Pension Fund Committee
Meeting to be held on Friday, 12 March 2021

Electoral Division affected: None;

Budget monitoring for period ending 31st December 2020
Appendix 'A' refers

Contact for further information:
Michelle King, Interim Head of Fund, Lancashire County Pension Fund,
Michelle.king2@lancashire.gov.uk

Executive Summary

This report sets out the income and expenditure of the Fund for the 9 month period to 31 December 2020 and provides an updated forecast for the year ending 31 March 2021.

The revised forecast indicates a full year net income of £204.7m, before realised and unrealised profits and losses on investments, against a budget of £219.1m.

Recommendation

The Committee is asked to review the financial results for the 9 months to 31st December 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.

The forecast for the year ending 31 March 2021 indicates that money available for investment will be £14.4m (7%) below that set out in the budget for the same period.

The latest forecast is shown in Appendix 'A' with significant variances by budget line set out below.

Income

Contributions receivable
Year to date £366.4m, full year budget £373.1m, forecast £417.0m

Up-front payments for future service and deficit funding contributions were made by a number of employers within the Fund to cover amounts due for the 3 years to 31 March 2023. These prepayments amounted to £262.2m and were received by the

Fund in April and May 2020. Accounting practice requires that these contributions be recognised on receipt rather than be allocated across the 3 financial years to which they relate. For this reason, contribution income budgeted for the current financial year is significantly higher than will be budgeted for the year ending 31 March 2022. The full prepayment is recognised in the year to date actuals and the forecast for the final quarter of this year is based upon the level of contributions received from those employers who did not elect, or were not offered the option, to prepay.

Appendix 'A' reports a £35.4m (11%) favourable budget variance against employer future service and deficit contributions. The main reason for this variance is the increased uptake of the prepayment option following the budget being set. Other factors include the above budget pay award granted to public sector employees for the current financial year.

Contributions from employees are forecast to be £6.6m (12%) above budget for the full year. The favourable variance is due to pay awards, but also, as reported to the Committee in November 2020, the budget was set too low and the updated contributions are reflected in the forecast.

Income from pension strain and augmented contributions is forecast to generate a budget surplus of £1.8m (35%), the final quarter being forecast to budget.

Transfers in
Year to date £6.9m, full year budget £12.5m, forecast £10.0m

Income from transfers is dependent on the number and timing of new members joining the Fund. No significant transfers have been notified and as a result the forecast assumes the remaining quarter will be in line with budget.

Investment income
Year to date £120.7m, full year budget £214.5m, forecast £174.3m

As for transfers in, the phasing of investment income varies throughout the financial year and is dependent on market conditions, which this year have been significantly more uncertain than usual, due to the covid19 pandemic.

Investment income for the year to date is below budget primarily due to the economic impact of the pandemic, which is likely to continue into the next financial year, informing the budget for that period.

With the exception of foreign exchange differences, all categories of investment income are behind budget for the year to date, although it is noted that income from the pooled global equity fund is within 2% of budget for the year to date.

Due to the recovery of global equity income and the expected distributions from pooled funds, the forecast for quarter 4 is assumed in line with the budget for that period. The result is a forecast under recovery of investment income of £40.2m (19%).

Expenditure

Benefits payable
Year to date £219.2m, full year budget £289.5m, forecast £291.8m

The forecast for the year is broadly in line with budget, with an overall adverse variance of 1% due to lump sum benefits being £1.5m in excess of budget.

Transfers out
Year to date £12.3m, full year budget £15.5m, forecast £16.2m

The cost of transfers out of the Fund is dependent on the number and timing of members transferring their benefits to other funds. No significant transfers have been notified and as a result the forecast assumes the remaining quarter will be in line with budget.

Fund administration expenses
Year to date £3.0m, full year budget £4.1m, forecast £4.1m

The 12 month forecast for administration expenses payable to Local Pensions Partnership Administration is on track with budget and comprises core administration services, charged on a cost per member basis in addition to employer risk services. Other administration expenses comprise the write-off of bad debts.

Investment management expenses
Year to date £65.3m, full year budget £70.0m, forecast £82.8m

Investment management costs directly invoiced to the Fund by LPPI and other investment managers for the management of non-pooled assets are running at approximately 47% of budgeted costs. These costs are calculated on the basis of the market value of non-pooled assets, which is significantly lower than budgeted due to the transition of non-pooled capital into pooled funds during the first half of the year. Reduction in market value of the non-pooled assets such as direct property holdings also reduces the non-pooled asset fees.

Investment management expenses relating to pooled investments are not invoiced but are charged directly to the pools. An accounting adjustment is made to reflect these costs for transparency and in line with CIPFA guidance on the reporting of management expenses. These costs are calculated on the basis of fair value of the pooled investments, with a performance element also payable on some investment manager mandates. The fee information is collected from underlying fund managers in arrears – with some managers reporting only half yearly or annually. As a result, the 'actual' costs for the year to date include significant estimates based on previously reported information. These estimates have been reviewed by Local Pensions Partnership Investments for reasonableness, as has the forecast for the full year which reports a significant overspend of £15.5m (25%) against the budget.

It is the Fund's policy to not estimate performance fees since they are difficult to predict and can either be an expense or, less often, a reduced cost where negative performance is reflected in a mandate. The budget for the current year was based on previous year costs which included significant credit adjustments (cost reductions) for performance. It is possible that market movements in the current year will have a similar impact on the final expenditure for 2020/21 but the amounts will not be quantifiable until the first half of 2021/22 and for prudence these potential cost reductions are not included in the forecast.

Expenditure on the Fund's directly held local and national property portfolio is forecast to underspend against budget by approximately £0.6m in the year to 31 March 2021. The fees, which includes rent collection fees, are underspent against budget, in line with expectations given the current conditions in the property market.

Oversight and governance expenses

Year to date £0.9m, full year budget £1.0m, forecast £1.0m.

A £68k overspend on County Council recharges due to agency fees is partially mitigated by a net £17k underspend across other oversight and governance expenses, the most significant being £46k underspend on legal and professional fees.

Money available for investment, before movement in market value of investments

Year to date £192.8m, full year budget £219.1m, forecast £204.7m

The net budget variance for the year is forecast at £14.4m or 7%. As outlined above, the most significant contributions to this variance are the reduction in investment income (£40.2m), increase in investment management fees (£12.8m) and net adverse impact of transfers and lump sums (£5.5m), partially offset by additional contribution income (£43.9m).

Consultations

The Local Pensions Partnership have been consulted regarding pension administration and investment management expenditure.

Implications:

This item has the following implications, as indicated:

Financial risk management

Monitoring the Fund's results against budget is a key element of financial governance and will inform the budgeting process for future years whilst highlighting potential areas of financial risk.

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