

PENSION FUND BUDGET 2016/17

Report of the County Treasurer

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: That the Committee notes the Pension Fund budget forecast for 2016/17.

1. Introduction

- 1.1 Local authorities are legally obliged to set a budget for the forthcoming financial year. However, there is no legal requirement for a Local Government Pension Scheme administering authority to set a budget for the pension fund. Local authorities need to set a budget in order to set council tax for the year, whereas contributions to the Pension Fund are set by the triennial actuarial valuation. Therefore, the Devon Pension Fund has not in the past put in place a budget. However a number of other funds now do set a budget, and it is increasingly being seen as best practice to do so. The budget should be seen as a forecast for planning purposes and with the exception of internal management expenses not as a budget to control spend.
- 1.2 There are a number of difficulties in setting a budget for the Pension Fund, principally the difficulty in forecasting investment returns over a one year horizon, and the fact that the majority of items of income and expenditure could not be managed to achieve a budget target. However, there are some areas, for example in relation to management costs and support for the Investment and Pension Fund Committee and the Pension Board, where costs can be managed. In addition there are advantages in forecasting contributions income and benefits payments in order to plan cashflow for the year. In consequence of this, and to meet best practice, a budget forecast for 2016/17 is attached at Appendix 1.
- 1.3 The analysis shown at Appendix 1 shows the actual position for 2015/16 and the forecast for 2016/17. The analysis is broken down into three areas:
 - Contributions and benefit payments;
 - Investment income; and
 - Management expenses.

2. Dealings with members, employers and others directly involved in the fund

- 2.1 It is forecast that the level of contributions payments in 2016/17 will be broadly similar to the two preceding years. Employer contribution rates for the years 2014/15, 2015/16 and 2016/17 were set at the 2013 Actuarial Valuation, and are therefore relatively stable across that period.
- 2.2 The cost of pensions in payment has been increasing steadily, as a result of increases in the number of pensioners. Each year more people retire and come

into receipt of their pensions than the number of pensions in payment that cease. There will be no inflationary uplift in pensions for the 2016/17 financial year, as the Consumer Price Index at September 2015 was negative. This has the effect of mitigating the increase in the cost of pensions. Other pension costs, such as lump sum payments, are anticipated to remain at around the same level.

- 2.3 Transfer payments, both in and out of the Fund are difficult to predict and a forecast has been included based on experience of the last three years, excluding one-off group transfers that have taken place.

3. Investment Income

- 3.1 Levels of investment income will vary to some extent year on year as a result of the ability of companies to pay out dividends and variations in distributions from infrastructure and property. However, such variances tend to be within a reasonable tolerance. The major factor that contributes to a reduction in the level of income between the actual achieved in 2015/16 and the forecast for 2016/17 is the transfer of investments from Wellington's segregated mandate into Wellington's pooled funds, which has resulted in a reduction in the level of income forecast. The pooled funds do not pay out income, but instead accumulate and reinvest the income such that the Fund will see the benefit in the change in the capital value of the pooled fund, rather than accounting for the income separately.

4. Management Expenses

- 4.1 Management expenses are broken down into three areas:
- Pension administration costs.
 - Investment management expenses.
 - Oversight and governance costs.
- 4.2 Under investment management expenses a one-off revised fee arrangement linked to performance that was agreed with one manager resulted in a significant fee saving in 2015/16, albeit as a result of underperformance. The forecast external manager fees in 2016/17 assume that the latter saving will not continue. Custody costs are forecast to reduce as a consequence of the increased allocation to pooled funds as opposed to segregated funds (see 3.1 above).
- 4.3 The forecast for investment oversight and accounting costs for 2016/17 has increased from the level of expenditure in 2015/16, partly as a consequence of additional work required on IAS19 valuations for Fund employers, but also as a consequence of the cost of the investment pooling project work.
- 4.4 Committee and Pension Board costs include the cost of secretarial support and advisory support, and overheads attaching to the arranging of meetings and training. The budget for 2016/17 should provide sufficient resource to fund the training and other support requirements of both the Investment and Pension Fund Committee and the Pension Board.
- 4.5 Actuarial costs will be higher in 2016/17 as the triennial actuarial valuation will be undertaken during the year.

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Electoral Divisions: All

Local Government Act 1972

List of Background Papers – Nil

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Devon County Council Pension Fund Budget / Forecast 2016/17		
	Actual 2015/16 £'000	Forecast 2016/17 £'000
Contributions		
Employers	(117,079)	(117,000)
Members	(36,201)	(36,000)
Transfers in from other pension funds:	(4,766)	(3,000)
	<u>(158,046)</u>	<u>(156,000)</u>
Benefits		
Pensions	132,435	135,000
Commutation and lump sum retirement benefits	30,035	32,000
Lump sum death benefits	3,777	4,000
Payments to and on account of leavers	443	200
Payments for members joining state scheme	6,986	6,000
	<u>173,676</u>	<u>177,200</u>
Net Withdrawals from dealings with fund members	15,630	21,200
Investment Income		
Received as Cash	(19,021)	(19,100)
Reinvested by Fund Manager	(16,722)	(14,300)
	<u>(35,743)</u>	<u>(33,400)</u>
Administrative costs		
Peninsula Pensions	1,523	1,713
	<u>1,523</u>	<u>1,713</u>
Investment management expenses		
External investment management fees - invoiced	5,242	5,950
External investment management fees - not invoiced	2,994	3,000
Custody fees	140	115
Transaction costs	3,508	3,510
Stock lending income & commission recapture	(94)	(85)
Other investment management expenses	50	25
	<u>11,840</u>	<u>12,515</u>
Oversight and governance costs		
Investment & Pension Fund Committee Support	85	92
Pension Board	21	24
Investment Oversight and Accounting	288	336
Legal Support	43	43
Actuarial Services	41	60
Investment Performance Measurement	24	42
Subscriptions	38	41
Internal Audit fees	13	14
External Audit fees	29	29
	<u>582</u>	<u>681</u>
Total Management Expenses	13,945	14,909