WIRRAL

PENSIONS COMMITTEE

Monday, 29 March 2021

REPORT TITLE:	**MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2021/22**
REPORT OF:	**DIRECTOR OF PENSIONS**

REPORT SUMMARY

The purpose of this report is to request that Members approve the budget for the financial year 2021/22.

The headline figures are that, during the financial year 2021/22, we are estimating that MPF will pay £368m in pensions and receive £172m in contributions from employers and employees. The Fund has a value of £9.8bn at 31 December 2020. The proposed administration costs of £25.5m including £17.4m of investment management charges to external managers represent a cost of £182.44 per member of the scheme or 0.26% of assets under management. Taken separately the external investment management costs are approximately £124.01 per member or 0.18% of assets under management.

The budget for 2021/22 is higher at £25.5m than £23.0 in 2020/21 primarily due to higher investment management fees, principally, as a consequence of outperformance by external investment managers during the pandemic induced market volatility.

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

RECOMMENDATIONS

Members approve the budget for 2021/22. (Subject to review of charges from the administering authority for support services).

That a further report on the outturn for 2020/21 with finalised estimates in particular for departmental & central support charges and any known changes in supplies and services for 2021/22 be presented to Members of Pensions Committee at a future meeting.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION

1.1 The approval of the budget for Merseyside Pension Fund by Pensions Committee forms part of the governance arrangements of Merseyside Pension Fund.

2.0 OTHER OPTIONS CONSIDERED

2.1 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.

3.0 BACKGROUND INFORMATION

3.1 The method used to compile estimates of expenditure for 2021/22 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, assuming lockdown restrictions ease, however, virtual meetings and conferences continue.
Services and Supplies		Contracts where usage and cost is fixed, plus estimate for variable elements.
Inflation adjustments		CPI 0.5% as at September 2020.
Investment Performance		1.9% + 2.3% bonds; 6.5% equities; 50% of performance targets met for active management.

3.2 This report includes a predicted out-turn for 2020/21. 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 a future meeting of Pensions Committee. At present, the outturn is lower than predicted largely due to budgeted projects and areas of work being deferred to 2021/22 and assumptions used for staffing.

3.3 The Fund's major expenditure is on investment management fees. For 2021/22 it is assumed that the assets under management remain as 2020/21. 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 2020/21 the outturn is expected to be in line with the estimate made last year.

3.4 The second highest expenditure is on staffing; employee costs overall increase in 2021/22 reflecting the removal of the unpaid leave. The outturn for 2020/21 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.

3.5 The predicted 2020/21 outturn for supplies is lower than estimated largely due to an underspend on costs associated with investment selection services and pooling, these budgets have been reviewed, updated and carried forward to 2021/22. Increased costs incurred due to COVID have largely been offset by underspends on budgeted project areas not completed.

3.6 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.

4.0 FINANCIAL IMPLICATIONS

4.1 The costs of the Pension Fund are charged directly to the Pension Fund and are then ultimately covered by investment performance, investment income and employee and employer contributions, the full costs are estimated to be £182.44 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.

4.2 As stated within the executive summary, the Fund is undertaking a number of initiatives to increase efficiencies and deliver savings, particularly from pooling and increasing the proportion of internally managed assets.

5.0 LEGAL IMPLICATIONS

5.1 There are none arising from this report.

6.0 RESOURCE IMPLICATIONS: STAFFING; ICT AND ASSETS

6.1 There are none arising directly from this report.

7.0 RELEVANT RISKS

7.1 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. It is believed this budget provides adequate resources for these two core functions.

8.0 ENGAGEMENT/CONSULTATION

8.1 Not relevant for this report.

9.0 EQUALITY 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 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 There are no carbon usage implications, nor any other relevant environmental issues arising from this report.

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APPENDICES

The budget for 2021/22 is attached as appendix 1 to this report.

BACKGROUND PAPERS

Internal working papers were used in the production of this report.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee: **Pension Fund Budget**	**3 February 2020** **16 July 2019** **21 January 2019** **16 July 2018** **22 January 2018**