

Pension Fund Committee

Meeting to be held on Friday, 27 November 2020

Electoral Division affected: None;

Lancashire County Pension Fund 2020/21 Q2 Budget Monitoring

Appendix 'A' refers

Contact for further information:

Michelle King, Interim Head of Fund, 01772 530837

Michelle.King2@lancashire.gov.uk

Executive Summary

This report sets out the income and expenditure of the Fund for the 6 month period to 30 September 2020 together with significant variances from the approved budget for the same period.

An updated forecast for the year ending 31 March 2021 is also provided which estimates a reduction of £2.2m (1.0%) in net income available when compared to the full year budget of £219.1m.

Recommendation

The Committee is asked to review the financial results for the 6 months to 30 September 2020 and note the budget and forecast variances, as set out in the report.

Background and Advice

The Lancashire County Pension Fund budget for the year ending 31 March 2021 was approved by Committee on 6 March 2020. Although several items are difficult to estimate as they rely on membership movements (for example, transfers in and out and lump sum benefits) or market conditions (for example investment income and market value) the budget provides a useful monitoring tool. At the March committee meeting it was discussed that this uncertainty is especially acute this year with the extra uncertainty of the impact of Covid-19 on markets.

In total the monitoring is showing that the forecast money available for investment is £2.2m (1%) less than the budget. The latest forecast is shown in Appendix 'A' with significant variances by budget line is set out below.

Income

Contributions receivable

Budget for 6 months £318.1m, actuals for 6 months £332.3m.

The budget for the first 6 months of the year is 85% of the budgeted contributions income for the full year, as a result of the up-front payment of both future service and deficit funding contributions by a number of employers within the Fund. All expected up-front payments were received on time in April and May 2020.

The favourable budget variance for future service rate contribution income (£9.3m variance) for the period to 30 September has arisen largely due to the public sector pay award of 2.75% which exceeded the budgeted 2% increase and has been back dated to 1 April 2020. This additional contribution income is forecast to continue for the remainder of the financial year.

Deficit contributions were also in excess of the budgeted level for the first half of the year (£0.7m variance). This variance has been carried within the forecast for the full financial year.

Contributions from employees were £2.6m above budget and this has been forecast to continue for the full year. The favourable variance has arisen partly due to pay awards but also, on examination of the data, the budget was set at too low a level. The updated contributions are reflected in the forecast

Income from pension strain and augmented pension contributions was £1.7m above budget for the 6 months. The forecast for the full year anticipates contributions at budget levels for the second half of the year.

Transfers in

Budget for 6 months £6.2m, actuals for 6 months £3.9m.

Income due to transfers is not received on a 'straight-line' basis through the year and is dependent on the timing of members joining the Fund. It is also difficult to forecast with accuracy. The forecast for the year assumed that income in the second half will be in line with budget.

Investment income

Budget for 6 months £107.2m, actuals for 6 months £84.8m. As for transfers in, the phasing of investment income is not smooth. Distributions from pooled funds are recognised at the date of issue and as a result some timing differences exist between budget and actual income.

The year to date reported income from infrastructure, private equity and pooled property investments is approximately £28m behind budget for the 6 months against a favourable variance of approximately £15m income from fixed income and global equity investments.

At present no income from the pooled real estate portfolio has been recognised in the accounts for the current year. Distributions are expected by the end of the calendar year. A distribution notice for £3.6m pooled property income has been

received for the quarter ended 30 June 2020 and the cash will be accounted for in Q3. Distributions from this fund are quarterly. Likewise, distributions from private equity funds accounted for to date are below the level advised by the Local Pensions Partnership. A distribution of approximately £5.4m is expected to be received in respect of the period to 30 September 2020 but this has not been accrued, in line with the Fund's accounting policy.

Expenditure

Benefits paid

Budget for 6 months £122.9m, actuals for 6 months £122.9m.

Pensions paid are in line with budget for the first half of the financial year. The forecast for the full year is that benefits paid will be in line with budget.

Lump sum benefits

Budget for 6 months £21.9m, actuals for 6 months £23.5m.

Adverse budget variance of £1.6m is forecast to be carried to the end of the financial year.

Transfers out and other payments to leavers

Budget for 6 months £8.2m, actuals for 6 months £10.0m.

The variance of £1.8m is attributable to transfers out, a budget which is dependent on membership activity and is difficult to forecast. The second half of the year is forecast at budget levels.

Administration expenses

Budget for 6 months £2.1m, actuals for 6 months, £2.1m.

Administration expenses, paid to the Local Pensions Partnership are in line with budget and are paid in equal monthly instalments throughout the financial year. No variance against budget is forecast for the full year.

Investment management expenses

Budget for 6 months £35.0m, actuals for 6 months £27.2m.

Of the £7.8m favourable budget variance for the first half of the financial year, £7.3m can be attributed to reduction in fees on pooled investments as a result of falling investment values. The actual pooled investment management costs reported include estimates of fees embedded in the net asset value of investments and not yet reported by sub-managers.

The Fund works with the Local Pensions Partnership Investments to record these expenses on a quarterly basis but it should be noted that fees are reported in arrears, usually on a quarterly basis.

It is expected that fees will move broadly in line with the value of the assets under management. Future performance related fees have not been forecast. The phasing of such fees is not regular and for prudence, no saving against budget has been forecast at this stage.

Oversight and governance expenditure

Budget for 6 months £0.5m, actuals for 6 months £0.1m.

The £0.4m underspend for the 6 months is largely due to the timing of spend. However, a small overspend against budget is forecast for the full year due to additional costs of the external audit (£5k additional spend) and a net nil position on actuarial costs rechargeable to employers rather than the budgeted £20k over-recovery.

Net funds available for payment of benefits

Budget for 6 months £241.0m, actuals for 6 months £235.4m.

£10.4m under-recovery of income is partially mitigated by £4.8m underspend on expenditure. Both elements are due mainly to investment activity with investment income below budget and a year to date lag on investment fee expenditure.

The full year forecast is for net funds of £216.9m against a budget of £219.1m, a reduction of £2.2m.

Consultations

Local Pensions Partnership Investments Limited were consulted on investment management expenses and investment income.

Implications:

This item has the following implications, as indicated:

Risk management

Regular budget monitoring is a key control for the Fund - assisting in the financial management of the Fund and providing an indication of significant variances from expectations. The process will also identify potential areas for review with the Local Pensions Partnership and inform future budget setting.

Local Government (Access to Information) Act 1985

List of Background Papers

Paper	Date	Contact/Tel
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N/A

Reason for inclusion in Part II, if appropriate

N/A