

## **Pension Fund Committee**

Meeting to be held on 27 March 2015

Electoral Division affected: None
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## **Pension Fund Budget Forecast 2015/16**

(Appendix 'A' refers)

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### **Executive Summary**

While the Pension Fund Committee has, rightly, concentrated in recent years on ensuring steps are taken to implement the investment strategy which aims to achieve improved returns and the effectiveness of the administration service, it is also right to concentrate on both the costs and overall financial position of the Fund going forward.

To facilitate this a budget forecast for the Fund for 2015/16 has been prepared. Given the inherent difficulty in estimating incoming contributions, actual investment returns and benefits this is not a formal budget. However, it is important that forecasts of this sort are produced and considered in order for members to be fully aware of the context in which the Fund's strategies are being constructed.

### **Recommendation**

The Pension Fund Committee is requested to note the budget forecast for the Fund for 2015/16.

## **Background and Advice**

In recent years the Pension Fund Committee has concentrated its attention on improving the monitoring of the overall performance of the Fund and ensuring that the Investment Strategy is being effectively implemented. These processes are intended to have a beneficial impact on the overall financial position of the Fund and therefore the next stage in developing the Committee's work in the performance management area is to look at the impact of these activities on the overall financial position of the Fund.

It is also important for the Committee to examine the costs of running the Fund and ensure that downward pressure continues to be exerted on costs.

To assist with this a Budget Forecast for the Fund for 2015/16 has been produced and is attached at Appendix 'A'. It is important to note that this is not a formal budget, there is no constitutional requirement for the Committee to approve a budget, and it is extremely difficult to estimate both the levels of incoming contributions and the

levels of investment income and fund management costs as all of these can be significantly impacted by external factors. However, this does give members an informed estimate to consider when assessing the overall financial position of the Fund.

The explanatory notes attached to Appendix 'A' provide more details of specific aspects of the budget and changes from the costs faced by the Fund in previous years. A comparison is provided with the current and previous years, although the comparison with the current year is distorted by the impact of the transfer of assets associated with the "nationalisation" of the Probation Service's pension arrangements. The format of the forecast is based on the new format for the Fund Account which provides for a greater degree of transparency around fees and the costs of running the Fund.

The forecast makes no assumption about potential financial benefits flowing from the partnership arrangement with the London Pension Fund Authority, although it is anticipated that the arrangement will result in some savings. Specific items of note include:

- The first year costs of operating the new Local Pension Board estimated at £50,000, with the set up costs having been met in 2014/15.
- The introduction of a levy to pay for the work of the new national scheme advisory board of £56,000
- A reduction in the unit price for the Pensions Administration Service of £0.42 per member. The current forward budget for the service is based on delivering further reductions in future years.
- An increase in the scale of early retirements as the major employers within the Fund continue to reduce the scale of their workforce, although in cash terms the impact of these retirements is effectively offset by the "strain" payments due at the point of retirement.

In overall terms this forecast indicates an increase in the net income available for new investment, a trend that continues when projections are taken further forward.

Work will be undertaken over the coming year to develop a measure of the total cost of running the Fund which can be targeted by the Committee in order to ensure ongoing downward pressure on costs. This work will need to reflect work being undertaken nationally on the development of a range of "fund health" indicators.

This is a consequence of the nature of the investments the fund is making within the credit and infrastructure strategies in particular which are intended to generate ongoing income streams in order to protect the fund as a whole against the risks that occur when dealings with members have a negative impact on fund cash flow.

## **Consultations**

N/a

**Implications:**

This item has the following implications, as indicated:

**Risk management**

Gaining a greater understanding of the forecast cash flows affecting the Fund will allow the Committee to gain a greater understanding of the financial risks created by the ongoing change in the balance of membership of the Fund and therefore allow the development of appropriate strategies to mitigate these risks.

**Local Government (Access to Information) Act 1985  
List of Background Papers**

Paper	Date	Contact/Directorate/Tel
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Reason for inclusion in Part II, if appropriate

N/A