

**Pension Fund Committee**

Meeting to be held on Friday, 16 June 2023

Electoral Division affected:  
N/A;

**Budget Monitoring for the year ending 31<sup>st</sup> March 2023.**

(Appendix 'A' refers)

Contact for further information:

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**Brief Summary**

Details of the provisional financial performance of the Fund for the year ended 31<sup>st</sup> March 2023, 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 provisional financial results for the year ending 31<sup>st</sup> March 2023 and note the variances, as set out in the report.

**Detail**

**Background and Advice**

The budget for the financial year ending 31<sup>st</sup> March 2023 was approved by the Pension Fund Committee on 11<sup>th</sup> March 2022. 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 £99.8m.

At the quarter 3 (Q3) monitoring reported to the Committee on 10<sup>th</sup> March 2023, the net expenditure was forecast to be £70.3m. The provisional figures now presented show the net expenditure has decreased (by £31.0m from the Q3 forecast) to £39.0m.

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 £172.5m (Budget £164.2m, revised forecast at Q3 £175.8m)**

The monthly employer and employee contributions fell just below Q3 forecast by £0.7m. However, employer and employee contributions for the year ended 31st March 2023 were higher than budgeted. This was due to the actual pay award being higher than budgeted pay award. The impact of the 2022 pay award was slightly lower than forecasted in Q3.

### **Transfers In**

**Actual £17.2m (Budget £13.2m, forecast at Q3 £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.

### **Investment income**

**Actual £199.0m (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.

The investment income received was £10.6m lower than expected when setting the budget. This decrease was largely due to income from the infrastructure fund being £11.9m lower than expected. The Private Equity, Pooled Property and Fixed Income funds income also came in below budget, however, income from the Credit and Global Equity funds were above budget.

### **Total benefits payable**

**Actual £314.1m (Budget £309.5m, forecast at Q3 £316.5m)**

The actual for the year is broadly in line with budget and forecast. The overall adverse variance is due to the Pensions being in excess of budget and it is noted that there has been an increase in the number of pensioners during the year.

### **Transfers out**

**Actual £18.2m (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 £88.6m (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 largely 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 lower rate than projected. During the 12 months to 31 March 2023, the value of the Fund's assets has fluctuated with an overall increase from £10.7 billion to £10.8 billion, and this change in asset value has resulted in lower management fees than expected.

## **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 2023 show the investment management fees are lower than initially anticipated in the budget. This was recognised during the year and in Q3 the forecast was reduced due to lower than anticipated performance fees. There was a further decrease in the final cost compared to the Q3 forecast principally due to a lack of significant performance fees and given the asset valuation, the decrease it is not totally unexpected.

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

**Actual £6.0m (Budget £6.2m, forecast at Q3 £6.3m)**

These cover payment to Local Pensions Partnership Administration Limited (LPPA) for the core administration services and costs such as staff, legal and actuarial fees incurred in running the fund. The actual is below both the budget and Q3 forecast due to a smoothing of the administration fees from LPPA leading to reduced fees in 2022/23.

As the Committee will be aware the County Council implemented a new financial system (Oracle Fusion) at the end of 2022/early 2023. This has not impacted on the budget figures within this paper. However, the cut-off date for the general ledger will be later than usual for the year 2022/23 and, accordingly, there may be some further adjustment to the financial results. If these are material, an update will be provided to a future meeting of the Committee.

## **Appendices**

Appendix 'A' is attached to this report.



<b>Appendix</b>	<b>Title</b>
Appendix 'A'	Financial Performance of the Pension Fund for year ended 31 <sup>st</sup> March 2023

## **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<sup>st</sup> March 2023. 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

