

Pension Fund Committee

Meeting to be held on Friday, 30 June 2017

Electoral Division affected: None;

LCPF 2016/17 Statement of Accounts and out-turn report (Appendix A refers)

Contact for further information: Abigail Leech, Head of Fund, 01772 530808
Abigail.leech@lancashire.gov.uk,

Executive Summary

This report sets out a review of the final out-turn position for the Fund. A set of draft unaudited statutory accounts are attached in Appendix 'A' for review and comment.

Recommendation

The Committee is asked to note the final outturn position and review the 2016/17 Accounts of the Fund as set out in Appendix 'A' for submission to the Audit & Governance Committee for approval at its meeting in July.

Background and Advice

The draft accounts and financial statements for the Fund were approved by the Director of Financial Resources on 31 May 2017 and a copy is attached at Appendix 'A'.

The external audit of the Fund accounts has commenced and is scheduled to be completed by the end of July. Until the end of the audit it is possible for changes to be requested to the accounts but no significant amendments are anticipated. Any material changes will be reported to the Committee in September as part of the report on the Annual Report for the Fund.

Significant variances between actual results for the year ended 31 March 2017 compared to prior year and to budget are discussed in more detail below.

FUND ACCOUNT

Investment income £109.9m (2016: £99.1m, budget £125.5m)

As has previously been noted in reports on the budget, investment income is difficult to predict.

The increase in investment income compared to the prior year is primarily the result of economic factors.

Investment management expenses £42.7m (2016: £32.5m, budget £13.4m)

CIPFA guidance introduced in 2014/15, and expected to be made mandatory in 2017/18, requires fees deducted from asset values by investment managers to be deducted from the surplus for the year rather than deducted from the value of investments on the net assets statement.

The fees of £42.7m for year ending 31 March 2017 and £32.5m for the prior year have been reported in line with the guidance. The budget was set in 2014 and didn't account for this change in policy which has an impact of £26.1m in 2016/17 and £20.9m in 2015/16.

The largest proportion of investment management expenses for the Fund are those which are based upon a percentage of the value of the assets under management. There has been significant growth in the value of the Fund during 2016/17 and the resultant increase in management fees was expected. The level of fee as a percentage of total investment value is 0.59% which is similar to the percentage of 0.56% in the prior year.

A significant proportion of the investment management expense is based upon fund performance. Performance fees have risen £4.2m from £2.9m in 2015/16 to £7.1m in 2016/17, an increase of 145%. The performance of the Fund has increased by a far greater percentage (357%) and hence the rise in expense is not unreasonable given market conditions.

Investment management expenses in 2016/17 were also impacted by a series of one off and transition costs related to the LGPS Pooling and the transfer of management to LPP I.

At the start of the financial year LPP I became responsible for managing the Lancashire portfolio. LPP I levy a management fee which is a new cost for 2016/17. Whilst this partially offset by a reduction in direct costs, on a net basis this is an additional cost for this financial year.

In November 2016 the transition of global equity positions was completed. This crystallised one off transaction costs of £1.9m which are included in the investment management expenses reported.

NET ASSETS STATEMENT (*A budget is not set for the net assets statement so comparison is to prior year only.)

Investment assets £7,191.4m (2016: £6,027.3m)

Of the overall increase in the market value of investment assets (£1,164.1m), £1,133.2m is the result of market movements, particularly on equities and pooled investments.

Global equities were pooled during the year and are now held in the LPP (I) Global Equities Pool rather than as direct investments of the Fund. The balances in note 14 to the accounts reflect this transfer. There are no equities on the net asset statement at year end as the investment is now reported as pooled investment vehicles.

Cash deposits £56.3m (2016: £210.3m)

The reduction in cash on hand compared to the prior year is a function of trading activity and timing and is consistent with a reduction in investment accruals.

Investment liabilities £nil (2016: £291.0m)

Investment liabilities at 31 March 2016 comprise forward currency contracts. These were specific to the direct holding of equities. Any similar contracts now sit within the global equity pool and are no longer a liability of the Fund.

Consultations

N/A

Implications:

This item has the following implications, as indicated:

Risk management

Pension Fund Annual Report will be published in line with statutory deadlines.

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:		
Draft unaudited statement of accounts of Lancashire County Pension Fund	14/06/17	Helen Gallacher, Pensions Manager, 01772 536620 helen.gallacher@lancashire.gov.uk

Reason for inclusion in Part II, if appropriate

N/A