

Pension Fund Committee

Meeting to be held on Friday, 15 September 2023

Electoral Division affected:
N/A;

Budget Monitoring 2023-24 – Q1

(Appendix 'A' refers)

Contact for further information:

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Brief Summary

This report sets out the income and expenditure of the Fund for the 3-month period to 30 June 2023 and provides a forecast for the year ending 31 March 2024.

Recommendation

The Committee is asked to review the financial results for the 3 months to 30 June 2023 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 2024 approved by the Pension Fund Committee on 10th March 2023 was based on the information available at that time. The forecast provided in Appendix 'A' gives the latest estimate of expenditure and income for the financial year in the light of updated information to date.

The forecast for the year ending 31 March 2024 indicates that money available for investment will be greater than 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 £237.6m (Budget £404.1m, revised forecast at Q1 £411.4m)

The employer and employee contributions have remained in line with the budget, albeit that the budget this quarter for employer contributions has been adjusted to reflect prepayments received (see below). Some of the variance between budget and actuals for employer contributions is due to one employer opting to make the full 3-year prepayment which had not been included in the initial budget. To date there

has been no agreement on the local government pay settlement for 2023/24. The contributions forecast is therefore based on the pay increase included in the budget.

The actuals include prepaid contributions of £183.5m for the 3-year period (from 2023/24 to 2025/26) that were received from 1st April 2023.

Transfers In

Actual £3.2m (Budget £15.4m, forecast at Q1 £14.8m)

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 £31.0m (Budget £220.0m, forecast at Q1 £220.0m)

Investment income consists 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 3 months to 30 June 2023 investment income received has been below budget by £24.0m. This variance is due to the Infrastructure pool which is under budget by £20.2m, Private Equity and Credit are both also below budget. The investment income is expected to be higher in the rest of the year, as a result the forecast has remained on budget.

Total benefits payable

Actual £86.6m (Budget £345.8m, forecast at Q1 £346.6m)

The forecast for the year is broadly in line with budget, with an overall adverse variance due to monthly pensions being marginally more than budget.

Transfers out.

Actual £5.7m (Budget £16.1m, forecast at Q1 £17.7m)

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 £19.8m (Budget £130.5m, forecast at Q1 £130.1m)

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 which is in line with the projection. During the 3 months to 30 June 2023, the value of the Fund's assets has increased from £10.8 billion to £11.1 billion, and this asset performance has resulted in a slight increase in management fees, however, due to the delays to closing the 2022/23 general ledger, it has allowed the Fund to post further prior year fees into the prior financial year, resulting in lower costs being seen in 2023/24.

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 3-month actuals to 30th June do appear low in relation to the annual budget. This is not unusual for the first quarter but also exacerbated by the posting of fees to the previous year when they would usually go against the current year (as the previous year's general ledger would have been closed but remained open for longer this year). Therefore the investment management fees are around anticipated levels and the forecast for fees is currently in line with the budget.

Fund administration and oversight and governance fees

Actual £1.6m (Budget £7.1m, forecast at Q1 £6.7m)

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.

The fees are forecasted to be below budget as a smoothing arrangement has been agreed with LPPA for the provision of the administration services.

Appendices

Appendix 'A' is attached to this report. For clarification it is summarised below and referenced at relevant points within this report.



Appendix	Title
Appendix 'A'	2023/24 Budget Monitoring Report – quarter ended 30th June 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 will be included in the Fund's annual report and statement of accounts for the year ended 31 March 2024. 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

