

**Pension Fund Committee**

Meeting to be held on Friday, 1 December 2023

Electoral Division affected:  
N/A;

**Budget Monitoring 2023-24 – Q2**

(Appendix 'A' refers)

Contact for further information:

Sean Greene, Head of Fund, [Sean.Greene@lancashire.gov.uk](mailto:Sean.Greene@lancashire.gov.uk)

**Executive Summary**

This report sets out the income and expenditure of the Fund for the 6-month period to 30 September 2023 and provides a forecast for the year ending 31 March 2024.

**Recommendation**

The Committee is asked to review the financial results for the 6 months to 30 September 2023 and note the budget and forecast variances, as set out in the report.

**Detail**

**Background and Advice**

The budget for the financial year ending 31 March 2024 was approved by the Pension Fund Committee on 10th March 2023. The budget was based on the information available at that time and the forecast provided in Appendix 'A' 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 2024 indicates that money available for investment will be less 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 £290.8m (Budget £404.1m, revised forecast at Q2 £409.7m)**

The employer and employee contributions have remained largely in line with the budget, albeit that the budget for employer contributions has been adjusted to reflect prepayments received in the first quarter (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 for which Officers had not initially budgeted. There has now been an agreement on the local government pay settlement for 2023/24 with the impact – on employer and employee contributions - expected to be seen in Q3. 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) which were received from 1<sup>st</sup> April 2023.

### **Transfers In**

**Actual £7.9m (Budget £15.4m, forecast at Q2 £15.6m)**

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 £90.3m (Budget £220.0m, forecast at Q2 £220.0m)**

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 2023 investment income received has been below budget by £20.0m. This variance is largely due to the Infrastructure pool which is under budget by £20.0m, Private Equity and Credit are both also below budget whilst Global Equity is above budget. During the second quarter, investment income received has accelerated compared to Q1 as it has been £4m above expectations and therefore the forecast figure has not been altered at this point in the budget cycle.

### **Total benefits payable**

**Actual £174.8m (Budget £345.8m, forecast at Q2 £349.6m)**

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

### **Transfers out**

**Actual £11.5m (Budget £16.1m, forecast at Q2 £19.5m)**

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 £51.7m (Budget £130.5m, forecast at Q2 £132.7m)**

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 6 months to 30 September 2023, the value of the Fund's assets has increased from £10.8 billion to £11.0 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 6-month actuals to 30<sup>th</sup> September 2023 do appear low in relation to the annual budget.

Overall, the investment management fees are below budget in Q2. Part of the reason for this is due to the delay (for some fees) between fees actually being incurred and the invoicing of fees to the Fund for payment. In normal circumstances, the prior year's general ledger would have been closed early in the year and – after that closure point – any fees related to the prior year which were invoiced at a later stage would appear in the current year budget. This is not the case for the year 2023/24. The previous year's general ledger has remained open for longer this year and so 2022/23 fees invoiced at a later stage are allocated to the year 2022/23 and do not appear in this budget.

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

**Actual £3.2m (Budget £7.1m, forecast at Q2 £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 they are summarised below and referenced at relevant points within this report.

Appendix	Title
Appendix 'A'	2023/24 Budget Monitoring Report – quarter ended 30th September 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

