

Pension Fund Committee

Meeting to be held on Friday, 18 September 2020

Electoral Division affected: None;

Lancashire County Pension Fund - 2019/20 budget monitoring report (Appendix 'A' refers)

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Executive Summary

Details of the financial performance of the Fund for the year ended 31 March 2020, with a comparison to budget and prior year results, are set out at Appendix 'A'. The data included in the Appendix forms the basis of the year end statutory financial statements.

Recommendation

The Committee is asked to review the financial performance of the Fund for the year ended 31 March 2020 and make comments on the variances outlined in the report.

Background and Advice

The budget for the financial year ending 31 March 2020 was approved by the Pension Fund Committee on the 29 March 2019.

Budgeted net income to the Fund for the year was £13.3m, available for investment, before accounting for changes in the market value of investments during the year.

Appendix 'A' sets out a favourable variance of £13.0m against budget for the financial year – an additional £7.6m on the forecast reported to the committee on 6 March 2020. The key variances from budget are set out below. Please refer to Appendix 'A' for a more detailed breakdown of income and expenditure.

Contributions income

- **Actual £177.0m (Budget £170.1m, forecast at Q3 £175.7m)**

Income from regular employer contributions increased by more than the inflationary rate applied in the budget and contributed to a £6.9m or 4% favourable budget variance.

Investment income

- **Actual £212.6m (Budget £193.2m, forecast at Q3 £204.3m)**

The £19.4m surplus investment income, relative to budget, is attributable to income from pooled investments. This is dependent on the timing of distributions and is generally recognised on receipt. Income from pooled infrastructure funds contributed the most significant portion of the variance from budget.

Pooled investment income for the year includes £7.7m received post year end but due from the real estate fund for the final quarter of the financial year. This wasn't included in the forecast as at end of quarter 3 and accounts for the majority of the variance between actual and forecast.

Total benefits payable

- **Actual £287.1m (Budget £277.7m, forecast at Q3 £282.5m)**

Pensions paid exceeded budget by £5.4m (2.3%), this being £0.5m higher than the full year forecast reported at the end of quarter 3.

The remaining £4.0m budget deficit on benefits payable relates to lump sums payable on death and retirement and is the result of membership movements differing from budgeted assumptions. The full year cost of lump sums was broadly in line with the prior year outcome and the budgeted reduction in cost was not achieved.

Investment management expenses

- **Actual £66.9m (Budget £62.7m, forecast at Q3 £70.4m)**

Investment management fees incurred on pooled investments comprise 81.8% of total expenditure in this budget area and are predominantly fees embedded in the net asset value of investments. The majority are charged as a percentage of the value of investments held with individual managers but some mandates also have performance elements built in. Investment fees are expected to move in line with the value of the portfolio but some types of investment (those with higher risk or rates of return for example) are more expensive than others. The level of fees is therefore partially dependent on investment strategy.

The increase in fees on pooled investments (£1.5m increase from budget) has been lower than the rise in the proportion of assets now held in pools. The Fund has benefited from savings in pooled investment fees through economies of scale.

Expenditure on property investments is included within investment management expenses for budget monitoring purposes and is significantly overspent at £6.6m against a budget of £3m. The Fund's property and investment managers have

confirmed that this is partly due to a delay in reporting expenditure following the change in property manager, leading to an under accrual in the prior year. Costs previously treated as 'other advisory' costs in the fund account were transferred to property expenditure during the final quarter of the year, which contributed £0.5m to the over spend on property expenses.

Withholding tax suffered on overseas investments was £0.7m less than budgeted and investment transition fees of £0.1m were budgeted but not charged. The combination of these cost reductions reduces the overall variance on investment management fees to £4.2m.

Net income before realised and unrealised profits and losses on investments

- **Actual £26.2m (Budget £13.3m, forecast at Q3 £18.7m)**

Actual income for the year, from all sources including transfers in, amounted to £406.6m, a positive variance against budget of £34.2m which mitigates the £21.2m overspend on budgeted expenditure items. Since it is the Fund's policy to reinvest investment income the net income of £26.2m does not represent an available surplus of cash.

Consultations

Local Pensions Partnership Investments for investment management fee 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 2020. 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		

Reason for inclusion in Part II, if appropriate
N/A