

## **PENSION BOARD**

### **15 SEPTEMBER 2023**

## **PENSION FUND BUDGET FORECAST OUTTURN 2023/24 AND UPDATED INDICATIVE BUDGETS 2024/25 to 2026/27**

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### **Recommendation**

- 1. The Chief Financial Officer recommends that the Board reviews the expected outturn of the Fund's budget for 2023/24 totalling £21.585m that would result in an overall forecast underspend of £1,379m.**

### **Purpose of the report**

2. This report provides members with a forecast outturn for 2023/24 and updated indicative budgets for 2024/25 to 2026/27 at Appendix 1.

### **Background**

3. To ensure good governance, budgets monitor the Fund's expenditure and financial plans assist in mitigating risks by allocating necessary resources to develop the service.
4. A number of services are required to ensure delivery of the Local Government Pension Scheme (LGPS) administering authority function. The Pensions Committee has ultimate responsibility for the procurement and monitoring of these services. It should be noted, however, that Worcestershire County Council, which is one of the employer bodies whose interests the Committee is responsible for, is at present also the provider of a number of these services.

### **Forecast outturn 2023/24**

5. The attached Appendix shows the total forecast outturn is estimated to be £21.585m compared to a budget of £22.964m, an underspend of £1.379m. This underspend is driven by an expectation of lower than budgeted investment management fees of £1.629m. The main reason for the lower expectation is that mandates were exited subsequent to the 2022/23 budget setting exercise, such as River & Mercantile, and that mandates saw a slower timescale for deployment of capital than anticipated in the original budget, such as Stonepeak Fund IV and Bridgepoint Fund III. Investment management fees are the largest proportion of the budget and are primarily associated with the value of assets being managed. Investment performance is contingent on market conditions and transaction costs such as commission, tax and other expenses incurred.
6. The current forecast includes an assumption for two new investment allocations, one to Gresham House in respect of private equity, and one to LGPS Central (LGPSC) in respect of the JP Morgan Infrastructure Fund, both of which were included in the strategic asset allocation approved to Committee in March 2023.
7. Investment administration costs are expected to be approximately £0.01m lower than the £1.383 budgeted for, driven by a slight decrease in LGPSC running costs and a reduction in custodial and other professional fees. These underspends compensate for

the additional costs involved in the transition of performance reporting services from PEL to Hymans Robertson which is expected in the coming months.

8. Scheme administration costs are expected to show an overspend of £0.2m against a budget of £1.765m, driven by an increase in the licence for the administration system provided by Heywood as well as additional to actuarial and external audit fees as a result of work following the Fund's latest triennial valuation.

### **Summary**

9. The budget attempts to maintain service standards, fulfil statutory requirements and develop areas in response to changes in the LGPS. Comparability of data is difficult between LGPS funds nationally due to different methodology of reporting costs.

10. In terms of investment costs, the forecast outturn continues to indicate a spend of approx. 55p per £1,000 (0.55% of market value as at March 2022) on managing Fund assets for 2023/24.

### **Risk assessment**

11. The Board is asked to recognise that some costs, particularly investment fees, are dependent upon factors that are outside of the Fund's control. As such, fees may go up or down, depending on market conditions.

12. The approval of this budget is essential to continue the good governance of the Fund. When viewed in relation to the overall value of assets, these 'controllable' costs represent 0.09% of the total Fund value.

13. In line with good governance practice, officers bring budget monitoring reports to Board twice a year. In the interim, variations against budget are monitored, and, if they become very significant, the Chief Financial Officer will approve variations to the budget and report these to the Board retrospectively for ratification.

### **Contact Points**

#### Specific Contact Points for this report

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### **Supporting Information**

- Appendix detailing the 2023/24 budget forecast outturn and indicative budgets 2024/25 to 2026/27

### **Background Papers**

In the opinion of the proper officer (in this case the Chief Finance Officer) there are no background papers relating to the subject matter of this report.