

## **Pension Fund Committee**

Meeting to be held on Friday, 17 March 2017

Electoral Division affected: None
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### **LCPF Budget 2017/18**

Appendix 'A' refers.

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#### **Executive Summary**

Following a review of the previous budget assumptions, the current investment strategy and the approved cost savings relating to the Local Pensions Partnership (LPP), a budget has been set for the Lancashire County Pension Fund for the year ending 31 March 2018.

This budget forecasts that there will be £47.4m available for investment (before realised and unrealised profits), compared to £39.6m in the audited year ending 31 March 2016.

Actual results for the year ending 31 March 2017 will be reviewed against the 2016/17 budget at the Committee in June 2017.

Whilst it is difficult to estimate the level of incoming contributions, investment income, and fund management costs along with foreign currency fluctuations, a pension fund budget is considered to be a useful monitoring tool in assessing the overall financial position and performance of the Fund.

The 2017/18 budget will be a key tool for monitoring the achievement of planned savings through LPP.

#### **Recommendation**

The Committee is asked to note and approve the Lancashire County Pension Fund budget for the year ended 31 March 2018.

#### **Background and Advice**

It is not a constitutional requirement for a pension fund to set an annual financial budget but it is considered a useful monitoring tool for the assessment of the overall financial position and performance.

For Lancashire County Pension Fund (LCPF) the budget is considered an essential control for monitoring the achievement of planned savings through LPP.

A one year budget has been set for the LCPF for the year ending 31 March 2018 and is presented in Appendix 'A' to this report.

The previous budget assumptions and the forecasts incorporated in the LPP financial model have been reviewed and updated in setting this budget.

It is difficult to estimate income due to the Fund and costs associated with the investment activities of the Fund with any degree of accuracy but historic trends and current run-rates have been built-in where appropriate.

A summary of the budget assumptions employed is set out below:

## **FUND INCOME BUDGET (£362.4m)**

### **Contribution income (£246.5m)**

Contributions from employers have been assumed at current membership levels with an increase in the rate consistent with the 2016 valuation result.

For Lancashire County Council an increase in contribution rate from 12.6% to 15.1% of pensionable pay is included in the calculation of income. For other councils, scheduled and admitted bodies, the increase is from 13.1% to 14.8% of pensionable pay.

Pensionable pay across all employers has been assumed to increase by 1% on the current year.

Deficit contributions have been budgeted at £44m in line with the preliminary actuarial valuation of the deficit repayment required in 2017/18. No discount or other cash flow implications of deficit receipts in advance have been incorporated in this budget.

Contributions from employees have been assumed to rise by 1% in line with the budgeted pay award.

### **Transfers in (£6.7m)**

Transfers in from other funds are budgeted to fall relative to the current year, and an average income over the last two years has been included. It is assumed that the number of transfers in will begin to reduce in line with the current reduction in employee numbers across the member employers.

### **Investment income (£109.2m)**

Investment income is difficult to predict. As a consequence of the move to a pooled investment portfolio within LPP, no future income from equities is budgeted. Income from pooled funds is expected to increase significantly to reflect the income on the investments held in the new pool managed by LPP. LPP have advised that expected returns on their Global Equity Fund are approximately £6m higher than were generated before transition.

## **FUND EXPENDITURE BUDGET (£315.0m)**

### **Benefits payable (£269.0m)**

Retirement, widows and children's are forecast to rise by 1%, this being the consumer price index (CPI) as at September 2016.

Lump sum benefits on retirement and on death are budgeted to stay broadly in line with the current year, as are transfers out on behalf of leavers.

### **Administrative expenses (£3.7m)**

The majority of administrative and processing expenses will be payable to LPP for membership administration, liability modelling and employer risk functions. Of a total budget of £3.6m payable to LPP for administration and processing, £2.8m relates to fees calculated on January 2017 membership numbers at a cost per member of £17.03 (2016/17 £16.93), an increase in cost per member of 1%, being CPI.

LPP charges for liability modelling (£0.2m), employer risk (£0.2m) and support costs (£0.4m) are also included in this figure

### **Investment management expenses (£34.0m)**

Investment management expenses payable are a function of the value of assets under management.

As at the budget setting date, global equities have been transitioned into the management of LPP.

At a fee rate of 9.1 basis points, investment management expenses payable to LPP are budgeted at approximately £6.1m in the year to 31 March 2018.

Investment management fees on the non-equity investments held by the Fund will continue to be paid to the existing managers until transition.

Total investment fees of £34.0m are budgeted for the year ending 31 March 2018 and the split between LPP and other investment will move in line with the transition of assets.

Some additional transitional costs will be incurred as the investments are transferred. Direct transition costs are budgeted at £1.7m. Direct costs of the global equity transition were, according to LPP analysis, approximately £1.4m.

There will also be indirect costs of transition in terms of market movements. These have not been included in the budget.

The budget anticipates an overall saving on investment management expenses of £5.5m, after transition costs, compared to the current forecast for 2016/17. The

increase of £1.5m since the audited year ended 31 March 2016 is largely due to transition costs and the increased market value of the investment portfolio.

### **Oversight and governance expenses (£8.3m)**

The budget for oversight and governance fees includes the cost of abortive investment fees (for example in previous years were incurred on the bid for the London City airport investment and in association with the Eurotunnel), property expenses and legal and professional fees. Also included are actuarial and audit fees. The costs of the Fund's actuarial and external audit services have been assumed to remain steady until the end of the current contracts.

Procurement of both services is scheduled for summer 2017 on expiration of the current contract with Mercers and Grant Thornton respectively.

**Budget net income** available for investment before realised and unrealised profits and losses on investments is **£47.4m**, this being 13% of total income. This ratio is an increase on 12% achieved in the year ended 31 March 2016.

### **Consultations**

N/A

### **Implications:**

This item has the following implications, as indicated:

### **Risk management**

Regular monitoring against the budget of the fund will provide an explanation of key variances, better inform future budget setting and forecasting. It will also ensure that the Committee has oversight of the costs of LPP and that the planned savings are being realised as in the approved business plan.

### **Local Government (Access to Information) Act 1985**

#### **List of Background Papers**

Paper	Date	Contact/Tel
Appendix A: Revenue budget 2017/18 Lancashire County Pension Fund	21/02/17	Helen Gallacher, Pensions Manager, 01772 536620 helen.gallacher@lancashire.gov.uk

Reason for inclusion in Part II, if appropriate

N/A