

Pension Fund Committee

Meeting to be held on Friday, 14 June 2024

Electoral Division affected:
N/A;

Budget Monitoring 2023/24 - Q4

(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 31st March 2024, 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 31st March 2024 and note the variances, as set out in the report.

Background and Advice

The budget for the financial year ending 31st March 2024 was approved by the Pension Fund Committee on 10th March 2023. The budget was based on the information available at that time. The budget showed a surplus position – that is, net income to the Fund, before accounting for changes in the market value of investments during the year of £139.2m compared to an actual surplus of £129.5m.

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 £412.0m (Budget £404.1m, revised forecast at Q3 £411.1m)

The monthly employer and employee contributions came in above the Q3 forecast by £0.9m and above annual budget by £7.9m. This was due to an additional employer opting to prepay contributions for the full 3 years and the actual pay award



being higher than the budgeted pay award. The impact of the 2023 pay award was slightly higher than forecasted in Q3.

Contribution income for 2023/24 has been skewed by employers having the option to prepay their contributions. The budget included an estimated £181.1m for certain large employers making a prepayment for the full 3-year valuation period ending 31st March 2026, of which £119.4 related to financial years 24/25 and 25/26.

Transfers In

Actual £25.3m (Budget £15.4m, forecast at Q3 £18.7m)

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. Transfers received in Q4 was much higher than budgeted at £9.7m which equates to over 50% of the value of transfers received in the whole of 2022/23.

Investment income

Actual £199.7m (Budget £220.0m, forecast at Q3 £205.0m)

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.

The investment income received was £20.3m lower than expected when setting the budget. This decrease was largely due to income from the infrastructure fund being lower than expected. The Private Equity and Credit funds income also came in below budget, however, income from the Pooled property and Global Equity funds were above budget.

Total benefits payable

Actual £360.4m (Budget £345.8m, forecast at Q3 £355.9m)

The overall adverse variance is due to both the Pensions and lump sum benefits being in excess of budget and it is noted that there has been an increase in the number of pensioners during the year which is not reflected in the budget.

Transfers out

Actual £21.6m (Budget £16.1m, forecast at Q3 £20.3m)

The cost of transfers out of the Fund is dependent on the number and timing of members transferring their benefits to other funds.



Investment management expenses

Actual £118.2m (Budget £130.5m, forecast at Q3 £117.5m)

Investment management expenses encompass fees related to the ongoing management, custody and performance of investments.

Management fees

Management fees (related to ongoing management) are 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 higher rate than projected, especially during Q3 and Q4. During the 12 months to 31 March 2024, the value of the Fund's assets has increased from £10.8 billion to £11.7 billion, and this change in asset value has resulted in higher 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. 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. Even though as reported above, performance was higher than expected, performance fees reported are significantly lower than budgeted. This is due to, firstly, a large proportion of the growth of the Fund relating to the Global Equity pool which incurs minimal performance fees. Secondly, Q4 showed the highest return for the Fund, including the credit and private equity asset classes, which attract the most performance fees. There is a lag in reporting of such fees and the majority of the Q4 fees are only reported to the Fund in the following financial year.

Overall position

The 12-month actuals to 31st March 2024 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 costs than anticipated performance fees. There was a slight increase in the final cost compared to the Q3 forecast principally due to a larger than expected increase in the value of the fund and therefore the management fees. Given the asset valuation, the increase between Q3 and Q4 is not totally unexpected.



Fund administration and oversight and governance fees

Actual £6.6m (Budget £7.1m, forecast at Q3 £6.5m)

These cover payment to Local Pensions Partnership Administration Limited for the core administration services and costs such as staff, legal and actuarial fees incurred in running the fund. The actual is below the budget due to a smoothing of the administration fees from LPPA leading to reduced fees in 23/24.

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'	Financial Performance of the Pension Fund for year ended 31 st March 2024

Consultations

N/A

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 31st 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

