

## NORTH YORKSHIRE COUNTY COUNCIL

## PENSION FUND COMMITTEE

20 FEBRUARY 2014

## BUDGET / STATISTICS

## Report of the Treasurer

**1.0 PURPOSE OF THE REPORT**

1.1 To report on the following:

- |   |                 |
|---|-----------------|
| (a) the expenditure/income position to date for 2013/14 | (see section 2) |
| (b) the cash deployment of the Fund                     | (see section 3) |
| (c) the proposed budget for 2014/15                     | (see section 4) |
| (d) the transfer of Probation Service assets            | (see section 5) |

**2.0 2013/14 FORECAST**

- 2.1 The Cash surplus for the year to 31 December 2013 (£11.9m) exceeded budget (£7.7m) by £4.2m. As shown in **Appendix 1**, this is due to income for the period exceeding the forecast by £5.4m while expenditure was higher than anticipated by £1.2m.
- 2.2 The cost of Benefits paid to the end of December was £0.7m less than budget. No adjustment has been made to the forecast for lump sums on the expectation that this will revert during the last quarter of 2013/14.
- 2.3 Administration Expenses exceeded budget by £0.1m for the period. This additional expenditure is attributable to ICT development and licencing costs for the new pensions administration system. These additional costs will be non-recurring as development of the new system is completed and the licencing costs of the older system it replaces will no longer be payable.
- 2.4 As mentioned in the November Budget and Statistics reporting, strong investment performance resulted in the cost of Performance Related Management Fees (£2.3m) exceeding the initial Budget (£0.6m) by £1.7m. All such fees were payable to Baillie Gifford and were the result of impressive outperformance on both the Global Alpha and Long Term Global Growth Funds.
- 2.5 Transfer income of £9.4m exceeded the budget for the period (£5.3m) by £4.1m. Some of this is attributable to a £2.4m bulk transfer of staff to Askham Bryan College, the remaining £2.9m variance represents an unusual and unpredictable value of transfer receipts over the period.
- 2.6 Transfer expenditure of £2.3m for the period of was lower than anticipated by £1.1m. The 2013/14 forecast has been adjusted accordingly.

### 3.0 CASH DEPLOYMENT IN 2013-14

3.1 The cash generated in the year by the annual surplus, together with the opening balance and currency hedging cashflows has been managed in 2013/14 as follows:

	£m	
Cash Balance Brought Forward from 2012/13	6.2	
Surplus to 31 December 2013 (as per <b>Appendix 1</b> )	11.9	
<b>Cash Available as at 31 December 2013</b>	<b>18.1</b>	<b>(a)</b>
<b>Rebalancing of Fund</b>		
April 2013 (Standard Life Investments)	-5.0	
May 2013 (Hermes Distribution)	0.3	
July 2013 (RC Brown Disposal)	2.7	
Aug 2013 (YHEF Distribution)	0.6	
Aug 2013 (Standard Life Investments)	-10.0	
Aug 2013 (Hermes Distribution)	0.2	
Sept 2013 (Threadneedle)	-7.5	
Oct 2013 (Threadneedle)	-5.2	
Nov 2013 (Threadneedle)	-8.9	
Nov 2013 (Hermes Distribution)	0.3	
<b>Total Rebalancing</b>	<b>-32.5</b>	<b>(b)</b>
<b>Net Currency Hedging In/Outflows to 31/12/2013</b>	<b>9.6</b>	<b>(c)</b>
<b>Available for Rebalancing of the Fund</b>	<b>-4.8</b>	<b>(d) = (a+b+c)</b>

3.2 The Fund has taken advantage of the ability to adopt an overdrawn position for the purposes of rebalancing. This negative cash position will be rectified within the required timescale.

### 4.0 PROPOSED 2014/15 BUDGET

4.1 The proposed budget for 2014/15 can be found in **column (vi)** of **Appendix 1**.

4.2 The budget for Pension Payments has been increased by £4m. This takes into account a CPI-linked pensions increase from April 2014 and an anticipated rise in Pensioner numbers. The budget for Lump Sum Retirement Grants remains unchanged at £26m.

4.3 An assessment of 3 month actual and 9 month estimated investment performance to September 2014 showed that a budget of £1m for Performance Related Management Fees is required.

4.4 The Contributions (Income) budget has been increased by £2m based on a number of factors including an uplift to employer deficit contributions for 2014/15, potential pay awards and incremental progression as well as the continued impact of auto-

enrolment. These factors are expected to be partially offset by a reduction to Employee numbers due to the continued rationalisation of payrolls by the Fund's major employers.

- 4.5 No adjustment has been made to the Contributions budget for those employers potentially pre-paying deficit contributions. Discussions around this issue are yet to be concluded.
- 4.6 The Transfer (Income) budget remains unchanged from 2013/14 at £7m. This is an unpredictable income area and, while recent years have seen more significant inflows, it is thought that this will not necessarily be representative of future years.
- 4.7 The budget Net Surplus for 2014/15 is £8.9m. This represents a £1.4m reduction to the Net Surplus budgeted for 2013/14 Budget and a £4.5m reduction on the Forecast Surplus for that year.

## 5.0 TRANSFER OF PROBATION SERVICE ASSETS

- 5.1 Following extensive reform of the Probation Service, The Ministry of Justice plans to merge pension provision of 35 probation trusts into a single entity which will be administered by the Greater Manchester Pension Fund.
- 5.2 This new arrangement will require the transfer to Greater Manchester Pension Fund of all Assets and Liabilities associated with York and North Yorkshire Probation Trust. While the Net effect will be to decrease the overall Fund deficit by £4m, the cash value of the required transfer will be around £29m. A disinvestment will be required in order to fund this transfer.
- 5.3 The proposed budget for 2014/15 does not reflect this transfer value. As it will be a transfer of invested assets from NYPF to GMPF, it will only be shown as a re-balancing item on the Cash Deployment of the Fund (**Section 3**).
- 5.4 Discussions are ongoing with the Actuary around the approach to be taken, particularly on the potential for recovering (directly from the transfer value payable) any costs associated with the required disinvestment.

## 6.0 RECOMMENDATIONS

- 6.1 Members to note the contents of the report
- 6.2 Members to approve the 2014/15 budget

GARY FIELDING  
Treasurer  
Central Services, County Hall, Northallerton

05 February 2014

North Yorkshire Pension Fund Income and Expenditure as at 31 December 2013

		<b>Budget 2013/14</b>	<b>Profiled Budget to 31 December</b>	<b>Actual Income / Expenditure to 31 December</b>	<b>Variance ie (ii-iii)</b>	<b>Forecast 2013/14</b>	<b>Proposed Budget 2014/15</b>
		<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
		(i)	(ii)	(iii)	(iv)	(v)	(vi)
<b><u>EXPENDITURE</u></b>							
<b>Benefits</b>	Pension Payments	66,000	49,500	49,905	405	66,000	70,000
	Lump Sums (including refunds)	26,000	19,500	18,440	-1,060	26,000	26,000
	<b>sub total (a)</b>	<b>92,000</b>	<b>69,000</b>	<b>68,345</b>	<b>-655</b>	<b>92,000</b>	<b>96,000</b>
<b>Admin Expenses</b>	Central Services	1,100	825	825	0	1,100	1,100
	Other Services (Including Actuarial)	200	150	150	0	200	210
	Other Admin Expenses	200	150	246	96	300	200
	<b>sub total (b)</b>	<b>1,500</b>	<b>1,125</b>	<b>1,221</b>	<b>96</b>	<b>1,600</b>	<b>1,510</b>
<b>Investment Expenses</b>	Investment Management Fees (Base)	3,000	2,250	2,254	4	3,000	3,150
	Performance Related	800	600	2,350	1,750	2,600	1,000
	Custodian Fees	150	113	112	-1	150	150
	Other Investment Expenses	250	188	214	27	250	260
	<b>sub total (c)</b>	<b>4,200</b>	<b>3,150</b>	<b>4,930</b>	<b>1,780</b>	<b>6,000</b>	<b>4,560</b>
<b>Total Expenditure</b>	<b>(d)</b>	<b>97,700</b>	<b>73,275</b>	<b>74,496</b>	<b>1,221</b>	<b>99,600</b>	<b>102,070</b>
<b><u>INCOME</u></b>							
<b>Contributions</b>	Employer and Employee Contributions	103,000	77,250	77,335	85	103,000	105,000
	Early Retirement Costs Recharged	3,000	2,250	2,347	97	3,000	3,000
	<b>sub total (e)</b>	<b>106,000</b>	<b>79,500</b>	<b>79,682</b>	<b>182</b>	<b>106,000</b>	<b>108,000</b>
<b>Transfers</b>	Transfers IN (per individuals)	7,000	5,250	9,362	4,112	11,000	7,000
	Transfers OUT (per individuals)	-5,000	-3,750	-2,647	1,103	-4,000	-4,000
	<b>sub total (f)</b>	<b>2,000</b>	<b>1,500</b>	<b>6,715</b>	<b>5,215</b>	<b>7,000</b>	<b>3,000</b>
<b>Total Income</b>	<b>(g)</b>	<b>108,000</b>	<b>81,000</b>	<b>86,397</b>	<b>5,397</b>	<b>113,000</b>	<b>111,000</b>
<b>Net Surplus</b>	<b>(h)</b>	<b>10,300</b>	<b>7,725</b>	<b>11,901</b>	<b>4,176</b>	<b>13,400</b>	<b>8,930</b>