



PENSIONS COMMITTEE

19 MARCH 2024

REPORT TITLE:	MERSEYSIDE PENSION FUND BUDGET FINANCIAL YEAR 2024/25
REPORT OF:	DIRECTOR OF PENSIONS

REPORT SUMMARY

The purpose of this report is to request that Members approve the budget for Merseyside Pension Fund (MPF) for the financial year 2024/25.

RECOMMENDATION/S: That

- (1) The Pensions Committee be recommended to approve the budget for 2024/25.
(Subject to review of charges from the administering authority for support services).
- (2) A further report on the outturn for 2023/24 with finalised estimates, in particular for departmental & central support charges and any known changes in supplies and services for 2024/25, be presented to Members of Pensions Committee at a future meeting.

SUPPORTING INFORMATION

1.0 REASON/S FOR RECOMMENDATION/S

- 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 Not relevant for this report as the budget setting process and its approval are an essential part of the Fund's governance arrangements. The Local Government Pension Scheme (LGPS) Advisory Board's Good Governance report recommends that LGPS funds set budgets sufficient to fulfil resourcing requirements and meet regulatory requirements.
- 2.2 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 Northern LGPS 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 headline figures are that, during the financial year 2024/25, we are estimating that MPF will pay £442m in pension benefits and receive £235m in contributions from employers and employees. The Fund has a value of £10.5bn at 31 December 2023. The proposed administration costs of £22.7m including £12.7m of investment management charges to external managers represent a cost of £152.77 per member of the scheme or 0.22% of assets under management. Taken separately the external investment management costs are approximately £85.36 per member or 0.12% of assets under management.
- 3.2 The budget for 2024/25 is higher at £22.7m than £21.3m in 2023/24 primarily due to higher investment management fees and increased staffing costs being forecast.
- 3.3 The method used to compile estimates of expenditure for 2024/25 is as follows:

Staffing	Current structure to be fully staffed throughout year.
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 6.7% as at September 2023.
Investment Performance	1.9% / 2.3% bonds; 6.5% equities;

0% of performance targets met for active management.
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- 3.4 This report includes a predicted out-turn for 2023/24. 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 lower investment management fees, budgeted projects and areas of work being deferred to 2024/25 and assumptions used for staffing.
- 3.5 The Fund's major expenditure is on investment management fees. For 2024/25 it is assumed that the contractual arrangements in respect of assets under management remain as per 2023/24, although the implementation of the strategic asset allocation changes are planned to commence during 2024/25, these changes are expected to be at least cost neutral and may result in financial savings; this will be reflected in future reporting. 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 2023/24, the outturn is expected to be lower than the estimate made last year due to a deterioration in market conditions following approval of that budget and disappointing performance from some external managers.
- 3.6 The second highest expenditure is on staffing; employee costs overall increase in 2024/25 to reflect a budgeted pay increase of 4% and the implementation of a staffing review that is underway. The aims of the staffing reviews that have taken place during 2023/24 and the estimated growth element of the budget are to manage the growing complexities of the Fund's investment, address the challenges of staff recruitment and retention, and support the objective of bringing more assets in-house. The outturn for 2023/24 will be underspent relative to budget due to assumptions used, including the progress made in year, of staffing reviews.
- 3.7 The predicted 2023/24 outturn for supplies is lower than estimated largely due to an underspend on costs associated with IT, investment selection services and pooling; these budgets have been reviewed, updated and carried forward to 2024/25.
- 3.8 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 £283,457. Officers at the Fund will continue to negotiate service level agreements with Wirral support service functions.

4.0 FINANCIAL IMPLICATIONS

- 4.1 This report includes the probable outturn for 2023/24 and the budget proposed for 2024/25; therefore, the financial implications are included within this report.
- 4.2 The costs of the Pension Fund are charged directly to the Pension Fund and are then ultimately covered by investment performance, income and contributions. The full costs are estimated to be £152.77 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.

- 4.3 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, over the medium term.

5.0 LEGAL IMPLICATIONS

- 5.1 The LGPS Scheme Advisory Board's Good Governance report recommends that LGPS funds set budgets sufficient to fulfil resourcing requirements and meet regulatory requirements.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 There are no additional resource implications arising from this report.

7.0 RELEVANT RISKS

- 7.1 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.

8.0 ENGAGEMENT/CONSULTATION

- 8.1 There has been no consultation undertaken or proposed for this report. There are no implications for partner organisations arising from this report.

9.0 EQUALITY IMPLICATIONS

- 9.1 The content and/or recommendation contained within this report have no direct implications for equality.

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

- 10.1 There are no environmental or climate implications arising from this report.

11.0 COMMUNITY WEALTH IMPLICATIONS

- 11.1 The content and/or recommendation contained within this report have no direct implications for community wealth.

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APPENDICES

The budget for 2024/25 including the probable out-turn for 2023/24 is attached as appendix 1 to this report.

The PDF file below may not be suitable to view for people with disabilities, users of assistive technology or mobile phone devices. Please contact donnasmith@wirral.gov.uk if you would like this document in an accessible format.

BACKGROUND PAPERS

Chartered Institute of Public Finance Accountants (CIPFA) – Service Reporting Code of Practice for Local Authorities

National LGPS Scheme Advisory Board – Good Governance report

TERMS OF REFERENCE

This report is being considered by the Pensions Committee in accordance with Section D of its Terms of Reference:

(d) To monitor the Local Government Pension Scheme including the benefit regulations and payment of pensions and their day to day administration and to be responsible for any policy decisions relating to the administration of the scheme.

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee	11 July 2023 21 February 2023 22 June 2022 23 February 2022