

## **Pension Fund Committee**

Meeting to be held on Friday, 11 March 2022

Electoral Division affected: N/A;
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## **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 9-month period to 31 December 2021 and provides a forecast for the year ending 31 March 2022.

### **Recommendation**

The Committee is asked to review the financial results for the 9 months to 31 December 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 a reduction in the money that will be available for investment against 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 £117.4m (Budget £174.7m, revised forecast at Q3 £157.1m)**

The employer and employee contributions have remained largely in line with the previous forecast. The forecast has been revised due to a lower-than-expected amount of pension strain.

## **Transfers In**

**Actual £11.0m (Budget £9.9m, forecast at Q3 £13.5m)**

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 £173.6m (Budget £179.5, forecast at Q3 £218.5m)**

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 9 months to 31 December 2021 total investment income received has been above budget by £39.0m.

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 been updated mainly due to an additional unexpected income of £21.3m in relation to infrastructure. The forecast has previously been revised due to an unexpected £18.5m dividend being received by the fund prior to the sale of the asset.

## **Total benefits payable**

**Actual £231.0m (Budget £294.6m, forecast at Q3 £305.3m)**

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

## **Transfers out**

**Actual £10.2m (Budget £16.2m, forecast at Q3 £14.3m)**

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 £137.5m (Budget £84.2m, forecast at Q3 £158.5m)**

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. Actual experience during the year to date has shown that asset values have increased at a much greater rate than projected. During the 9 months to 31 December 2021, the value of the Fund's assets has increased from £9.6 billion to £10.8 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 explicitly 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 9-month actuals to 31st December show the investment management fees are higher than anticipated with the forecast being adjusted for unexpected additional costs in relation to performance fees (see above). Therefore, the variation it is not totally unexpected.

## **Fund administration and oversight and governance fees**

### **Actual £4.0m (Budget £5.5m, forecast at Q3 £5.7m)**

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 as well as costs such as staff, 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