

Pension Fund Committee

Meeting to be held on Friday, 25 November 2022

Electoral Division affected: N/A;

Budget Monitoring Q2 - 2022/23

(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 2022 and provides a forecast for the year ending 31 March 2023.

Recommendation

The Committee is asked to review the financial results for the 6 months to 30 September 2022 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 2023 (based on the information available at that time) was approved by the Pension Fund Committee on Friday 11th March 2022. The forecast provided gives the latest estimate of expenditure and income for the financial year in view of updated information to date.

Details are shown in Appendix 'A' with significant variances by budget line set out below.

Contribution's income

Actual £81.7m (Budget £164.2m, revised forecast at Q2 £171.9m)

Actual employer and employee contributions have remained largely in line with the previous forecast for the 6 months to 30 September 2022, however, there has since been an agreement on the local government pay settlement for 2022/23. The forecast has been revised to take the estimated impact of the pay award into account, it is anticipated the backdated contributions will be received in Q3.



Transfers In

Actual £9.1m (Budget £13.2m, forecast at Q2 £15.7m)

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 £123.2m (Budget £209.6m, forecast at Q2 £209.6m)

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 2022 investment income received has been above budget by £18.4m. However, with the predicted economic difficulties throughout the world it is not unreasonable to anticipate a fall in income in the rest of the year therefore the forecast remains at the budgeted level but may be updated in the next quarter.

Total benefits payable

Actual £158.5m (Budget £309.5m, forecast at Q2 £315.7m)

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

Transfers out

Actual £7.9m (Budget £15.7m, forecast at Q2 £15.8m)

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 £38.5m (Budget £154.5m, forecast at Q2 £154.5m)

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 decreased which is against the projection. During the 6 months to 30 September 2022, the value of the Fund's assets has decreased from £10.8 billion to £10.6 billion, and this asset performance will result in a slight decrease 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. 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 do appear low in relation to the annual budget which is not unusual for the first couple of quarters. Whilst it is recognised that the performance of the fund is not as strong as previous years the forecast has not been amended due to uncertainty over the investment outlook and the Funds' performance in the 6 months to 31 March 2023.

Fund administration and oversight and governance fees

Actual £2.8m (Budget £6.3m, forecast at Q2 £6.2m)

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 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
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N/A

Reason for inclusion in Part II, if appropriate

N/A

