

## **Pension Fund Committee**

Meeting to be held on Friday, 29 March 2019

Electoral Division affected: None;
---------------------------------------

## **Lancashire County Pension Fund - Q3 2018/19 Budget Monitoring**

Appendix 'A' refers.

Contact for further information:

Abigail Leech, Head of Fund, [Abigail.leech@lancashire.gov.uk](mailto:Abigail.leech@lancashire.gov.uk) 01772 530808

### **Executive Summary**

This reports sets out the financial results for the Fund from 1 April 2018 to 31 December 2018 and compares those results to the budget for the same period. An updated forecast for the year to 31 March 2019 is also included.

### **Recommendation**

The Committee is asked to consider and note the variances between actual and budgeted results for the nine months to 31 December 2018 and also the forecast financial results for the year ending 31 March 2019.

### **Background and Advice**

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

The approved budget for the year ending 31 March 2019 takes into account the investment strategy of the Fund, historic trends and results of the year ended 31 March 2018.

Variances for the nine months to 31 December 2018 against the key budget headings are outlined below.

### **INCOME**

#### **Contributions from employers and employees**

- £60.3m adverse variance against budget for 9 months to 31 December 2018

As was reported to Committee in November 2018, the 2018/19 budgeted contribution income from employers includes the recognition of the 2018/19 element of future service rate and deficit contributions received in advance from a number of Fund employers.

After the budget was agreed and on the basis of the external audit opinion, an agreed adjustment was made to the Fund's statutory accounts to recognise all advance contributions in the year of receipt. This resulted in a material favourable budget variance in 2017/18 and adverse variance of approximately £90m for the current year. Excluding the impact of this adjustment would provide a forecast positive position of £10m.

### **Transfers in to the Fund**

- £1.6m income shortfall compared to budget

Transfers in to the Fund cannot be forecast in advance with accuracy in terms of value or timing. The forecast for the full year assumes that the current year rate of transfers in continues to 31 March 2019 and results in a £2.2m income reduction when compared to budget.

### **Investment income**

- £43.5m favourable budget variance for the year to date

Of the net £43.5m favourable variance in investment income, approximately £44.2m is attributable to pooled investments with the most significant positive variances generated in the global equities pool (£6.0m) and the infrastructure pool (£59.5m). The private equity pool has seen an under-recovery of income of £16.6m relative to budget and the credit pool income is £6.9m below budget.

The budget for pooled investment income didn't assume any % increase on the prior year. Included in the year to date results is dividend income on the global equities pool which is re-invested.

No further variance from budget is anticipated from pooled investments for the remainder of the year.

Outside of the pools favourable income variances against fixed income investments (£1.8m), foreign exchange (£1.5m) and interest (£0.5m) mitigate for the year to date shortfall in property rental income (£3.9m) and tax recoverable (£0.6m).

## **EXPENDITURE**

### **Transactions with members, including transfers out**

- £1.3m overspend against budget for the year to date

Transfers out of the Fund have been lower than budget for the year to date, resulting in a favourable variance, or underspend, of £3.1m which contributes towards the over spend on pensions in payment and lump sums of £4.5m in total.

Refunds of contributions are broadly in line with budget with a £0.1m favourable variance.

A full year overspend of £1.8m is forecast for transactions with members.

### **Administration expenses**

- In line with budget for the year to date

We do not anticipate any saving or overspend against administration expenses for the full year as invoices are received on a monthly basis and are in line with the charges set out by the Local Pensions Partnership when the current year budget was established.

### **Investment management expenses**

- £0.3m underspend against budget for the year to date

There is a net overspend of £0.7m against the budget for manager fees from holding investments.

Property management fees have not yet been invoiced by the Fund's new property manager, BNP Paribas and this contributes approximately £0.3m to the year to date favourable variance of £2.5m against the property expenses budget with the balance due to timing of revenue spend against the property portfolio. The forecast £3m underspend for full year property expenses assumes property management fees will be invoiced by BNP Paribas but that the reduced rate of expenditure on property holdings will continue to year end.

There is a £1.7m overspend against budget due to the net position on withholding tax. This expense to the Fund wasn't budgeted as there is an assumption that this will be recovered through tax claims, albeit with a considerable timing difference due to the requirements of different tax jurisdictions. The full year forecast assumes that the final quarter of the year is in line with budget.

The remaining variance on investment management expenses is a £0.2m underspend on budgeted transition expenses. The Local Pensions Partnership have confirmed that expected transition costs for the current year are minimal as the planned transition of real estate holdings will now take place in the next financial year.

### **Oversight and governance expenses**

- £0.4m favourable variance against budget for the year to date

The majority of the variance in this expense category is due to savings of £0.4m against the budget for advisory fees, which can fluctuate each year based on the activities of the Fund.

An overspend of £0.1m for the year to date for Lancashire County Council recharges arises due to additional charges for legal resources not previously budgeted or charged to the Fund but is offset by small favourable variances against other oversight and governance budget lines.

### **Net position before realised and unrealised profit and loss on investments**

- £19.1m adverse variance against budget for the year to date

The most significant factor in the year to date net position is the £18.5m shortfall in income to the Fund outlined above with the over spend of £0.6m against the expenditure budget making up the balance of the variance.

- £47.2m adverse variance forecast for the full year

The full year forecast is based on an assumption that investment income for the final quarter of the year will be in line with budget. This means that there is no additional 'surplus' income from investments in the final quarter and assumes £36.1m full year investment income variance to offset the £80.4m full year impact of the shortfall in contribution income.

Full year results will be presented to the Committee in June 2019 as part of the review of the Fund's Statement of Accounts.

The accounts of the Fund will be included in the County Council's Annual Statement of Accounts which will be signed at the Audit, Risk & Governance Committee meeting on 29 July 2019.

### **Consultations**

Local Pensions Partnership and Knight Frank Investment Management have been consulted in connection with investment management fees.

### **Implications**

This item has the following implications, as indicated:

### **Risk management**

Regular budget monitoring provides analysis of key variances and should inform future budget setting and forecasting, providing an 'early warning' of potential financial risks and providing some opportunity for mitigation of those risks.

### **Local Government (Access to Information) Act 1985**

#### **List of Background Papers**

Paper	Date	Contact/Tel
-------	------	-------------

N/A

Reason for inclusion in Part II, if appropriate

N/A