Medium Term Financial Plan (MTFP)

2017/20

Approved by Board February 2017

Contents

1. Executive Summary

The purpose of the Medium Term Financial Plan ("MTFP") is to provide a three year forecast for the use of London Pension Fund Authority ("LPFA") resources from 1 April 2017.

The MTFP is prepared on the basis of the following key assumptions:

- LPFA will continue to be part of a partnership with the Lancashire County Pension Fund (LCPF) which effectively moved all operations to a new vehicle – the Local Pensions Partnership (LPP)
- LPFA operating costs will mostly be consolidated into agreed Service Level Agreement (SLA) charges from LPP
- Whilst the LPP budget drives the SLA charges contained within this document, it is still under development and may be liable to change as preparation work continues. However, no significant changes are envisaged in the overall costs to LPFA.

A key focus for the partnership with LCPF is the delivery of cost efficiencies driven by a reduction in external investment management fees, a result of economies of scale. Additionally, the partnership is committed to engaging other LGPS providers to further enhance cost reduction.

Key points to note in the MTFP are:

Pension Scheme

- An ongoing net outflow of cash from dealings with members of c£106m, consistent with the maturity structure of the fund.
- Assumed returns on investments of 5.7% (in line with the Triennial discount rate) with a 100% active approach to investment management in place over the full term of the MTFP.

Residual Liabilities

- No increase is anticipated in the overall levy on the London Boroughs over the next three years. However, levy contributions will be reviewed by an external provider during 2017/18 and this may result in changes to the levy
- No material change is forecast in relation to asbestosis claims.
- There is a year on year reduction on the funding to LPFA from residual liabilities in line with reducing benefit payments.

Operational Account

- The partnership with LCPF is expected to remain in place for the duration of the MTFP and beyond.
- The increased investment management fees in future years, reflects asset growth and increased illiquid investments, which typically involves higher costs.

2. Introduction

The MTFP is based on the LPFA Strategic Policy Statement (SPS), providing a forecast outturn for the current financial year and the following three years.

The primary aim of the Authority is to establish and maintain full funding on a risk adjusted triennial valuation basis whilst providing an exceptional service for its members at a reasonable cost. LPFA currently administers the funds of 363 different public sector and 'not for profit' organisations with assets totalling £4.9 billion. Against the last triennial valuation basis set by the LPFA's external actuary (Barnett Waddingham) the funding level was 96% at the end of March 2016.

The MTFP does not cover the investment strategy for the Fund (which is detailed within the Authority's Statement of Investment Principles and Treasury Management Strategy). However, the MTFP does show investment costs, the planned returns on investments and the projected net draw down from investments to meet current liabilities. In addition the Plan details the projected net cost of Residual Liabilities and the Authority's management and administration (Operational Account).

The Authority is required, under the GLA Act 1999, to provide the Mayor with a draft strategic policy statement and budget for the forthcoming year by 31 December. The Mayor is required to provide any comments on the plans by 31 January and the Authority is required to consider the Mayor's comments before finalising the MTFP.

The Authority is currently operating within a challenging general economic climate, with continuing pressure on public sector funding. The government has indicated its commitment to work with Local Government Pension Scheme ("LGPS") administering authorities to ensure that they pool investments to significantly reduce costs, whilst maintaining investment performance.

With this in mind, during 2015-16, LPFA entered into a partnership with Lancashire County Pension Scheme ("LCPF") to form a cost efficient partnership. The MTFP is prepared on the assumption that the partnership will continue to be in place for the duration of the MTFP.

LPFA raises a levy on all the London Boroughs for Residual Employer Liabilities and changes in this levy have a direct impact on the borough's budgets. As a result, despite not having increased now for over ten years, the levy remains under heavy scrutiny. This levy must be agreed and details passed to the Boroughs before 15 February.

3. Appendices

Appendix 1 – Pension Fund: Net Asset Statement and Movement in Reserves
Appendix 2 – Reserves forecast

4. Accounts Overview

The Authority's accounts are in three parts:

1. **Pension Scheme** – comprising some £4.9bn of assets managed as part of the Investment Strategy. The Fund receives employer and employee contributions from 143 of the 363 bodies participating in the fund and funds pension payments to 34,000 pensioners and dependants.

2. **Residual Liabilities Account** – comprising the on-going payments of annual statutory compensation following the abolition of the Greater London Council (GLC) and Inner London Education Authority (ILEA). These payments are financed by a levy on all London Boroughs. These accounts also include substantial provisions for injury claims from former employees of the GLC and ILEA in relation to asbestosis.

3. **Operational Accounts** – following the commencement of the partnership between LCPF and LPFA, most of the operational teams, associated operational costs and income transferred into the partnership vehicle, LPP. The former costs are now primarily represented as a single line Service Level Agreement charge under each of the 3 main headings in the operational account.

5. Pension Scheme

Net Withdrawals from Dealings with Members

The projected net withdrawals from the Pension Fund from dealings with members over the three year planning period are summarised in Table 1 below.

Table 1

Cash and Funding Sources	Projected Outturn 2016-17	Budget 2017-18	Budget 2018-19	Budget 2019-20
	£000	£000	£000	£000
Employee contributions	(29,237)	(32,216)	(32,538)	(32,864)
Employer contributions	(66,962)	(67,752)	(68,429)	(69,114)
Employers Deficit Contributions	(39,476)	(41,180)	(42,958)	(44,813)
Additional contributions	(10,650)	(5,241)	(5,293)	(5,346)
Pensions payable	212,151	216,439	220,824	225,309
Lump sums	35,556	35,506	35,506	35,506
Transfers in	(6,594)	(23,315)	(23,315)	(23,315)
Transfers out	16,414	23,767	23,767	23,767
Net (additions) / withdrawals from dealings with members	**111,202**	**106,008**	**107,564**	**109,130**

There is a continuing forecast net withdrawal of funds from dealings with members of around £106-109 million per annum. The key planning assumptions are detailed below.

1. **Employer and Employee Contributions** - The number of active members is projected to remain much the same, with any increases through auto-enrolment being offset by reductions due to the continuing squeeze on public sector spending.

   The average standard employer contribution rate was set at a future service rate of 11.9% of payroll from 1 April 2017 with total past service contributions at approximately £40m pa at the 2016 triennial valuation. Further “Risk Adjusted” contributions are sought from some employers to reduce cross-subsidy risks.

   The Employer and employee contribution levels assume a year-on-year inflation increase of 1% in pensionable pay.

   Additional employer contributions after April 2017 to cover past service deficits are assumed to grow at 3.9% per annum in line with the 2016 Triennial valuation assumption for long term salary increases.

2. **Pensions Payable and Lump Sums** –It is assumed that the membership will remain broadly constant with natural turnover between pensioners and active members.

3. **Transfers** – Individual transfers in are assumed to be broadly equal with transfers out equalling transfers in as no specific large transfers are currently forecast. Transfers during 2016/17 were unusually low. Future year estimates are based on a historic five year period

Returns on Investments

The Authority's investment strategy is set out in its Funding Strategy Statement (FSS). The projected returns on investment and associated management fees are summarised below in Table 2 with the projected Net Asset Statement and Movement in Reserves over the next three years shown in Appendix 1.

Table 2

Returns on Investments	**Projected Outturn 2016-17 £m**	**Budget 2017-18 £m**	**Budget 2018-19 £m**	**Budget 2019-20 £m**
Investment Income	(138.8)	(159.5)	(203.4)	(252.9)
Net profit on disposal of assets and changes in market value	(323.2)	(109.6)	(72.7)	(30.5)
Return on Investments	**(462.0)**	**(269.1)**	**(276.1)**	**(283.4)**

The key planning assumption on investment returns is:

Investment Income and Investment returns – The figures in Table 2 are based on a net investment return of 5.7% pa in line with the Triennial Discount rate set in 2016. A full forecast of the pension scheme is set out in Appendix 1.

6. Residual Liabilities

The residual liabilities relate to responsibilities transferred to the LPFA following the abolition of the Greater London Council (GLC), the Inner London Education Authority (ILEA) and the London Residual Body (LRB). The costs are met from a levy charged on London Boroughs.

Income and Expenditure

A summary of the residual liabilities income and expenditure budget for the four years of the MTFP is provided in the table 3 below.

Table 3

Residual Liabilities	Projected Outturn 2016-17	Budget 2017-18	Budget 2018-19	Budget 2019-20
	£000	£000	£000	£000
Greater London				
Unfunded Pension costs	6,833	6,676	6,524	6,379
Direct costs	213	213	213	213
Asbestosis provision	4,841	1,868	2,215	2,250
Management expenses	273	261	256	251
Interest	(1)	2	2	2
Levy	(10,318)	(10,318)	(10,318)	(10,318)
Net (inflow) / outflow	**1,841**	**(1,298)**	**(1,108)**	**(1,223)**
Inner London				
Unfunded Pension costs	11,308	11,099	10,900	10,709
Direct costs	45	44	44	44
Management expenses	368	352	345	338
Asbestosis provision	427	156	185	188
Interest	(23)	(23)	(23)	(23)
Levy	(13,065)	(13,065)	(13,065)	(13,065)
Net (inflow) / outflow	**(940)**	**(1,437)**	**(1,614)**	**(1,809)**

The key planning assumptions in the above projections are as follows:

1. **Unfunded pension payments** – in the short term these represent the main costs and are generally predictable. They are reducing over time as the number of pensioners decline, although this reduction is in part offset by the annual pension's increase which is based on the Consumer Prices Index (CPI) as at 30 September.

2. **Direct Costs** - these costs are primarily for legal advice regarding the asbestosis claims and bank charges and should not vary significantly from year to year.

3. **Asbestosis claims** - The Authority's Actuaries forecast that the value of asbestosis claims will rise significantly over the next decade before tailing off to 2035. For the purposes of the MTFP it is assumed that the list of ongoing cases at the start of 2016/17 will be settled in year along with the expected new cases for 2016/17, the figure was audited externally as part of the 2015/16 published accounts. LPFA currently levies more than is required to settle known asbestosis cases to build reserves.

4. **Management expenses** – these represent a recharge from the Operational Account, these are forecast to decline over time in line with the unfunded pension payments.

5. **The levy** for 2017-18 is planned to be held at the current level. This means a greater London levy of £10.318m and an inner London levy of £13.065m.

7. Operational Accounts

The operational budget forecasts the net cost of the management and administration of the Pension Scheme, up to the end of 2016/17. It also includes the cost of administering the Residual Liabilities.

Over the planning period, the LPFA Strategic Policy Statement (SPS) focuses on cost savings anticipated from merging and/or pooling public sector pension funds. Three strategic aims are identified for the coming year:

- Innovation in investments and management of liabilities
- Establishing and operating the partnership with LCPF
- Delivering reduced operating costs on a risk adjusted basis

Income and Expenditure

The structure of the LPFA operational budget differs greatly between the current year and the following three years a majority of LPFA functions have now transferred to LPP.

A number of third party contracts continued to be managed by LPFA after the 1st April 2016, as shown below in table 4. The net impact of the contracts is negligible as whilst LPFA retained sufficient contract fee income to pay for the retained staff directly delivering the contract services, the remainder of the contract fee income was passed to LPP in return for support services

The operational budget is provided in the Table 4 overleaf.

Fixed assets – The fixed assets held by LPFA as at 31/3/16 are being leased to LPP where required but will not be replaced by LPFA at the end of their useful lives. The effect can be observed in the movement of the Capital Reserve in Appendix 2.

Table 4 shows the budget by function for the forecast for 2016/17 in line with the previous MTFP however most of these individual functions have been replaced as at 8th April 2016 by a direct services charge by LPP. Those functions that retain a separate budget are those that will remain within LPFA.

As a result of pooling with LCPF via LPP LPFA will have reduced costs from 2015-16 of circa £3.5m. In addition to savings made via alternative investment management processes LPFA running costs have now been allocated across a far greater number of members and LPFA have been the beneficiaries of this economy of scale.

LPFA's share of the £7.5m per annum benefits of pooling global equities with Lancashire County Pension Fund is £1.74m per annum. This is due to LPFA having already reduced costs via allocation to internally managed mandates in 2014. That resulted in a £3m saving in external management costs at the time and performance since then has been above the benchmark for the internally managed mandate. The £1.74m per annum is reflected above reductions in investment management costs.

Pooling activity in relation to the remaining asset classes will be implemented during 2017-18 and the benefits associated with these will be reflected in LPFA's future charges as and when they are confirmed.

There are other benefits associated with the partnership which are not included in the figures above. These include greater potential for improved investment returns because of improved governance, wider opportunities and professional management on a risk based approach:

- Potential for improved investment returns.
- Access to a wider range of investment opportunities not cost effectively available to smaller funds.
- Access to liability management services - LPFA's fund is now fully funded on a triennial basis.
- The ability to leverage preferential fund manager costs - for example LPFA has saved c£600k in respect of property management charges.
- Access to governance rights and lower fees which derive from larger allocations to investments e.g. Board seats on private equity opportunities.
- Improved governance from being overseen by the FCA.
- Potential to benefit from the sharing of overheads that pension administration scale can bring.

LPP is now forecast to deliver benefits in excess of the £30m over 5 years and LPFA's share of these benefits will be represented as and when they are confirmed

Table 4

Operational Budget	**Actual 2015-16 £000**	**Projected Outturn 2016-17 £000**	**Budget 2017-18 £000**	**Budget 2018-19 £000**	**Budget 2019-20 £000**
Investment Management					
Investment services fee per LPP SLA	0	4,718	4,401	4,511	4,624
Other investment management costs	30,651	27,496	26,443	27,148	27,870
Total Investment Management	**30,651**	**32,214**	**30,844**	**31,659**	**32,494**
Administration					
Pensions Administration	1,059	44	-	-	-
Pensions Agency Income	(2,171)	(913)	-	-	-
Pensions Agency Expenditure	2,033	913	-	-	-
Pensions Payroll	264	15	-	-	-
Employers Services	493	33	-	-	-
Technical Services	122	5	-	-	-
HR service	779	57	-	-	-
IT service	718	247	-	-	-
Marketing/ communications	344	18	-	-	-
Value Added Business	(107)	25	-	-	-
Premises	918	(38)	-	-	-
Administration services fee per LPP SLA	0	1,802	1,811	1,856	1,903
Total Administration	**4,442**	**2,209**	**1,811**	**1,856**	**1,903**
Oversight & Governance					
Board	226	141	142	144	145
EXCOM	574	162	164	165	167
Central Corporate Costs	1,467	515	521	519	529
Corporate Governance	620	78	-	-	-
Finance	781	60	-	-	-
IAS19 past service cost	205	214	224	234	244
LPP Preparation	262	103	-	-	-
Reserves draw down	(338)	(37)	-	-	-
Recharge to Residual Liabilities	(641)	(641)	(613)	(601)	(589)
Governance services fee per LPP SLA	0	1,600	1,608	1,648	1,689
Total Oversight & Governance	**3,156**	**2,195**	**2,046**	**2,109**	**2,185**
Total Operational Costs	**38,249**	**36,618**	**34,701**	**35,624**	**36,582**

Total Service Level Agreement (SLA) Charge

The total fee to be paid to third parties is summarised in the table below.

Table 5

Charge Element	Forecast 2016/17 £000	Budget 2017/18 £000	Budget 2018/19 £000	Budget 2019/20 £000
Investment Management (3rd parties)	27,496	26,443	27,148	27,870
Investment Management (LPPI)	4,718	4,401	4,511	4,624
Administration Services (LPP)	1,802	1,811	1,856	1,903
Governance Services (LPP)	1,600	1,608	1,648	1,689
Total	35,616	34,263	35,163	36,086

2017/18 is expected to deliver savings compared to 2016/17, in future years the Authority has been prudent and used a 2.5% increase assumption for LPP charges but it will continue to work with LPP in order to deliver cost savings in future years.

8. Risks and Opportunities

Whilst the MTFP has been developed based on the best information currently available there are a number of both risks and opportunities that could affect the projections and therefore need to be kept under constant review.

Risks

The key risks facing the authority over the next three years are as follows:

- **Investment performance** – the draft budget has been constructed on the basis of 5.7% target investment return. However, there is a risk that investment returns may be below this level and may even become negative.
- **Success of LPP** – although LPFA will be a 50% shareholder in LPP, and therefore able to apply considerable influence, LPFA operations will be subject to satisfactory delivery by LPP
- **Key Assumptions**– The key assumptions made in producing the MTFP were set out at the beginning of the document, there is a risk that significant changes emerge.
- **Liability modelling** – the funding level depends on the assets and the liabilities of the fund over the life of the existing membership. As this is a long term view inevitably assumptions have to be made around a variety of factors, such as wage growth, mortality rates, the cash lump sums extracted at retirement and so on. Any significant difference in practice may impact projected funding levels.
- **Employers' default** – whilst LPFA goes to considerable effort to manage the risk of employer default, including the obtaining of security and/or charges over assets and/or levying risk adjusted additional contributions, an employer default may impact funding level and may also lead to higher contributions from the other employers in the fund.
- **Future structure of LGPS** - the estimates are constructed based on the current regulations. However, in the three year time horizon it is possible that further changes emerge that will impact the overall position of the organisation.
- **Abortive Investment Costs** - the Authority is increasing participation in private markets, particularly infrastructure. Projects will be selected opportunistically so there is significant uncertainty about the total value of fees and due-diligence costs. If projects proceed, these will be capitalised into the investment, however, in an abortive scenario, the full impact would fall in the relevant financial year impacting overall investment performance.

- **Enforced Pooling** – the Government may yet enforce pooling on the LGPS in a manor other than the existing LLP format allows for, this would likely lead to significant costs in dismantling the partnership vehicle.

Opportunities

- **Partnership impact** – LPP has commenced operations with two partner clients, LCPF and LPFA. The acquisition of further partners and/or clients is likely to reduce the net costs passed on to LPFA through economies of scale.

9. Reserves

A summary of the Authority's current reserves and the projections on the balances in these reserves over the next three years are shown in **Appendix 2**. The purpose of each reserve is set out below.

The Authority's General Reserves are maintained to manage the impact of unexpected one-off costs whilst other Reserves are designed to smooth the impact of particular future potentialities where the associated cost, likelihood and timing cannot be gauged with any certainty.

General Reserve
Management's judgement on the adequacy of General Reserves reflects perception of the residual risk of emergencies and/or, of unexpected events, in the context of the risk management and financial control processes in place.

The calculation of the potential financial impact of these assessed risks has been done and in the light of this, it is regarded that c£2.5m is an appropriate target level for the General Reserve over the three-year planning period. If there is a reduction in risk, particularly once certainty is obtained around any LGPS Government enforced pooling, this figure will be revised.

Business Reserve
The business reserve was created to cope with planned one off and unexpected additional costs on the agency contracts. The reserve would have been used to fund investment in obtaining new contracts, any costs of the loss of a contract, and any short-term additional resources to meet any problems on existing contracts. It is now being consolidated into the general reserve following the creation of the LPP partnership.

Valuation Reserve
The actuarial triennial valuation added to the Authority's costs in the valuation year. £10,000 per annum was therefore set aside to fund the additional staffing costs which were to next be incurred in 2016-17. It is now being consolidated into the general reserve following the creation of the LPP partnership.

Organisational Development Reserve
The reserve was in place to support improvements in working practices, and the development and retention of staff. The reserve was used to fund one-off use of temporary staff, consultancy, departure costs, etc, it is now being consolidated into the general reserve following the creation of the LPP partnership.

Innovations Reserve
The reserve was used to fund invest-to-save projects, it is now being consolidated into the general reserve following the creation of the LPP partnership.

Premises Reserve
The reserve was established as the LPFA lease on Dexter House expired in December 2014. The reserve is now maintained to mitigate the financial impact of dilapidation works to Dexter House which could be claimed for a number of years. It is assumed the dilapidation issue will be resolved by 2019/20 as planning permission for a new development on the site has been approved.

Capital Reserve
A non-usable reserve that reflects the value of fixed assets held by LPFA.

10. Treasury Management

At the time of writing (November 2015), the fund had cash balances of around £92million. LPFA also manages a further £28 million of cash held against Residual Liabilities. Day to day cash management is currently outsourced to the GLA, although this will be reviewed by LPFA in due course.

In addition to cash directly held by the Authority, third party investment fund managers hold cash in various currencies as part of their mandates. The finance and investment teams monitor managers' cash policies.

Treasury investment performance is monitored by the Investment Committee.

11. Legal Issues

The key requirements are that the LPFA must prepare a draft budget statement and present this to the Mayor by 31 December; the LPFA must have regard to any comments received from the Mayor by 31 January; and the LPFA is required to set a levy before 15 February.

12. Summary and Conclusions

This MTFP is prepared on the assumption that LPFA will remain in partnership with the Lancashire County Pension Fund across the duration of the three year period and beyond.

The MTFP sets out the resources that will be required to deliver widest benefit to the public purse in general, by sharing its specialist capabilities, and by so doing, to deliver materially better value to the scheme members and employers it serves. It also sets some challenging targets in terms of investment management.

Glossary

Agency contracts – main administration contracts.

Asbestosis – this is the disease developed from inhaling asbestos dust.

LPFA is liable for residual liabilities, including industrial injuries, in accordance with The London Residuary Body *(Transfer of Compensation Functions Order)* 1991.

The Compensation Act 2006 has increased LPFA's liabilities.

The Greater London Council took the decision to self-insure until the early 1980s. Personal injury insurance was effected from April 1982 until abolition but carried very large excesses (typically £100K). In recent years, a steady stream of claims have been received from former employees who have contracted asbestos related illnesses, pleural plaques (not necessarily life threatening) and mesothelioma (which is terminal), during the course of their employment. Asbestos related diseases do not manifest themselves until between 10-30 years after contamination (and as such are not bound by the three year time barring ruling for non latent personal injuries).

The LPFA's liability on injury claims was increased by the Compensation Act 2006, which reversed an earlier decision (Barker v Corus plc) that allowed the LPFA to pay a portion of the compensation awarded on the basis of length of time the claimant was employed by the LPFA related bodies. It is therefore no longer for the Claimant to prove the proportion of damages for which the defendant is liable. Instead it is for LPFA to prove that another defendant is jointly responsible for asbestosis exposure and, to what extent.

Eversheds (LPFA lawyers) calculated that, as a result of the above changes, claims will increase until 2025 and then decrease until 2035 with a total cost of some £40m (net present value) potentially.

In response to the revised future liabilities the LPFA engaged the services of a researcher to investigate the health & safety policies that had been in place during the period when claimants would have been exposed to asbestos, to improve the LPFA's defence in such claims. The results of this have been reviewed by Eversheds and by Counsel. This work has improved the information available to use in the defence case however the impact on the outcome of cases is only expected to be minimal.

Capital – this is expenditure on items that last for more than one year, and can include items such as computer hardware and software, and building works. These costs are incurred in one financial year but the costs are spread over multiple financial years as the assets created are depreciated over their useful lives.

CARE – Career Average Revalued Earnings – the 2014 LGPS is a CARE scheme. This will use a member's salary over his/her career, revalued to take account of inflation, to determine pension benefits on retirement.

Co-operation agreements – a method through which the LPFA can work with other authorities to provide or receive services. These are based on services managed more loosely through a service level agreement, with more sharing of risks.

CIPFA – Chartered Institute of Public Finance and Accounting. The main accounting body in the local government sector.

Final salary scheme – the LGPS was previously a final salary pension scheme, with the members salary on retirement being used to calculate the value of pension benefits.

Financial year – period for which the budget is set, and accounts prepared – the LPFA financial year is 1 April to 31 March.

Forecast of outturn – this is the estimate of the expenditure for the financial year taken at a point part way through the year. The forecast of outturn will take known expenditure, that actually spent and committed (purchase orders), and add to this expected expenditure for the remainder of the financial year. This then allows comparison to the budget.

GLA – Greater London Authority – strategic London authority set up in 2000. The Mayor's Office is part of the GLA.

GLC – Greater London Council – former London government abolished in the 1980s.

ILEA – Inner London Education Authority – former London body abolished in the 1980s.

LGPS – Local Government Pensions Scheme. The scheme administered by the LPFA.

LRB – London Residual Body – former London body set up on abolition of the GLC and ILEA to manage function not allocated to other parts of London government, mainly London boroughs.

Mayor of London – elected representative in London, elected every four years from 2000. The current Mayoral term ends in May 2020. The Mayor appoints the LPFA Board and is a consultee on the LPFA budget and strategic plan.

Reserves – funding received but not yet used is held in reserves, which are either earmarked and held in a specific reserve, or are held in the general reserve. The amounts held in reserves are to meet future demands which may be planned, expected or unknown.

VAB – value added business – commercial business that is not part of the main administration contract. VAB can be with existing agency clients or with other clients. Some is one off in nature but other business is recurring. Services can include temporary staff, annual benefits statements, web sites, data cleansing.

Valuation – this is undertaken every three years on all LGPS finds. The next valuation is currently in progress. The valuation considers the liability of the pension fund, provides a current funding position and establishes employer pension contribution rates for the coming three years.

Appendix 1

Pension Fund – Net Assets Statement and Movement in Reserves

	Forecast 2016/17 £m	Draft 2017/18 £m	Draft 2018/19 £m	Draft 2019/20 £m
Estimated Opening value of Assets	**4,549.6**	**4,864.8**	**4,989.9**	**5,120.7**
Dealings with Members and Employers				
Contributions	-146.3	-146.4	-149.4	-152.3
Transfers In	-6.6	-23.3	-23.3	-23.3
Benefits Payable	247.7	252.0	256.4	260.9
Transfers Out	16.4	23.8	23.8	23.8
Net Dealings with members and Employers	**111.2**	**106.1**	**107.5**	**109.1**
Management Expenses				
Investment Management	32.2	33.0	33.8	34.7
Administration	2.2	1.8	1.9	1.9
Oversight & Governance	2.2	2.1	2.1	2.2
Total Management Expenses	**36.6**	**36.9**	**37.8**	**38.8**
Sub-total value of assets	**4,401.8**	**4,720.8**	**4,844.6**	**4,972.8**
Returns on Investments				
Investment Income	-138.8	-159.5	-203.4	-252.9
Changes in Market Value	-323.2	-109.6	-72.7	-30.5
Total Returns on Investments	**-462.0**	**-269.1**	**-276.1**	**-283.4**
(Increase)/Decrease in Fund	**-314.2**	**-126.1**	**-130.8**	**-135.5**
Estimated Closing value of Assets	**4,863.8**	**4,989.9**	**5,120.7**	**5,256.2**

NB: 2015/16 projection is based on October 2016 forecast.

Appendix 2

Reserves Forecast 2016/17 – 2019/20

	General Reserve £000	Business Reserve £000	Valuation Reserve £000	Org Dev't Reserve £000	Innovations Reserve £000	New Premises Reserve £000	Capital Reserve £000	Total £000
Bal as at 1/4/16	**1,408**	**50**	**20**	**90**	**40**	**400**	**635**	**2,643**
Expected movement	638	(50)	(20)	(90)	(40)	(300)	(175)	(37)
Projected Bal as at 31/3/17	**2,046**	**-**	**-**	**-**	**-**	**100**	**460**	**2,606**
Expected movement	155	-	-	-	-	-	(155)	-
Projected Bal as at 31/3/18	**2,201**	**-**	**-**	**-**	**-**	**100**	**305**	**2,606**
Expected movement	105	-	-	-	-	-	(105)	-
Projected Bal as at 31/3/19	**2.306**	**-**	**-**	**-**	**-**	**100**	**200**	**2,606**
Expected movement	195	-	-	-	-	(100)	(95)	-
Projected Bal as at 31/3/20	**2,501**	**-**	**-**	**-**	**-**	**-**	**105**	**2,606**