

# WIRRAL COUNCIL

## PENSIONS COMMITTEE

21 JANUARY 2019

|                         |  |
|-------------------------|--|
| <b>SUBJECT:</b>         | <b>MERSEYSIDE PENSION FUND BUDGET<br/>FINANCIAL YEAR 2019/20</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 2019/20.
- 1.2 The headline figures are that, during the financial year 2019/20, we are estimating that MPF will pay £332m in pensions and receive £213m in contributions from employers and employees. The Fund has a value of £8.9bn at 30 September 2018. The proposed administration costs of £22.0m including £14.0m of investment management charges to external managers represent a cost of £160.65 per member of the scheme or 0.25% of assets under management. Taken separately the external investment management costs are approximately £102.15 per member or 0.16% of assets under management.
- 1.3 The budget for 2019/20 at £22.0m is higher than the projected outturn for 2018/19, but in line with the £22.0m set in 2018/19 primarily due to a number of projects and areas of spend being deferred and carried forward to the next financial year.

### 2.0 BACKGROUND AND KEY ISSUES

- 2.1 The method used to compile estimates of expenditure for 2019/20 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 2.4% as at September 2018.   |
| Investment Performance                 | 4% bonds; 8% equities; 50% of  |

|  |  |
|--|--|
|  | performance targets met for active management. |
|--|--|

- 2.2 This report includes a predicted out-turn for 2018/19. 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 the actual outturn at the July meeting of Pensions Committee. At present, the outturn is lower than predicted largely due to investment market volatility and budgeted projects and areas of work being deferred to 2019/20.
- 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. Accordingly, 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.
- 2.4 The second highest expenditure is on staffing. The outturn for 2018/19 will be underspent due to assumptions used and vacancies. In the light of the new pooling guidance, a further review of staffing requirements will be undertaken and any material changes will be reported to a subsequent meeting of this Committee.
- 2.5 The predicted 2018/19 outturn for supplies is lower than estimated largely due to an underspend on costs associated with investment selection services and pooling; this budget has been carried forward to 2019/20.
- 2.6 IT expenditure costs rise in 2019/20 for system upgrades and the workflow and image migration project continuing during 2019/20.
- 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 £363,879. Officers at the Fund will continue to negotiate service level agreements with Wirral support service functions.

### **3.0 RELEVANT RISKS**

- 3.1 The Chair of the CIPFA Pensions Panel has previously written to all administering authorities reminding them of their responsibilities regarding the resourcing requirement of LGPS funds. The Fund regularly reviews its requirements and updates 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 are 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 £160.65 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 2019/20. (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 2018/19 with finalised estimates in particular for salary overheads and departmental & central support charges for 2019/20 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 2019/20 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>16 July 2018</b>    |
| <b>Pension Fund Budget</b> | <b>22 January 2018</b> |
|                            | <b>17 July 2017</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> |