

Pension Fund Committee

Meeting to be held on Friday, 29 March 2019

Electoral Division affected: None;

Lancashire County Pension Fund 2019/20 Budget

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 2020. This budget forecasts that the net income available for investment (before accounting for changes in the market value of investments during the year) will be £13.3m.

Recommendation

The Committee is asked to approve the Lancashire County Pension Fund budget for the year ending 31 March 2020, as set out in Appendix A to this report.

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.

The proposed one year budget for Lancashire County Pension Fund is set out in Appendix A to this report.

The following have been taking into account in setting the one year budget:

- The latest (unaudited) forecast for the year ending 31 March 2019
- Information received from the Local Pensions Partnership and Knight Frank in terms of administration and investment management expenditure
- The most recent actuarial valuation in respect of contribution income receivable
- The current investment strategy
- Contractual agreements in respect of oversight, governance and investment management fees

Previous budget assumptions have also been reviewed and adjusted where appropriate.

A summary of the budget is outlined below, by key budget heading.

INCOME

Contribution income £170.1m

The budget for future service rate contribution income due from employers is based on the pensionable payroll of employers within the scheme as at 31 December 2018. A 2% pay award has been applied to all employers for budgeting purposes and the contribution rates have been updated for the rates applicable to the year ending 31 March 2020 as included in the 2016 actuarial valuation. No contribution income is budgeted from employers who opted to pay future service rate contributions 3 years in advance. This income was recognised in the year ending 31 March 2018.

Deficit contributions have been budgeted in line with the 2016 actuarial valuation and again, no contributions are recognised for those employers who opted to pay their deficit contributions upfront as this income was also recognised in the year ending 31 March 2018.

A 5% increase has been applied to forecast 2018/19 pension strain contributions in arriving at the budget for 2019/20 on the assumption that employers will continue to reduce budgets, and hence employee numbers.

The anticipated 2% pay award has also been applied to contributions from employees with no net movement between contribution bandings has been assumed.

Transfer in income £9.2m

Transfers in have been budgeted in line with the latest forecast for the year ending 31 March 2019.

Investment income £193.2m

The majority of this budget is generated from pooled fund investments (£149.3m) and rental income (before property expenditure) of £35.8m.

The Local Pensions Partnership Investments infrastructure and global equities funds contribute £71.1m and £62.5m income to the budgeted pooled funds total respectively.

The rental income budget has been agreed in consultation with Knight Frank Investment Management and is split between the national portfolio (£33.1m) and the county portfolio (£2.7m)

EXPENDITURE

Benefits payable £277.7m

The budget for pensions in payment of £233.9m is based upon the actual pensions paid to members, spouses and children in November 2018 and has been inflated by 2.4%, being the Consumer Prices Index rate as at end of September 2018.

There is no identifiable trend in the payment of lump sums and for this reason these are budgeted at £43.8m which is consistent with the latest forecast for the year ending 31 March 2019.

Transfers out £13.7m

Transfers out have been budgeted in line with the latest forecast for the year ending 31 March 2019.

Fund administration expenses £3.4m

The Local Pensions Partnership has provided details of the administration service costs to be charged for the year ending 31 March 2020. This budget includes core pension administration services (£3.0m), employer risk services (£0.2m) and asset and liability modelling (£0.2m).

The budget of £3.4m represents an inflationary increase of 2.5% and anticipated increases in the costs of the Altair pension payroll system.

Investment management expenses £62.7m

Of the £62.7m, £45.9m is in line with the latest forecast for the year ending 31 March 2019 and is the sum of management, performance and transaction fees charged by the underlying funds within the Local Pensions Partnership pools and also by those managers with which investments are held outside of the Local Pensions Partnership pools.

A further £7.3m for the annual management of pooled funds and £1.9m for the management of investments outside of their pooled funds – for example directly held investment properties and private equity investments is payable to the Local Pensions Partnership.

Costs associated with management of the directly held property portfolio are included in investment management expenses and amount to £3.0m. This comprises approximately £2.9m anticipated revenue costs not rechargeable to tenants, costs associated with vacant properties and approximately £0.1m payable to BNP Paribas who are the new property managers.

There is a budget of £2.0m for withholding tax within investment management expenses. The assumption is that this will be recovered from the various tax regimes over time but the budget reflects the often significant timing difference between payment and recovery.

Oversight and governance expenses budget £1.2m

The budget for oversight and governance is broadly in line with the latest forecast for the year ending 31 March 2019 with the exception of recharges from Lancashire County Council which have been increased by £0.2m to reflect additional resource dedicated to the pension fund.

NET POSITION

The net income available for investment (before accounting for changes in the market value of investments during the year) is budgeted at £13.3m.

This compares favourably to the latest forecast for the current year (£11.6m net income) but is a significant reduction compared to the budget for the year ending 31 March 2019 due to the factors noted above, most notably the reduction in contribution income due from employers as a result of the accounting treatment of amounts paid in advance.

Consultations

The Local Pensions Partnership and Knight Frank Investment Management have been consulted in respect of investment management, administration and property expenses. Knight Frank Investment Management were also consulted with regard to budgeted income from the directly held property portfolio.

Implications:

This item has the following implications, as indicated:

Risk management

Regular monitoring against the budget will provide a useful tool for reviewing the financial position and performance of the Lancashire County Pension Fund, providing an analysis of significant variances from expectations.

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