Pension Fund Committee
Meeting to be held on Friday, 21 June 2019

Electoral Division affected: None;

Lancashire County Pension Fund 2018/19 financials and budget monitoring
Appendix 'A' refers

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Executive Summary

This report sets out the income and expenditure of Lancashire County Pension Fund for the year ended 31 March 2019 and provides explanations for significant variances between budget and final position.

Recommendation

The Committee is asked to review the financial results and position of the Fund for the year ended 31 March 2019.

Background and Advice

The 2018/19 budget is a key tool for monitoring the financial performance of the Fund, and in particular the achievement of planned savings through the Local Pensions Partnership. The one year budget for the year ending 31 March 2019 was approved by the Pension Fund Committee at its meeting on 8 June 2018. At that meeting it was noted that it was difficult to estimate income due to the Fund and costs associated with the investment activities of the Fund with any degree of accuracy and it was agreed that a quarterly review of variances against the budget would provide useful management information for the monitoring of the financial position of the Fund.

Referring to the key income and expenditure items outlined in the budget, a comparison of actual results to budget is set out below. Further information is set out at Appendix 'A'.

INCOME

Contribution income
(Actual £170.9m, budget £252.5m)

Throughout the year it has been reported to Committee that 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 at the end of December, an adverse variance of approximately £80.4m for the current year was forecast. The actual variance is £81.6m.

Transfers in
(Actual £11.1m, budget £11.4m)

The forecast for the full year, presented to the Committee in March 2019, assumed a £2.2m adverse variance based on the rate of transfers in for the first 9 months of the year. The final three months saw an increase in the value of transfers in, resulting in a £0.3m adverse budget variance.

Investment income
(Actual £198.2m, budget £144.4m)

The largest contribution to the £53.8m favourable variance on investment income is from pooled investments (£49.0m favourable variance). As was reported in March, the majority of this has been generated within the infrastructure pool.

It is Fund policy to reinvest income from pooled investments and therefore the impact on the 'bottom line' of the Fund account is effectively nil as the increased income is offset by the increase in market value of the pool.

EXPENDITURE

Benefits payable
(Actual £275.3m, budget £262.5m)

The over-spend of £12.8m relative to budget is equally split between pension payments and lump sum benefits paid. The payment of pension benefits has been fairly consistent at £19m per month but the value of lump sum benefits paid out was higher in the final quarter of the year than was suggested by the previous forecast.

Transfers out
(Actual £15.8m, budget £17.9m)

The phasing and value of transfers out is difficult to forecast and the 'underspend' of £2.1m against the budget is not considered material.

Administrative expenses
(Actual £3.6m, budget £3.3m)

Administrative expenses are paid by the Fund to the Local Pensions Partnership and are broadly in line with budget. The £0.3m overspend can be attributed to additional work done during the year in respect of Guaranteed Minimum Pension equalisation project.

Investment management expenses
(Actual £65.6m, budget £63.7m)

The £1.9m overspend against budget comprises the following items.

Total investment management fees on pooled investments are £5.5m higher than were budgeted for the year, an adverse variance of 11%. This increase is the result of fees payable being partially linked to market value of the fund which has increased by 11%

£1.4m underspend arises due to a change in the accounting treatment of withholding tax which was included within the budget for investment management expenses but is now netted off investment income..

Expenses associated with the direct property portfolio are included within investment management expenses for budgeting purposes and an under-spend of £2.0m has been achieved in the year ended 31 March 2019.

The remaining £0.2m favourable variance arises due to minimal spend on transition fees in the year, partly due to the real estate pool not having been established by 31 March 2019.

Oversight and governance costs
(Actual £0.9m, budget £1.5m)

The variance in this expense category is due to savings on advisory and professional fees, which can fluctuate each year based on the activities of the Fund.

Net surplus before realised and unrealised profits on investments
(Actual £18.3m, budget £58.8m)

The net surplus for the year is £40.5m less than was budgeted but £6.7m higher than was forecast at the end of March. The budget variance is due to the accounting treatment for pension contributions received and increased benefits payable, mitigated by the increase in investment income.

The favourable variance against the March forecast arises mainly due to the assumption in the forecast that investment income would be in line with budget for the final quarter. Actual investment income for the quarter was £43.5m compared to a budget of £36.1m, an increase of £7.4m.

Consultations

Variances between actual results and budget, where relevant to the Local Pensions Partnership, have been discussed with the Local Pensions Partnership. Property management expenses and property running costs have been reviewed with Knight Frank and BNP Paribas during the year when necessary.

Implications:

This item has the following implications, as indicated:

Risk management

Financial
Regular monitoring against the budget of the fund will provide an explanation of key variances and informs future budget setting and forecasting. The review of actual results against expectations also provides a degree of assurance over the accuracy and completeness of the final statutory accounts of the Fund.

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