

Pension Fund Committee

Meeting to be held on Friday, 14 September 2018

Electoral Division affected: None;

Lancashire County Pension Fund - Budget monitoring for period 1 April to 30 June 2018

Appendix 'A' refers.

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Executive Summary

This reports sets out the financial results of the Fund for the period 1st April to 30th June 2018 and compares those results to the agreed budget for the same period.

A forecast for the whole year is included, which will be updated on a quarterly basis.

Recommendation

The Committee is asked to consider and the note the variances between actual and budgeted results for the quarter and also the forecast financial results for the year ending 31st March 2019.

Background and Advice

The budget for the year ending 31st March 2019 was approved by the Committee on the 8th June 2018.

It is difficult to accurately estimate income due to the Fund and any costs associated with investment activities but it is considered essential to have an agreed budget each year to form the foundation for financial monitoring and in particular, the review of planned savings through investment pooling.

The budget takes into account the investment strategy of the Fund, historic trends and results of the year ended 31 March 2018.

Variances for the quarter against the key budget headings are outlined as follows.

INCOME

- **Contributions - Q1 budget variance £26.6m under-recovery**

The budgeted income for the year has been evenly phased throughout the year. Actuals have been accounted for in the month of receipt. The Q1 variance is

primarily due to expected timing differences in contribution collections which will be eliminated by the year end. In error, some employers paid contributions late, further contributing to the variance for the quarter.

Of the remaining under-recovery of contribution income for the quarter, £1.3m can be attributed to employer pension strain income which is budgeted to be earned evenly through the year and at an increase of 20% on the prior year. The timing and value of such income is inherently difficult to budget.

No full year variance against budget has been incorporated into the current forecast for the year.

- **Transfers in – Q1 budget variance £1.1m under-recovery**
The budget for transfers into the Fund is based upon the prior year. No regularity to this income can be identified from historic trends and it is again considered too early to conclude that the year-end position will be different from budget.
- **Investment income – Q1 budget variance £1.7m additional income**
The favourable variance for the first three months of the year is not significant relative to the value of the Fund and the forecast has been held to budget for the full year.

EXPENDITURE

- **Transactions with members – Q1 budget variance £9.7m saving**
Payment of pensions and refunds are broadly in line with budget for the quarter, yielding a net £0.3m saving for the period.

The payment of transfers and lump sum benefits is £10.0m behind budget. This isn't recognised as a saving for the full year as it may likely be a timing issue given that it is difficult to estimate the timing and value of such payments in any given year.
- **Administrative expenses – Q1 budget variance £0.3m saving**
Due to timing of invoices received from LPP in the prior year, the Fund accounts for the year ended 31 March 2018 included an over accrual of £0.3m in respect of administrative expenses billed by LPP. This offsets current year actual costs in the ledger. There is no indication at present of a variance against the budget for current year expenditure which is based on a cost per member. For this reason, the saving created by the over-accrual is assumed to carry through the year resulting in an overall forecast saving of £0.3m against this budget heading.
- **Investment management expenses – Q1 budget variance £2.8m underspend**
As has been reported in previous quarters, investment management expenses are reported by underlying asset managers on an arrears basis, usually quarterly. For this reason it is necessary to estimate fees on a quarterly basis and adjust in subsequent months when data becomes available.

The budget includes an expectation that fees will increase as a result of the transparency agenda. Total costs previously absorbed within asset value have not yet been separately identified and will continue to be quantified over the year. This process may not be completed by the end of the year as all Funds move towards greater transparency of cost and investment reporting.

No full year variance from budgeted investment management expenses has been recognised at the end of the first quarter.

- **Oversight and governance expenditure – Q1 budget variance £0.4m saving**
The most significant variances within this budget heading are for advisory fees which are underspend by £0.8m and property expenses which are overspent by £0.4m. Neither of these areas of expenditure have a regular pattern over the year end hence it is possible that these variances are timing related.

The budget for advisory fees is unchanged from the previous year but is dependent on activity across the Fund. We have no current expectation of a significant budget variance in property expenditure and for this reason have forecast that expenditure on oversight and governance will be in line with the budget for the full year.

NET POSITION

The first quarter has returned an adverse variance of £12.7m against budget. This is, however, considered to be due to phasing of income and expenditure with by far the most significant element being the under-recovery of contribution income which is due to timing and specific issues which have been corrected in the second quarter.

A full year saving of £0.3m has been recognised for the full year due to the over accrual of LPP administrative costs for the year ended 31 March 2018. Actual and budget results for the period to 30 September 2018 will be analysed and a revised full year forecast will be presented to the Committee at the November meeting.

Consultations

Local Pensions Partnership consulted in respect 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 and will inform future budget setting and forecasting. The inclusion of a full year forecast should assist in providing an 'early warning' of potential overspends and the may enable mitigating action to be taken in year.

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

Paper	Date	Contact/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A