

Report To: **GMPF MANAGEMENT PANEL**

Date: 23 March 2018

Reporting Officer: Paddy Dowdall, Assistant Director of Pensions, (Local Investments and Property)

Subject: **GMPF BUDGET 2018/2019 AND FUTURE MEDIUM TERM FINANCIAL PLANNING**

Report Summary: This report asks the Management Panel to approve an expenditure budget for GMPF for 2018/19 with a medium term financial plan. (An updated version will be included in the Annual report for 2017/18).

- Recommendations:**
- 1) That the Management Panel approves the expenditure budget for 2018/19.
 - 2) That the Management Panel approve the Medium Term Financial Plan.
 - 3) That it is noted that the Medium Term Financial Plan will be updated for information available including Fund value at 31 March 2018 and included in the Annual Report for 2017/18.
 - 4) That it is noted that there is an intention to review all budgets annually and undertake a zero based budget approach.

Financial Implications:
(Authorised by the Section 151 Officer) The financial implications are set out in the report. There is a projected increase in expenditure which supports strategic change at the Fund to optimise net risk adjusted returns on investments and to provide efficient administration in order to ultimately minimise the contributions paid by employers.

Legal Implications:
(Authorised by the Solicitor to the Fund) There is a duty on the Fund to achieve best value and consequently the Panel need to ensure through such monitoring that value for money is being achieved.

Risk Management: Failure to properly manage and monitor the Fund's budgets may lead to a reduction in service standards for scheme members or employers, or a loss of confidence in the management of the fund.

ACCESS TO INFORMATION: **NON-CONFIDENTIAL**

This report does not contain information which warrants its consideration in the absence of the Press or members of the public.

Background Papers: The background papers used in the preparation of this report were:

1. The 2017/2018 Financial Ledger

2. Budget Working Papers

Any enquiries should be directed to Tracey Boyle, 0161 301 7116 (email: tracey.boyle@tameside.gov.uk)

1. INTRODUCTION

- 1.1 This report asks the Management Panel to approve an expenditure budget for GMPF for 2018/19 alongside a medium term financial plan for 2018 to 2021. The Employer Funding Working Group has previously considered the budget and approved it to be taken forward to the Management Panel.
- 1.2 The medium term financial plan is essentially dependent upon the assumptions in the Funding Strategy Statement, and the out-turn is largely subject to financial markets and their impact on investment performance.
- 1.3 The medium term financial plan 2018 to 2021 will be finalised for the annual report following, approval of budget and more up to date information on position at 31 March 2018.

2. OVERVIEW AND CONTEXT

- 2.1 As required by CIPFA Guidance on preparing the Annual Report for Local Government Pension Scheme Funds, GMPF's annual report, following approval on assumptions and process by the Management Panel, produced a medium term financial plan in its annual report and accounts for 2016/17. This is detailed below.

Medium term Financial Plan 2017-2020 (as included in Annual Report 2016/17)

	2017/18	2018/19	2019/20
	£m	£m	£m
Fund Size at Start of Year	21,272	22,065	22,878
Fund Size at end of Year	22,065	22,878	23,731
Pensions Paid	(690)	(718)	(727)
Contributions received	619	634	648
Transfers	0	0	0
Net Cash-flow	(71)	(84)	(79)
Administration Costs	(30)	(30)	(30)
Investment Income	329	343	358
Increase in Value of Investments	565	584	604
Net Return from Investments	894	927	962
Net Change in Fund	793	813	853

- 2.2 The key observations at the time of considering the plan were that:-
- Investment returns are the key determinant of the financial position.
 - The Fund has a negative cash-flow from pensions paid less contributions and the trend is for this to increase as the Fund matures.
 - The management costs are small relative to Fund size and annual cash flows and are assumed to remain constant in the medium term. (This is due to uncertainty over pooling arrangements and the Fund's zero based budgeting approach)
- 2.3 At the time of writing the report we are still 1 month away from the end of the financial year, so it is not possible to project an out-turn, largely due to the volatility of investment returns and the profiling of some of the cash flows. This out-turn will be reported to Management Panel alongside the final accounts at the next meeting.

3. BUDGET CHANGES FROM 2017/18 BUDGET FOR 2018/19

3.1 The key changes are set out in the table overleaf and reflect the implementation of policies approved by the Management panel including changes to investment management arrangements which make up the major part of the changes

Expenditure	Changes £'000	Significant components of changes
Staff costs	142	126 provision for 2% pay award 50 due for salary scale incremental advances (34) net effect of removal and introduction of several posts.
Indirect on Costs	14	Increase in provision for staff training.
Publications and Subscriptions	3	Inflation increases
Travel and Subsistence	(11)	Small reduction in provision required for staff travel.
Premises	(166)	(30) Reduction in expected utility charges (115) reduction in rent charge provision (36) reduction in provision required for additional security costs 15 increase in anticipated facilities management charges.
Postage, Printing, Telephone	11	Inflation increases
Office Equipment and Software	27	Small provision created to replace some existing computer hardware.
Investment Advisory Expenses	3	Inflation increases
Bank Charges and Nominee Fees	33	Increased custodian bank charges due to increase in value of Fund assets held.
Investment Management Fees	1,490	315 increase expected due to change of global equity manager 900 increase in Credit Manager fees 275 increased fee for property manager due to increase in size and value of portfolio
Actuary and Professional Fees	(170)	(400) reduction in Pooling related professional costs 210 increase in expected professional costs associated with investment manager performance review and procurement 20 increase in expected employer related actuary fees
Performance Measurement Services	(1)	Minor reduction in expected fees.
Communications	7	Inflation increases
Central establishment charges	8	Inflation increases
Recovery of Management and Legal Fees	(35)	Projected increase following annual review of legal recharge rates.
Admin Fees	(36)	Projected increase in expected number of admitted bodies joining the Fund in 2018/19.
	1,319	

4. MEDIUM TERM FINANCIAL PLAN 2018-2021

4.1 The assumptions for medium term financial planning going forward are detailed in the table below.

Fund Investment Return	5.2% per annum over the long term
Inflation	CPI Bank of England Forecast (around 2.5% central case in November)
Pay Inflation	2%
Employer Payroll	From actuarial valuation
Pensioner Profile	From actuarial valuation
Budget	2018/19 taken forward

4.2 The proposed medium term financial plan for 2018-2021 is shown below.

	2018/19	2019/20	2020/21
	£m	£m	£m
Fund Size at Start of Year	22,700	23,643	24,589
Fund Size at end of Year	23,642	24,588	25,534
Pensions Paid	(816)	(861)	(910)
Contributions received	609	609	609
Transfers	0	0	0
Net Cashflow	(207)	(252)	(301)
Administration Costs	(31)	(31)	(31)
Investment Income	403	424	446
Increase in Value of Investments	777	805	832
Net Return from Investments	1,180	1,229	1,278
Net Change in Fund	942	946	946

4.3 Key observations to be considered are:-

- The maturity of the Fund continues and accelerates
- Investment income is still higher than outflows to pensioners net of contributions
- Investment returns are key driver of outcomes

5. RECOMMENDATIONS

5.1 As stated at the front of the report.

APPENDIX 1

Expenditure budget setting 2018-19

<u>Type of Expenditure</u>	(1)	(2)	(3)	(1)	(2)	(3)
	Original Estimate 2017/18	Increase/ (decrease)	Original Estimate 2018/19	Projected outturn 2017/18	Increase/ (decrease)	Original Estimate 2018/19
	£'000	£'000	£'000	£'000	£'000	£'000
Staff Costs						
Staff costs	6,314	142	6,456	5,459	997	6,456
Indirect on Costs	100	14	114	90	24	114
	6,414	156	6,570	5,549	1,021	6,570
Direct Costs						
Publications and Subscriptions	102	3	105	103	2	105
Travel and Subsistence	106	(11)	95	89	6	95
Premises	1,110	(166)	944	1,023	(79)	944
Postage, Printing, Telephone	204	11	215	164	51	215
Office Equipment and Software	1,038	27	1,065	963	102	1,065
Investment Advisory Expenses	65	3	68	66	2	68
Bank Charges and Nominee Fees	414	33	447	434	13	447
Investment Management Fees	18,261	1,490	19,751	17,039	2,712	19,751
Actuary and Professional Fees	1,802	(170)	1,632	1,350	282	1,632
Performance Measurement Services	128	(1)	127	105	22	127
Communications	285	7	292	290	2	292
	23,515	1,226	24,741	21,626	3,115	24,741
Central Establishment Charges	395	8	403	395	8	403
Less:						
Recovery of Management and Legal Fees	(696)	(35)	(731)	(674)	(57)	(731)
Admin Fees	(20)	(36)	(56)	(52)	(4)	(56)
Commission Recapture	(100)		(100)	(68)	(32)	(100)
	29,508	1,319	30,827	26,776	4,051	30,827