

WIRRAL COUNCIL

PENSIONS COMMITTEE 3 FEBRUARY 2020

SUBJECT:	MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2020/21
WARD/S AFFECTED:	ALL
REPORT OF:	DIRECTOR OF PENSIONS
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 2020/21.
- 1.2 The headline figures are that, during the financial year 2020/21, we are estimating that MPF will pay £359m in pensions and receive £400m in contributions from employers and employees. The Fund has a value of £9.4bn at 30 September 2019. The proposed administration costs of £23.0m including £14.9m of investment management charges to external managers represent a cost of £166.33 per member of the scheme or 0.25% of assets under management. Taken separately the external investment management costs are approximately £107.58 per member or 0.16% of assets under management.
- 1.3 The budget for 2020/21 is higher at £23.0m than £22.3 in 2019/20 primarily due to higher investment management fees.
- 1.4 The Fund is undertaking a number of initiatives to increase efficiencies and deliver savings, particularly from investments, over the medium term.

2.0 BACKGROUND AND KEY ISSUES

- 2.1 The method used to compile estimates of expenditure for 2020/21 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 1.7% as at September 2019.
Investment Performance	1.9% + 2.3% bonds; 6.5% equities; 50% of performance targets met for active management.

- 2.2 This report includes a predicted out-turn for 2019/20. 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, budgeted projects and areas of work being deferred to 2020/21 and assumptions used for staffing.
- 2.3 The Fund's major expenditure is on investment management fees. For 2020/21 it is assumed that the assets under management remain as 2019/20, any changes will be reflected in the report presented in July. Investment management fees 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 2019/20 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; employee costs overall reduce in 2020/21 reflecting the reduced pension related recharges. The outturn for 2019/20 will be underspent due to assumptions used. With the continued growth in the Fund's assets and membership, an increasing regulatory burden, the implementation of various risk management strategies and the progress of pooling, a further review of staffing requirements is being undertaken and any material changes will be reported to a future meeting of this Committee.
- 2.5 The predicted 2019/20 outturn for supplies is lower than estimated largely due to an underspend on costs associated with investment selection services, pooling and IT, these budgets have been reviewed, updated and carried forward to 2020/21.
- 2.6 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 £359,641. 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 ongoing review with additional scrutiny from the NLGPS Joint Committee. For all other expenditure there has been a careful review process with senior management 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 £166.33 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 As stated within the executive summary, 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 2020/21. (Subject to review of charges from the administering authority for support services).

13.2 That a further report on the outturn for 2019/20 with finalised estimates in particular for departmental & central support charges and any known changes in supplies and services for 2020/21 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 2020/21 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
Pensions Committee:	16 July 2019
Pension Fund Budget	21 January 2019
	16 July 2018
	22 January 2018
	17 July 2017
	23 January 2017