

# WIRRAL COUNCIL

## PENSIONS COMMITTEE 25 JANUARY 2016

<b>SUBJECT:</b>	<b>MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2016/17</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>STRATEGIC DIRECTOR TRANSFORMATION AND RESOURCES</b>
<b>KEY DECISION</b>	<b>NO</b>

### 1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to request that Members approve the budget for the financial year 2016/17.
- 1.2 The headline figures are that during the financial year 2016/17, we are estimating that MPF will pay £272m in pensions and receive £196m in contributions from employers and employees. The Fund has a value of £6.5bn at 30 September 2015. The proposed administration costs of £19.1m including £12.6m of investment management charges to external managers represent a cost of £148.59 per member of the scheme. Taken separately the external investment management costs are approximately £98.33 per member.
- 1.3 The estimated contributions for 2016/17 are again 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 2016/17 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 -0.1% as at September 2015 and therefore assumed zero.
Investment Performance	4% bonds; 8% equities; 50% of performance targets met for active management.

- 2.2 This report includes a predicted out-turn for 2015/16. However, due to the volatility in financial markets and delays in billing from certain third party suppliers it is not possible to predict the outturn with complete accuracy. Therefore some estimates have been used, and it is proposed to report on outturn at the June meeting of Pensions Committee. At present, the outturn is 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 exceeds the increase in fees paid. For 2015/16 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 outturn for 2015/16 will be underspent due to vacancies, growth in administration yet to be implemented and reduced salary recharges. The budget for 2016/17 reflects increased national insurance contributions, the carried forward growth in administration and £100,000 of growth in the investments team.
- 2.5 The predicted 2015/16 outturn for supplies is lower than estimated largely due to computer development and hardware and delays in planned IT projects. These budgets have been carried forward to the 2016/17, with updated costs reflected, along with additional IT projects for 2016/17, including system upgrades.
- 2.6 Investment consultancy and actuarial fees rise in 2016/17 due to the triennial 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 £500,600. 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 £148.59 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 2016/17. (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 outturn for 2015/16 with finalised estimates in particular for salary overheads and departmental & central support charges for 2016/17 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 2016/17 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**

<b>Briefing Note</b>	<b>Date</b>

## **SUBJECT HISTORY (last 3 years)**

<b>Council Meeting</b>	<b>Date</b>
<b>Pensions Committee:</b>	
<b>Pension Fund Budget</b>	<b>22 June 2015</b>
<b>Pension Fund Budget</b>	<b>19 January 2015</b>
<b>Pension Fund Budget</b>	<b>1 July 2014</b>
<b>Pension Fund Budget</b>	<b>20 January 2014</b>
<b>Pension Fund Budget</b>	<b>24 June 2013</b>