

Pension Fund Committee

Meeting to be held on Friday, 8 June 2018

Electoral Division affected: None;

Lancashire County Pension Fund Budget 2018/19 (Appendix A refers)

Contact for further information:

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Executive Summary

A one year budget has been set for the Lancashire County Pension Fund for the year ending 31 March 2019.

This budget forecasts that there will be £58.8m available for investments (before realised and unrealised profits / losses) compared to £39.9m reported in the audited financial statements for the year ended 31 March 2017 and £54.6m presented in the draft financial statements for the year ended 31 March 2018.

Recommendation

The Committee is asked to note and approve the Fund budget for the year ended 31 March 2019 as set out at Appendix 'A'.

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 management tool for monitoring the achievement of planned savings through the pooling of investments.

A one year budget has been set for the Fund and this is included as Appendix 'A' to this report.

Previous budget assumptions, the draft (unaudited) position for the current year and investment strategy have been considered in arriving at 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 budget assumptions is set out below.

Contribution income budget £252.5m

Contributions from employers have been assumed at current membership levels with an increase in the rates consistent with the 2016 actuarial valuation and a 2% pay award.

Deficit contributions have been budgeted in line with the 2016 actuarial valuation with no recognition of discount or prepayment at this time.

A 3% inflationary increase in contributions from employees has been assumed together with a 2% overall increase in pay.

An increase in income from pension strain contributions has been incorporated in the budget on the assumption that other authorities and scheme employers will reduce budgets, and hence employee numbers, over the coming period.

Transfers-in budget £11.4m

Transfers in have been budgeted in line with the forecast for the current year as no visible trend has been established through review of historic data.

Investment income budget £144.4m

Investment income is difficult to predict. The majority of the Fund's investment income will arise on pooled funds following the transition of previously directly held investments.

The budget assumes that the current year forecast level of income from pooled investment together with income from fixed income and index linked investments will continue.

No variance in foreign exchange, interest and tax elements of investment income has been forecast.

FUND EXPENDITURE BUDGET

Benefits payable (including transfers out and refunds) budget £280.9m

A 3% inflationary increase has been applied to retirement, widow and children's pensions.

Transfers out and lump sum benefits payable on death and retirement are budgeted at levels consistent with 2017/18 and have been increased for inflation.

Administrative expenses budget £3.4m

Fund administration costs, payable to LPP are forecast at £3.3m for the year ended 31 March 2019 on the basis of a 'per member' administration cost of £17.08. This is an increase from £17.03 per member for the year to 31 March 2017 as a result of increased costs of Altair system licenses. The costs of liability modelling and employer risk functions have increased by 2.3% based upon CPIH.

Also included within administrative expenses is £0.1m payable to LCC as a recharge of treasury management resource employed on the Fund.

Investment management expenses £57.0m

Investment management expenses are a function of the value and performance of the underlying assets held within the Fund.

The Fund is subject to a number of different types of investment management expense.

Directly invoiced fees are budgeted to reduce as directly held investments are transitioned into pooled funds.

Fees on pooled funds are offset against asset value rather than invoiced separately. The Fund is working with LPP to identify these fees and recognise them in the Fund account in line with CIPFA guidance.

The budget of £53.2m for fees on pooled investments is £7.3m higher than the £45.9m actuals for 2017/18. This is mitigated in part by the reduction in directly invoiced fees (£2.4m), transition fees (£0.1m) and custody fees (£0.1m), leaving an overall budgeted increase of £4.7m in investment management expenses.

The carrying value of assets under management, that is the overall fund value, is forecast to increase each year and as a result, fund value based management fees (the most significant element of the LCPF fee structure) will also increase. These fees are charged by managers on the basis of bps.

The allocation of funds between asset classes also has an impact on forecast fees. LPP have advised that funds have been allocated to more expensive asset classes which are expected to earn higher returns and better match assets to the liability profile of the Fund.

LPP have adopted the transparency code and this should ensure more granularity of cost reporting. The budget for 2018/19 has begun to build on this with the recognition of fees on private equity, infrastructure and credit investments.

An updated forecast for fees will be provided to Committee throughout the year.

Transition costs are forecast to reduce in the coming budget year as the majority of asset classes will have transitioned by 31 March 2018.

Oversight and governance costs budget £8.1m

The budget for oversight and governance is in line with 2017/18 costs with an allowance for inflation on the costs of the independent advisor fees and property expenses.

No variance to the current year forecast has been anticipated for the recharge of corporate finance, legal, procurement and democratic services resource from LCC.

Internal and external audit fees have also been assumed level with the current year.

Budget net income available for investment before realised and unrealised profits and losses on investments is £58.8m this being 14% of total income.

Consultations

LPP for basis and recognition of investment management fees.

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
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N/A		
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Reason for inclusion in Part II, if appropriate

N/A