

Pension Fund Committee

Meeting to be held on Friday, 6 March 2020

Electoral Division affected: None;

Lancashire County Pension Fund - Q3 budget monitoring (Appendix 'A' refers).

Contact for further information:

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Executive Summary

This report sets out the financial performance of the Fund for the nine months ended 31st December 2019 and provides a comparison to the budget for the same period.

An updated forecast for the year ending 31st March 2020 is also included.

Recommendation

The Committee is asked to review the financial performance of the fund for the nine months to 31st December 2019 and make comments on the variances outlined in the report.

Background and Advice

The budget for the financial year ending 31 March 2019 was approved by the Pension Fund Committee on the 29 March 2019.

Budgeted net income to the Fund for the year is £13.3m, available for investment, before accounting for changes in the market value of investments during the year. The 2019/20 budget excludes employer contribution income paid in advance by a number of scheme employers as this has been accounted for in an earlier year.

Appendix 'A' sets out a favourable variance of £1.7m against budget for the first nine months of the financial year. The updated forecast for the year reports a favourable variance of £5.4m against the budget.

Individual variances against budget are explained in more detail below.

Income for nine months ended 31 December 2019
Budget £279.3m, actual £298.8m – favourable variance of £19.5m

Income from investments continues to generate a surplus against the budget, with a favourable variance of £11.1m in the nine months to 31 December with the most significant contribution arising on pooled investments in infrastructure (£16m budget variance) and private equity (£11m budget variance) offset in part by reduced property rental income (£13m below budget) and foreign exchange differences which resulted in an under-recovery of £4m for the nine months to end December.

Transfers in for the nine months have exceeded the budget for the full year by £3.3m. Since the flow of funds through transfers is difficult to forecast, no additional transfers in have been forecast for the final quarter of the year.

Contribution income is in excess of budget after nine months of the financial year and this is forecast to continue until end March, resulting in a favourable variance of £5.6m for the full year.

Expenditure for nine months ended 31 December 2019
Budget £271.8m, actual £289.5m – adverse variance of £17.7m

A £14.6m underspend on benefits paid, including pensions and lump sum payments, was reported for the first six months of the year. An investigation into the reason for this variance identified a timing issue. This has now been resolved and pension payments for the nine months to the end of December 2019 were £178.7m against a budget of £175.4m. Based on the payroll for the third quarter, a full year adverse variance of £4.8m is forecast.

No further transfers out of the Fund have been forecast for the final quarter of the year. Transfers paid for the nine months to end of December 2019 are in excess of the full year budget with a variance of £5.2m against the budget for nine months and a forecast variance of £1.8m overspend for the full year.

Expenditure on administration services is in line with budget and no variance is forecast for the full year while small underspends are anticipated on oversight and governance expenses and on legal and other advisory costs .

Investment management expenses are the most significant element of expenditure to the Fund, after payment of retirement benefits, with a budget of £62.7m for the current financial year.

Investment management fees paid directly to the Local Pensions Partnership are based upon the market value of non-pooled assets under management. These costs are in line with budget for the 2019/20 financial year, however some costs relating to 2018/19 which were not known at the end of that year have been recognised during the current year. This has resulted in a forecast overspend of approximately £400,000.

The cost of fees paid directly to other investment managers is running below budget and a full year underspend of £1.1m has been forecast. This is principally the result

of the budget including costs associated with legacy managers which are now within the pools.

Most of the Fund's investment management fees are for the management of pooled investments and are not invoiced but instead offset against the value of those investments. They include performance fees but the main component is based on the market value of assets under management. The market value of investment holdings has increased by 7% between the end of September 2018, when the budget was set, and the end of December 2019, contributing significantly to the forecast additional costs.

Property expenses are included within investment management expenses as they are a cost of managing the Fund's property portfolio. The Fund's property managers have advised that the over spend in the current year is due to timing of their reporting during the transition between property managers. 2018/19 costs were under accrued as a result and are instead reflected in the 2019/20 fund account. Since the transition of the national property portfolio to Local Pensions Partnership Investments, the Fund's direct property costs should reduce as any costs associated with managing these assets will be incurred by the pool rather than the Fund directly and this is reflected in the forecast.

The full year financial results will be presented on 19 June 2020 and will form part of the draft statutory financial statements of the Fund.

Consultations

Local Pensions Partnership for investment and administrative expenses.

Implications

This item has the following implications, as indicated.

Risk management

Regular budget monitoring is a key control for the Fund. It should assist in the financial management of the Fund and provide an indication of significant variances from expectations.

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