Pension Fund Committee
Meeting to be held on Friday, 20 September 2019

Electoral Division affected: None;

Lancashire County Pension Fund Q1 Budget Monitoring 2019/20
Appendix 'A' refers

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Executive Summary

This report sets out the financial performance of the Fund for the 3 months to 30th June 2019 and compares the results to the approved budget for the same period.

Recommendation

The Committee is asked to review the financial performance of the Fund for the first quarter of 2019/20.

Background and Advice

A one year budget for the Fund was approved by the Pension Fund Committee on 29 March 2019.

The budget forecasts a net income for the year of £13.3m, available for investment, before accounting for changes in the market value of investments during the year. The budget incorporates a reduction in contribution income from employers as a result of the accounting treatment of amounts paid in advance.

The financial activity of the Fund for the first three months of the current financial year is broadly in line with budget. The attached report sets out a favourable budget variance of £2.8m for income which mitigates the adverse budget variance of £2.3m on expenditure.

Since the net variance for quarter one is not significant at £0.5m and given that the results of the first quarter are not necessarily indicative of the full year, the forecast for the financial year has not been amended from budget.

Individual variances against budget are explained in more detail below.

Income for 3 months ended 30 June 2019
Budget £78.9m, actual £81.7m – favourable variance of £2.8m

Contributions are effectively received a month in arrears – with contributions for April collected in early May. The financial results presented at Appendix 'A' include contributions received in respect of April and May. The budget has been phased accordingly and a favourable variance of £1.1m has been recognised for the quarter. At this stage it is not anticipated that there will be an over-recovery of contribution income for the year.

Transfers in during the first three months of the year amounted to £3.4m against a budget of £2.3m, providing an additional £1.1m favourable income variance. The flow of funds into and out of the Fund in respect of transfers is difficult to forecast with accuracy and the budget is allocated evenly across the year. The additional income in the first quarter may not be indicative of the full year.

Income from investments generated a £0.6m surplus during the first quarter of the year, against a budget of £48.3m.

Expenditure for 3 months ended 30 June 2019
Budget £97.3m, actual £99.6m – adverse variance of £2.3m

Payments to pensioners and other members of the Fund were £1.3m lower than budgeted. The value of transfers contributed £0.7m to the variance, as did the 'underspend' of £1.2m, due to phasing, on lump sum benefits. There was a £0.6m overspend against budgets for pensions payable and refunds of contributions.

Administration, oversight and governance expenses were in line with budget.

Investment management expenses were £3.8m higher than the budget for the first three months. Of this variance, £3.2m is based on estimated fees embedded in the market value of investments. This estimate is higher for the first quarter since a number of managers will charge performance fees for the previous year in the first three months after the year end. The budget is phased to reflect this but the estimates are made on best information available for the previous quarter. The information is updated during the year when new data is received from investment managers.

Property related investment management expenses were in excess of budget by £1.2m for the quarter, against a budget of £0.8m for the same period. Expenditure on property will fluctuate during the year however given the size of this variance relative to budget the Fund is investigating further to obtain a forecast for the full year.

A small favourable variance of £0.3m was achieved in the first quarter for directly invoiced manager fees. It is assumed that these costs will come through in quarter two so no full year impact has been recognised.

The remaining balance of £0.3m underspend is due to small variances in withholding tax on holdings within the global equities pool, interest paid and received and custody fees which have not yet been invoiced.

Consultations

Property and investment managers are being consulted with regard to the over spend on property expenditure against budget.

Implications:

This item has the following implications, as indicated:

Risk management

The pension fund budget is a useful tool for monitoring the financial performance and position of the Fund. Key variances identified during the year should inform future budget setting and forecasting and may provide opportunity for mitigation of potential financial 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