outstanding.

7.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

7.1 There are no implications arising directly from this report.

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

8.1 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 £135.61 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.

9.0 LEGAL IMPLICATIONS

9.1 There are no implications arising directly from this report.

10.0 EQUALITIES IMPLICATIONS

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

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

11.0 CARBON REDUCTION AND ENVIRONMENTAL IMPLICATIONS

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

12.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

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

13.0 RECOMMENDATION/S

13.1 Members approve the budget for 2015/16. (Subject to review of charges from the administering authority for support services and changes in recharges for pension deficit recovery)

13.2 That a further report on the out-turn for 2014/15 with finalised estimates in particular for salary overheads, departmental & central support charges and Pension Boards for 2015/16 be presented to Pensions Committee Members in June.

14.0 REASON/S FOR RECOMMENDATION/S

14.1 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 2015/16 is attached as appendix 1 to this report.

BACKGROUND PAPERS/REFERENCE MATERIAL

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

BRIEFING NOTES HISTORY

Briefing Note	Date

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
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Pensions Committee:

**Pension Fund Budget
Pension Fund Budget
Pension Fund Budget
Pension Fund Budget
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**1 July 2014
20 January 2014
24 June 2013
15 January 2013
17 January 2012**