Pension Fund Committee
Meeting to be held on Friday, 1 December 2017

Electoral Division affected: None;

Lancashire County Pension Fund 2017/18 Q2 budget monitoring
(Appendix 'A' refers)

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Executive Summary

This report sets out the income and expenditure of the Fund for the period 1st April to 30th September 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 1st April to 30th September 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. The budget has been phased evenly throughout the year, the budget for the first half of the year is 50% 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.

Lancashire County Council

INCOME

Contribution income (YTD budget £123.2m, YTD actual £116.6m)

Overall, regular and deficit contributions are broadly in line with budget. There is an adverse variance against the evenly phased budget for pension strain of £5.5m. At this time this is considered to be a timing difference and not an indication of a full year under recovery of income.

Also contributing to the under-recovery of income against budget for the first six months of the year are deficit contributions payable by employers within the Fund. The budget deficit contribution income was based upon the preliminary valuation results. The final deficit contribution required was £3m lower than at the preliminary stage and as a result there will be an under-recovery of £3m for the full year and £1.5m for the year to date.

The remaining £0.4m variance (favourable) is the net of other variances in contributions from both employers and employees.

Transfers in (YTD budget £3.3m, YTD actual £6.3m)

As noted at the end of Q1, 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. Actual income is not linear throughout the year but the budget assumes that it will be received on a straight line, or even, basis.

Investment income (YTD budget £54.6m, YTD actual £65.0m)

A favourable variance of £17.8m against the budget for income from pooled investments has arisen due to the receipt of dividends within the global equities pool.

This income is reported in the budget monitoring report but the overall impact on the bottom line is nil as the Fund's policy is to reinvestment dividend income.

An additional £1.3m favourable variance on investment income comes from fixed interest investments.

Offsetting the above are an adverse variance of £5.5m on rental income, the result of budget phasing, and other less significant variances amounting to £3.2m in total.

EXPENDITURE

Benefits payable (YTD budget £127.3m, YTD actual £126.7m)

Pensions paid and lump sum benefits are broadly in line with budget.

Transfers out (YTD budget £6.9m, YTD actual £8.2m)

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

Administrative expenses (YTD budget £1.9m, YTD actual £1.7m)

Similar to the position at the end of Q1, core administration, employer risk and liability modelling expenditure is in line with budget. The net budget saving on administration costs as at the end of September is £0.2m.

Investment management expenses (YTD budget £17.0m, YTD actual £16.6m)

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 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 the first half of the year are in line with expectations.

Investment management fees payable to LPP are £1.0m lower than budgeted for the first half but this favourable variance is partly offset by an overspend against budget of £0.6m on other investment management fees, resulting in an overall saving of £0.4m for the year to date.

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 September 2017, the value of the Fund as reported was £7.3bn.

Oversight and governance costs (YTD budget £4.2m, YTD actual £3.8m)

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.

Legal and professional fees are underspent against budget and are a function of investment activity.

Net surplus before realised and unrealised profits on investments (YTD budget £23.7m, YTD actual £30.6)

The budget variances discussed above contribute to the overall favourable variance of £6.9m for the year to date.

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 31 December 2017 will be presented to Committee at the meeting on 23 March 2018.

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

Paper	Date	Contact/Tel
Q2 budget monitoring summary	10 November 2017	Abigail Leech 01772 530808

Reason for inclusion in Part II, if appropriate

N/A