

# WIRRAL COUNCIL

## PENSIONS COMMITTEE 22 JANUARY 2018

<b>SUBJECT:</b>	<b>MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2018/19</b>
<b>WARD/S AFFECTED:</b>	<b>ALL</b>
<b>REPORT OF:</b>	<b>DIRECTOR OF PENSIONS</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 2018/19.
- 1.2 The headline figures are that during the financial year 2018/19, we are estimating that MPF will pay £294m in pensions and receive £230m in contributions from employers and employees. The Fund has a value of £8.5bn at 30 September 2017. The proposed administration costs of £22.0m including £14.2m of investment management charges to external managers represent a cost of £164.10 per member of the scheme or 0.26% of assets under management. Taken separately the external investment management costs are approximately £105.97 per member or 0.17% of assets under management.
- 1.3 The budget for 2018/19 is higher at £22.0m than £20.9m in 2017/18 primarily due to higher staffing costs following the finalisation and approval of the revised structure, increases to contracted services and consultants fees for investment management selection services, as a number of procurement exercises are planned during the year and increased IT expenditure with the workflow and image migration project continuing during 2018/19.

### 2.0 BACKGROUND AND KEY ISSUES

- 2.1 The method used to compile estimates of expenditure for 2018/19 is as follows:

Staffing	Current structure to be fully staffed throughout year at the top of the grade.
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 3.0% as at September 2017.
Investment Performance	4% bonds; 8% equities; 50% of performance targets met for active management.

- 2.2 This report includes a predicted out-turn for 2017/18. 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 July 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 2017/18 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 2017/18 will be underspent due to assumptions used, vacancies and delays in implementing the staffing restructure. The budget for 2018/19 has been updated to reflect the final approved structure.
- 2.5 The predicted 2017/18 outturn for supplies is lower than estimated largely due to an underspend on costs associated with pooling; this budget has been carried forward to 2018/19.
- 2.6 The 2018/19 budget provision for supplies has also been increased to reflect known increases in services and consultants fees for investment manager selection services, as a number of procurement exercises are planned during the year. IT expenditure costs rise in 2018/19 for system upgrades and the workflow and image migration project continuing during 2018/19.
- 2.6 Third party fees rise in 2018/19 due to an increased budget provision for other hired and contracted services to reflect projected investment legal 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 £349,757. Officers at the Fund will continue to negotiate service level agreements with Wirral support service functions.

### **3.0 RELEVANT RISKS**

- 3.1 Last year, the Chair of the CIPFA Pensions Panel wrote to all administering authorities reminding them of their responsibilities regarding the resourcing requirement of LGPS funds. The Fund has recently reviewed its requirements and has updated its Risk Register to reflect 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. For all other expenditure there has been a careful review process culminating in a planning meeting at which the Director of Pensions 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 £164.10 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.

8.2 The Fund is undertaking a number of initiatives to increase efficiencies and deliver savings, particularly from investments, over the medium term.

#### **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 2018/19. (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 2017/18 with finalised estimates in particular for salary overheads and departmental & central support charges for 2018/19 be presented to Pensions Committee Members in July.

## **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 2018/19 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>17 July 2017</b>
<b>Pension Fund Budget</b>	<b>23 January 2017</b>
	<b>4 July 2016</b>
	<b>25 January 2016</b>
	<b>22 June 2015</b>
	<b>19 January 2015</b>

