

Pension Fund Committee

Meeting to be held on Friday, 15 September 2017

Electoral Division affected: None;

Lancashire County Pension Fund - 2017/18 Q1 Budget Monitoring Report Appendix A refers.

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Executive Summary

This report sets out the income and expenditure of the Fund for the period 1 April to 30 June 2017 with comparison to the budget for the same period.

Recommendation

The Committee is asked to note the analysis of variances between actual results and the budgeted income and expenditure for the period 1 April to 30 June 2017.

Background and Advice

The 2017/18 budget is a key tool for monitoring the financial performance of the Fund, and in particular the achievement of planned savings through LPP.

The one year budget for the year ending 31 March 2018 was approved by the Pension Fund Committee at its meeting on 17 March 2017.

It was noted in the report to Committee in March that 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 it was agreed that a quarterly review of variances against the budget would provide useful management information for the monitoring of the financial position of the Fund.

Referring to the key income and expenditure items outlined in the budget, a comparison of actual results to budget is set out below. Please note that the budget has been phased evenly throughout the year – that is, the budget for the first quarter is 25% of the full year budget.

For some budget headings (for example property expenditure) this is a simple approach which will result in variances attributable to timing / phasing of spend.

INCOME

Contribution income (Q1 budget £61.6m, Q1 actual £61.9m)

Contribution income from both employers and employees is broadly in line with budget and expectations. Deficit contributions of £11.6m and pension strain of £1.9m are included within these contribution figures.

Transfers in (Q1 budget £1.7m, Q1 actual £3.4m)

The budget for transfers in is based upon average income over the previous two years and an assumption that the income will begin to reduce in line with the number of employees within the member organisations. The income is not linear throughout the year but the budget assumes it is received on an evenly spread basis.

Investment income (Q1 budget £27.3m, Q1 actual £29.0m)

The key variance between budget and actual investment income is attributable to income from pooled investments – this providing a £2.7m favourable budget variance. Market movements play a role in this but also contributing is the reinvestment of equity dividends.

EXPENDITURE

Benefits payable (Q1 budget £63.7m, Q1 actual £60.5m)

The under-spend against budget for the quarter is due to the timing of payment of lump sum benefits. Pensions paid are in line with budget and expectations.

Transfers out (Q1 budget £3.4m, Q1 actual £2.2m)

As for transfers in, the budget for transfers out is based upon historic trend and the expenditure will not be incurred on a regular basis throughout the year.

Administrative expenses (Q1 budget £0.9m, Q1 actual £0.8m)

Administrative expenses payable to LPP are £0.1m lower than budgeted. Core administration functions, employer risk services and liability modelling are all included within administrative costs and are in line with budget. An additional £400k for the full year is budgeted for support and other services and no costs have yet been incurred in this area which is being reviewed and discussed with LPP.

Investment management expenses (Q1 budget £8.4m, Q1 actual £8.2m)

Included within investment management expenses are amounts payable to LPP, amounts payable to transition managers and amounts payable to other investment managers – for example to Capital Dynamics for non-pooled private equity and to Knight Frank for the management of the directly-owned property portfolio.

When the budget was presented to Committee in March 2017, it was noted that an overall saving on investment management expenses (after transition costs) of £5.5m was anticipated. The results for quarter 1 are in line with expectations.

Investment management fees payable to LPP are £0.4m higher than budgeted for the first quarter. This adverse variance is partially mitigated by a favourable variance of £0.2m on costs paid to other investment managers and is considered to be a

function of the phasing of the transition from directly held investments to pooled investments. Also contributing to the movement in fees is the value of the Fund. The most significant element of investment management expenses are fund-value based fees which are calculated as a percentage of the market value of funds under management. The budget assumed assets under management with LPP by 31 March 2018 of approximately £7.3bn. As at 30 June 2017, the value of the Fund as reported was £7.4bn.

The budget assumes £1.6m of transition costs will be incurred during 2017/18 and attributes £0.4m to the first quarter. No transition costs have been incurred in the first quarter but costs are anticipated in Q2 in respect of the first tranche of transition of private equity and infrastructure.

Oversight and governance costs (Q1 budget £2.1m, Q1 actual £1.7m)

The under-spend against this category of costs is considered to be due to timing and no overall saving for the full year has been identified at this point. The Fund is yet to be recharged for some LCC budgeted costs in respect of democratic services and finance functions. Property expenditure is also running slightly behind budget as are legal and professional fees.

Net surplus before realised and unrealised profits on investments (Q1 budget £11.8m, Q1 actual £20.8m)

The budget variances discussed above contribute to the overall favourable surplus of £9.0m.

Consultations

Variances between actual results and budget, where relevant to LPP, have been discussed with the LPP finance team as appropriate.

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.

Budget monitoring for the period to 30 September 2017 will be presented to Committee at the meeting on 1 December 2017.

Local Government (Access to Information) Act 1985
List of Background Papers

Paper	Date	Contact/Tel
2017/18 Q1 budget monitoring	3 August 2017	Abigail Leech 01772 530808
Reason for inclusion in Part II, if appropriate		
N/A		