

**Pension Fund Committee**

Meeting to be held on Friday, 10 March 2023

Electoral Division affected:  
N/A;

**2022/23 Budget Monitoring Report**

(Appendix 'A' refers)

Contact for further information:

Sean Greene, (01772 530877), Head of Fund, Sean.Greene@lancashire.gov.uk

**Brief Summary**

This report sets out the income and expenditure of the Fund for the 9-month period to 31 December 2022 and provides a forecast for the year ending 31 March 2023.

**Recommendation**

The Committee is asked to review the financial results for the 9 months to 31 December 2022 and note the budget and forecast variances, as set out in the report.

**Detail**

The budget for the financial year ending 31 March 2023 was approved by the Pension Fund Committee on the Friday 11th March 2022. 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 2023 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 £129.3m (Budget £164.2m, revised forecast at Q3 £175.8m)**

Both employer and employee contributions have increased compared to the previous forecast and are higher than anticipated in setting the budget. The increase is principally due to the settlement and payment of the backdated pay award in Q3, the pay award was higher than budgeted for and this is reflected in the forecast.



## **Transfers In**

**Actual £12.7m (Budget £13.2m, forecast at Q2 £16.0m)**

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 £158.6m (Budget £209.6, forecast at Q3 £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 9 months to 31 December 2022 investment income received has been above budget by £1.5m. We anticipate the investment income to be largely on budget for the rest of the year therefore the forecast remains at the budgeted level.

## **Total benefits payable**

**Actual £237.8m (Budget £309.5m, forecast at Q3 £316.5m)**

Actual payments have slightly exceeded budget over the first 9 months of the year. It is anticipated that this will continue for the rest of the year leading to a small percentage overspend being forecasted.

## **Transfers out**

**Actual £12.5m (Budget £15.7m, forecast at Q3 £16.4m)**

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 £59.7m (Budget £154.5m, forecast at Q3 £131.3m)**

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 this projection. During the 9 months to 31 December 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 9-month actuals to 31<sup>st</sup> December do appear low in relation to the annual budget which is not unusual for the first three quarters with the majority of fees normally being recognised in the final quarter. However, it is recognised the performance return of the fund is not as strong as previous years and therefore it is anticipated that the performance fees will be lower than included in the budget.

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

### **Actual £4.5m (Budget £6.3m, forecast at Q3 £6.3m)**

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

N/A

