

Pension Fund Committee

Meeting to be held on Friday, 26 November 2021

Electoral Division affected: N/A;

2021/22 Budget Monitoring Report

(Appendix 'A' refers)

Contact for further information:

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Executive Summary

This report sets out the income and expenditure of the Fund for the 6-month period to 30 September 2021 and provides a forecast for the year ending 31 March 2022.

Recommendation

The Committee is asked to review the financial results for the 6 months to 30th September 2021 and note the budget and forecast variances, as set out in the report.

Background and Advice

The budget for the financial year ending 31 March 2022 was approved by the Pension Fund Committee on the Friday 12th March 2021. The budget was based on the information available at that time. The forecast provided gives the latest estimate of expenditure and income for the financial year in light of updated information to date.

The forecast for the year ending 31 March 2022 indicates that money available for investment will be below that set out in the budget for the same period. Details are shown in Appendix 'A' with significant variances by budget line set out below.

Contribution's income

Actual £78.3m (Budget £174.7m, revised forecast at Q2 £159.6m)

The forecast was adjusted, as discussed in the previous Committee meeting in September 2021, to take into account actual experience to that point. Actual contributions income for 6 months ended 30 September 2021 is in line with that forecast. The forecast has been slightly revised on the basis that the actual for the remainder of the year will be consistent with the first and second quarters.

Transfers In

Actual £5.7m (Budget £9.9m, forecast at Q2 £10.7m)

Income from transfers is dependent on the number and timing of new members joining the Fund and is not an item that can be predicted with great accuracy. The actual is within the anticipated range.

Investment income

Actual £106.2m (Budget £179.5, forecast at Q2 £195.9m)

Investment income consists mainly of income from the pooled investment funds (95% of the budget). Also included are direct property rental income, interest, foreign exchange differences and tax refunds.

Over the 6 months to 30 September 2021 investment income received has been above budget by £16.4m.

The investment income is above budget, including pooled investment income and fixed interest income. However, property investment income – both direct and pooled - is below budget. The forecast has previously been revised due to an unexpected £18.5m dividend being received by the Fund prior to the sale of an asset.

Total benefits payable

Actual £152.9m (Budget £294.6m, forecast at Q2 £301.0m)

The forecast for the year is broadly in line with budget, with an overall adverse variance due to lump sum benefits in excess of budget.

Transfers out

Actual £7.4m (Budget £16.2m, forecast at Q2 £15.5m)

The cost of transfers out of the Fund is dependent on the number and timing of members transferring their benefits to other funds. The actual is broadly in line with expectations.

Investment management expenses

Actual £93.1m (Budget £84.2m, forecast at Q2 £140.7m)

Investment management expenses encompass fees related to the ongoing management, custody, and performance of investments.

Management fees

Management fees (related to ongoing management) are expected to directly relate to the value of the assets. At the point that the budget is set, management fees are

estimated based on asset values at that point projected forwards. As discussed at previous Committee meetings, actual experience during the year to date has shown that asset values have increased at a much greater rate than projected. During the 6 months to 30 September 2021, the value of the Fund's assets has increased from £9.6 billion to £10.3 billion, and this exceptional asset performance has resulted in an increase in management fees.

Performance fees

Performance related fees are highly difficult to estimate as they are dependent on returns generated over a particular period, there are specific thresholds to be met before being payable and provisions whereby prior performance fees can be returned to investors. As such, it is the Fund's policy not to forecast performance-related fees. Rather, the budget/estimate for the current year is based on the previous year's actual performance fees subject to some relevant adjustments. Differences between budgeted/estimated fees and actual fees are likely to be exacerbated by periods of market volatility under this approach.

Overall position

The 6-month actuals to 30th September show the investment management fees continue to be higher than anticipated with the forecast being adjusted for unexpected additional costs in relation to performance fees. This variation it is not totally unexpected.

Fund administration and oversight and governance fees

Actual £2.6m (Budget £5.5m, forecast at Q3 £5.6m)

These cover the cost for administration expenses payable to Local Pensions Partnership Administration Limited comprises core administration services, charged on a cost per member basis and costs such as legal and actuarial fees incurred in running the fund.

Consultations

Local Pensions Partnership Investments Limited has been consulted for investment management fee and investment income analysis.

Implications:

This item has the following implications, as indicated:

Risk management

The full year financial performance is included in the Fund's annual report and statement of accounts for the year ended 31 March 2021. Regular budget monitoring is a key control for the Fund and assists in the financial management of the Fund, providing an indication of significant variances from expectations and informing future budgets.

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

Paper	Date	Contact/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A