

WIRRAL COUNCIL

PENSIONS COMMITTEE

17 JULY 2017

| | |
|-------------------------|------------------------------------------------------------------------|
| SUBJECT: | BUDGET FINANCIAL YEAR 2017/18 BUDGET OUT-TURN 2016/17 |
| WARD/S AFFECTED: | ALL |
| REPORT OF: | MANAGING DIRECTOR, DELIVERY |
| KEY DECISION | NO |

1.0 EXECUTIVE SUMMARY

1.1 The purpose of this report is to request that Members note and approve:

- The out-turn for the financial year 2016/17.
- The finalised budget for the financial year 2017/18.
- The 3 year budget for MPF as required for the annual report.

1.2 The actual out-turn for 2016/17 is £19.8m, higher than the original budget approved 4 July 2016 of £19.2m and in line with the projected out-turn of £19.7m as reported at Pensions Committee on 23 January 2017.

1.3 The 2017/18 budget reported in January has been updated to reflect proposed staffing changes at the Fund, along with revised salary overheads and departmental & central support charges; the finalised 2017/18 budget is £20.9m.

2.0 BACKGROUND AND KEY ISSUES

2.1 Pensions Committee, at its meeting on 23 January 2017, received an estimate of the out-turn for 2016/17 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 actual out-turn for 2016/17 is higher than the projected out-turn reported in January 2016, due to the number of estimates required for the January report.

2.2 Pensions Committee at its meeting on 25 January 2016 agreed the budget for 2017/18 subject to confirmation of departmental & central support charges. It was agreed to report back to Committee with the finalised budget.

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

- Staffing now reflects updated salary and salary related recharges.
- Updated estimate for central establishment charges.

2.4 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.

2.5 The projected 3 year budget for MPF is detailed in the table below:

| | 2017/18 | 2018/19 | 2019/20 |
|-----------------------------|--------------------|--------------------|--------------------|
| Employees | £3,388,233 | £3,422,115 | £3,456,336 |
| Premises | £279,886 | £287,443 | £295,204 |
| Transport | £50,894 | £52,268 | £53,679 |
| Investment fees | £14,130,828 | £15,105,855 | £16,148,159 |
| Other Supplies and Services | £1,955,155 | £2,007,944 | £2,062,159 |
| Third Party | £710,255 | £729,432 | £749,127 |
| Recharges | £349,757 | £349,575 | £349,757 |
| Total | £20,865,008 | £21,954,815 | £23,114,421 |

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

| | |
|----------------------------------------|----------------------------------------------------------------------------------------------------------|
| Staffing | Proposed Structure to be fully staffed throughout year 1% 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 April 2017. |
| 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 the Fund is part of the “Northern Pool” working on proposals for pooling LGPS investments to deliver reduced costs. Staffing arrangements remain under review.

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 proposed costs of £20.7m including £14.1m of investment management charges to external managers represent a cost of £155.32 per member of the scheme. Taken separately the investment management costs of £14.1m are £105.19 per member of the scheme and 0.17% of total assets under management.

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 note the out turn for 2016/17.

12.2 Members approve the finalised budget for 2017/18.

12.3 Members approve other issues for inclusion in the 2016/17 Annual Report including 3 year financial estimates.

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 2017/18 including the out-turn for 2016/17 is attached as appendix 1 to this report.
The original appendix as reported to Members on 23 January 2017 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 : | |
| Pension Fund Budget | 23 January 2017 |
| Pension Fund Budget | 4 July 2016 |
| Pension Fund Budget | 25 January 2016 |
| Pension Fund Budget | 22 June 2015 |
| Pension Fund Budget | 19 January 2015 |
| Pension Fund Budget | 1 July 2014 |

Appendix 1

| | | |
|------------------------------------|---------|-----------------------------|
| Value of the Fund | £8.2bn | 31/03/2017 |
| Investment income Received | £178m | Projected 2017/18 |
| Pensions Paid | £315m | Projected 2017/18 |
| Contributions Received | £428m | Projected 2017/18 |
| Active Contributing members | 47,206 | 31 st March 2017 |
| Deferred members | 38,368 | 31 st March 2017 |
| Pensioners | 48,765 | 31 st March 2017 |
| Total Members | 134,339 | 31 st March 2017 |

| | Budget 2016/17 £ | Actual Out-Turn 2016/17 | Budget 2017/18 £ |
|-----------------------------------|---------------------------------|------------------------------------|---------------------------------|
| Employees | | | |
| Pay, NI and Pension | 3,007,867 | 2,523,044 | 3,102,337 |
| Training | 20,000 | 14,138 | 20,000 |
| Other Staffing Costs | 298,166 | 253,907 | 265,896 |
| | 3,326,033 | 2,791,089 | 3,388,233 |
| Premises | | | |
| Rents | 284,042 | 284,042 | 279,886 |
| | 284,042 | 284,042 | 279,886 |
| Transport | | | |
| Public Transport Expenses | 51,614 | 29,673 | 49,534 |
| Car Allowances | 1,300 | 1,257 | 1,360 |
| | 52,914 | 30,930 | 50,894 |
| Supplies | | | |
| Furniture and Office Equipment | 18,000 | 7,630 | 14,000 |
| Printing and Stationery | 67,000 | 25,855 | 47,000 |
| Computer Development and Hardware | 532,500 | 432,084 | 507,500 |

| | | | |
|---------------------------------------------------|-------------------|-------------------|-------------------|
| Postages and Telephones | 109,250 | 94,670 | 106,250 |
| External Audit | 41,000 | 36,882 | 41,000 |
| Services and Consultants | | | |
| Fees | 742,564 | 621,666 | 998,767 |
| Conferences and Subsistence | 41,165 | 24,073 | 36,499 |
| Subscriptions | 153,993 | 115,801 | 143,139 |
| Other | 78,500 | 20,284 | 61,000 |
| | 1,783,972 | 1,378,945 | 1,955,155 |
| Third Party | | | |
| Medical Fees | 5,500 | 2,557 | 5,500 |
| Bank Charges | 15,000 | 14,507 | 20,000 |
| Investment Management Fees | 12,611,442 | 14,074,575 | 14,130,828 |
| Custodian Fees | 250,000 | 147,520 | 260,000 |
| Actuarial Fees | 260,000 | 404,089 | 280,000 |
| Other Hired and Contracted Services | 127,755 | 119,358 | 144,755 |
| | 13,269,697 | 14,762,606 | 14,841,083 |
| Departmental & Central Support Charges | 529,700 | 529,700 | 349,757 |
| | 529,700 | 529,700 | 349,757 |
| Total Expenditure | 19,246,358 | 19,777,312 | 20,865,008 |

Appendix 2 As reported on 23 January 2017

| | | |
|------------------------------------|---------|-----------------------------|
| Value of the Fund | £7.7bn | 30/09/2016 |
| Investment income Received | £160m | Projected 2017/18 |
| Pensions Paid | £283m | Projected 2017/18 |
| Contributions Received | £286m | Projected 2017/18 |
| Active Contributing members | 46,221 | 31 st March 2016 |
| Deferred members | 37,136 | 31 st March 2016 |
| Pensioners | 47,724 | 31 st March 2016 |
| Total Members | 131,081 | 31 st March 2016 |

| | Budget 2016/17 £ | Probable Out-Turn 2016/17 £ | Budget 2017/18 £ |
|--------------------------------|------------------------|-----------------------------------|------------------------|
| Employees | | | |
| Pay, NI and Pension | 3,007,867 | 2,559,056 | 3,043,672 |
| Training | 20,000 | 7,500 | 20,000 |
| Other Staffing Costs | 298,166 | 329,678 | 290,396 |
| | 3,326,033 | 2,896,234 | 3,354,068 |
| Premises | | | |
| Rents | 284,042 | 284,042 | 279,886 |
| | 284,042 | 284,042 | 279,886 |
| Transport | | | |
| Public Transport Expenses | 51,614 | 21,966 | 49,534 |
| Car Allowances | 1,300 | 1,102 | 1,360 |
| | 52,914 | 23,068 | 50,894 |
| Supplies | | | |
| Furniture and Office Equipment | 18,000 | 5,935 | 14,000 |

| | | | |
|-----------------------------------|------------------|------------------|------------------|
| Printing and Stationery | 67,000 | 20,921 | 47,000 |
| Computer Development and Hardware | 532,500 | 420,500 | 507,500 |
| Postages and Telephones | 109,250 | 100,521 | 106,250 |
| External Audit | 41,000 | 41,000 | 41,000 |
| Services and Consultants | | | |
| Fees | 742,564 | 716,856 | 998,767 |
| Conferences and Subsistence | 41,165 | 21,845 | 36,499 |
| Subscriptions | 153,993 | 127,396 | 143,139 |
| Other | 78,500 | 24,231 | 61,000 |
| | 1,783,972 | 1,479,205 | 1,955,155 |

Third Party

| | | | |
|-------------------------------------|-------------------|-------------------|-------------------|
| Medical Fees | 5,500 | 1,540 | 5,500 |
| Bank Charges | 15,000 | 14,598 | 20,000 |
| Investment Management Fees | 12,611,442 | 13,862,741 | 14,130,828 |
| Custodian Fees | 250,000 | 250,000 | 260,000 |
| Actuarial Fees | 260,000 | 260,000 | 280,000 |
| Other Hired and Contracted Services | 127,755 | 86,034 | 144,755 |
| | 13,269,697 | 14,474,913 | 14,841,083 |

Departmental & Central Support Charges

| | | | |
|--|----------------|----------------|----------------|
| | 529,700 | 529,700 | 529,700 |
| | 529,700 | 529,700 | 529,700 |

Total Expenditure

| | | | |
|--|-------------------|-------------------|-------------------|
| | 19,246,358 | 19,687,162 | 21,010,786 |
|--|-------------------|-------------------|-------------------|