

Pension Fund Committee

Meeting to be held on Friday, 17 September 2021

Electoral Division affected: N/A;

Lancashire County Pension Fund - 2021/22 Budget Monitoring Report

Appendix 'A' refers

Contact for further information:

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Executive Summary

This report sets out the income and expenditure of the Fund for the 3-month period to 30 June 2021 and provides a forecast for the year ending 31 March 2022.

Recommendation

The Committee is asked to review the financial results for the 3 months to 30th June 2021 and note the budget and forecast variances, as set out in the report.

Background and Advice

The budget for the financial year ending 31 March 2022 was approved by the Pension Fund Committee on the Friday 12th March 2021. The budget was based on the information available at that time. The forecast provided gives the latest estimate of expenditure and income for the financial year in light of updated information.

The forecast for the year ending 31 March 2022 indicates that money available for investment will be £10.1m below that set out in the budget for the same period. Details are shown in Appendix 'A' with significant variances by budget line set out below.

Contribution's income

Actual £39.9m (Budget £174.7m, revised forecast at Q1 £160.6m)

The forecasts have been adjusted to include the impact of the proposed 1.75% pay award which is higher than anticipated in setting the budget. The budget included an additional amount of Future service rate contributions of £20m for expected new employers, which appears to have been an overestimate. The forecast has been revised on the basis that the actual for the remainder of the year will be consistent with the first quarter.

Transfers In

Actual £1.7m (Budget £9.9m, forecast at Q1 £9.2m)

Income from transfers is dependent on the number and timing of new members joining the Fund and is not an item that can be predicted with great accuracy. The actual is within the anticipated range.

Investment income

Actual £63.7m (Budget £179.5, forecast at Q1 £198.3m)

Investment income consists mainly of income from the pooled investment funds (95% of the budget). Also included are direct property rental income, interest, foreign exchange differences and tax refunds. Over the 3 months to 30 June 2021 investment income received has been above budget by £18.8m.

The investment income is above budget with both the pooled investment funds and direct property having a 1% favourable variance. The forecast has been revised due to an unexpected £18.5m dividend being received by the Fund prior to the sale of the asset.

Total benefits payable

Actual £76.7m (Budget £294.6m, forecast at Q1 £298.2m)

The forecast for the year is broadly in line with budget, with an overall adverse variance due to lump sum benefits being in excess of budget.

Transfers out

Actual £2.9m (Budget £16.2m, forecast at Q1 £15.0m)

The cost of transfers out of the Fund is dependent on the number and timing of members transferring their benefits to other funds. The actual is broadly in line with expectations.

Investment management expenses

Actual £27.5m (Budget £84.2m, forecast at Q3 £95.9m)

The majority (95%) of the budget was for fees on the pooled investments. These costs are not directly invoiced to the fund but are charged to the pools. However, in line with CIPFA guidance on the reporting of management expenses an accounting adjustment is made to reflect the costs in the accounts.

Management expenses encompass fees related to the ongoing management, custody and performance of investments. With the exception of performance-related fees, investment management costs are expected to directly relate to the value of the assets i.e. proportionate to asset valuations over the period in question.

Performance related fees are highly dependent on returns generated over a particular period and are therefore highly difficult to estimate. In addition, there are nuances which makes forecasting these fees even more challenging, such as specific thresholds to be met before being payable and provisions whereby prior performance fees can be returned to investors. As such, it is the Fund's policy not to forecast performance-related fees. Rather, the budget for the current year is based on the previous year's costs subject to some relevant adjustments – providing an estimate. Differences between budgeted / estimated fees and actual fees are likely to be exacerbated by periods of market volatility under this approach.

The 3-month actuals to 30th June show the investment management fees are higher than anticipated with the forecast being adjusted for unexpected additional invoices in relation to performance fees. Q1 actuals are £6.4m above budget with an adverse variance of £11.7m forecast for 21/22. This variance against budget is due to the following factors:

- Investment management costs are calculated on the basis of fair value of the pooled investments, with a performance element also payable on some investment manager mandates. During the 3 months to 30 June the value of the Fund's assets has increased from £9.6 billion to £10.1 billion, and this increase will result in an increase in fees.
- In the original budget set in 2021, there was some estimate of performance fees included. However, not all performance fees could be estimated and as referred to above, it is the Fund's policy to not estimate performance fees.

Therefore, the variation it is not totally unexpected.

Other expenses within this heading include directly invoiced management fees (split between LPP and other investment managers) which is showing a spend below budget for the year (budget being £1.3m). Of this expense, the LPP direct costs are calculated on the basis of the market value of non-pooled assets, which is lower than budgeted in main due to the sale of Heylo Housing during this quarter which was a significant portion of the remaining direct holdings.

Fund administration and oversight and governance fees

Actual £1.3m (Budget £5.5m, forecast at Q3 £5.5m)

These cover the cost for administration expenses payable to Local Pensions Partnership Administration Limited comprises core administration services, charged on a cost per member basis and costs such as legal and actuarial fees incurred in running the Fund.

Consultations

Local Pensions Partnership Investments Limited has been consulted for investment management fee and investment income analysis.

Implications:

This item has the following implications, as indicated:

Risk management

The full year financial performance is included in the Fund's annual report and statement of accounts for the year ended 31 March 2021. Regular budget monitoring is a key control for the Fund and assists in the financial management of the Fund, providing an indication of significant variances from expectations and informing future budgets.

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

Paper	Date	Contact/Tel
N/A	N/A	N/A

Reason for inclusion in Part II, if appropriate

N/A