

Pension Fund Committee

Meeting to be held on Friday, 17 June 2022

Electoral Division affected: N/A;

2021/22 Budget Monitoring Report

(Appendix 'A' refers)

Contact for further information:

Sean Greene, Head of Fund, Sean.Greene@lancashire.gov.uk

Executive Summary

Details of the financial performance of the Fund for the year ended 31 March 2022, with a comparison to budget and prior year results, are set out at Appendix 'A'. The data included in the Appendix forms the basis of the year end statutory financial statements which are subject to audit.

Recommendation

The Committee is asked to review the financial results for the year ending 31 March 2022 and note the 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 Friday 12th March 2021. The budget was based on the information available at that time and the budgeted net expenditure to the Fund, before accounting for changes in the market value of investments during the year, was £37.1m. As discussed at previous Committee meetings, during the course of 2021/22 it has become evident that actual net expenditure at the year-end would be greater than budgeted. The unaudited actuals now presented shows the net expenditure at £111.5m.

Appendix 'A' provides a more detailed breakdown of the budgeted, Q3 forecasted and actual income and expenditure. Key variances are outlined below.

Contribution's income

Actual £161.5m (Budget £174.7m, revised forecast at Q4 £157.1m)

The monthly employer and employee contributions increased £4.4m more than forecast. This was largely due to an additional £3.6m of employer contributions being received as some employers who previously prepaid contributions took up the option

of making a top up payment to reflect differences in actual pensionable pay to that estimated when the prepayments were calculated. These were unknown when making the prior forecast. Some further income was received as the impact of the 2021 pay award was slightly higher than forecasted.

As reported on 17 September the budget included an additional amount of Future service rate contributions of £20m for expected new employers. This appeared to have been an overestimate and was excluded from the subsequent forecasts during the year.

Transfers In

Actual £15.9m (Budget £9.9m, forecast at Q4 £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.

Investment income

Actual £203.3m (Budget £179.5, forecast at Q4 £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.

The investment income received was £23.8m higher than expected when setting the budget. This increase was largely due to an unexpected £18.5m dividend being received by the fund prior to the sale of an asset and a large distribution relating to the infrastructure fund being received. These were reflected in the Q3 forecast.

However, the year-end position shows that the investment Income received is above the budget for the year but has fallen from the Q3 forecast. Distributions received in Q4 from Infrastructure, Global Equities and Pooled Property income were below that anticipated in setting the Q3 forecast.

Total benefits payable

Actual £306.3m (Budget £294.6m, forecast at Q4 £305.3m)

The actual for the year is broadly in line with budget and forecast. The overall adverse variance is due to both Pensions and lump sum benefits being in excess of budget.

Transfers out

Actual £13.4m (Budget £16.2m, forecast at Q4 £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 £166.0m (Budget £84.2m, forecast at Q4 £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 12 months to 31 March 2022, the value of the Fund's assets has increased from £9.6 billion to £10.6 billion, and this increase in asset value 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 12-month actuals to 31st March 2022 show the investment management fees are higher than initially anticipated in the budget. However, there was an increase in the final cost compared to the forecast principally due to further performance fees and given the asset valuation the variation it is not totally unexpected.

Fund administration and oversight and governance fees

Actual £5.5m (Budget £5.5m, forecast at Q4 £5.7m)

These cover payment to Local Pensions Partnership Administration Limited for the core administration services and costs such as staff, legal and actuarial fees incurred in running the fund. The actual is in line with the budget and is slightly lower than the Q3 forecast as the use of the bad debt provision was lower than anticipated.

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 2022. 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
N/A		

Reason for inclusion in Part II, if appropriate
N/A