

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

19 MAY 2016

BUDGET / STATISTICS

Report of the Treasurer

1.0 PURPOSE OF THE REPORT

1.1 To report on the following:

- | | |
|--|-----------------|
| (a) the income/expenditure and position for the year 2015/16 | (see section 2) |
| (b) the cash deployment of the Fund | (see section 3) |
| (c) NYPF staffing budget | (see section 4) |

2.0 2015/16 INCOME AND EXPENDITURE POSITION

- 2.1 The Cash surplus for the year to 31 March 2016 of £6.5m exceeded the budgeted figure by £1.1m. As shown in **Appendix 1**, expenditure was £0.2m below budget and income was higher than anticipated by £0.9m.
- 2.2 Pensions Payroll Expenditure of £73.9m was within £50k of the annual forecast, while Retirement Grant expenditure of £24.8m was £1.2m lower. The bulk of retirement activity took place in the first half of 2015/16.
- 2.3 Performance Related Management Fees of £3.7m exceeded forecast by £750k while Base Management Fees of £3.4m were also higher than expected by £290k. While recent quarters have seen modest performance, the increased performance fee level is indicative of a sustained period of relative outperformance.
- 2.4 Contributions Income of £107.8m represents a £0.1m (0.1%) negative variance to budget, partially offset by Early Retirement income exceeding forecasts by £40k. Employer contribution levels have held up well compared to previous years. Strain on the fund costs are recharged to employers and this has acted to substantially decrease the impact of any employer payroll reductions on this income area.
- 2.5 Transfer receipts of £7.1m were £140k more than forecast while outgoing payments of £4.4m were lower than forecast by £580k. Transfer expenditure was substantially increased in March due to a bulk payment of £502k to the London Pension Fund Authority. This disbursement was associated with the transfer to the LPFA of all residual pension liability in relation to the Voluntary Tribunal Service. This was an exceptional payment and the £1m reduction to the 16/17 transfer expenditure budget is still considered appropriate.

3.0 CASH DEPLOYMENT IN 2015-16

3.1 The cash generated in the year by the annual surplus, together with the opening balance has been utilised in 2015/16 as follows:

| | £m | |
|---|--------------|--------------------|
| Cash Balance Brought Forward from 2014/15 | 17.8 | |
| Surplus to 31 March 2016 (as per Appendix 1) | 6.5 | |
| Cash Available as at 31 March 2016 | 24.3 | (a) |
| Rebalancing | | |
| April 2015 (transfer from Standard Life) | 67.0 | |
| April 2015 (transfer from Fidelity) | 168.0 | |
| April 2015 (transfer to Dodge and Cox) | -117.5 | |
| April 2015 (transfer to Veritas) | -117.5 | |
| May 2015 (transfer to Standard Life GARS) | -20.0 | |
| May 2015 (transfer to Threadneedle) | -8.5 | |
| September 2015 (transfer from Amundi) | 40.0 | |
| September 2015 (transfer to M&G) | -35.0 | |
| October 2015 (transfer from Amundi) | 85.0 | |
| October 2015 (transfer to Baillie Gifford LTGG) | -33.0 | |
| October 2015 (transfer to Baillie Gifford GA) | -17.0 | |
| October 2015 (transfer to Standard Life GARS) | -32.0 | |
| Total Rebalancing | -20.5 | (b) |
| Available for Rebalancing of the Fund | 3.8 | (c) = (a+b) |

4.0 NYPF STAFFING BUDGET

- 4.1 The cost of NYCC staff required to administer the Fund includes the Pensions Administration Team which deals with scheme member and employer benefit issues, and staff within the Finance Team which deal with investment and accounting issues. This cost, including overheads, is met by the Fund and is shown in Appendix 1 against Admin Expenses, Central Services.
- 4.2 Staffing resources on both teams have been reassessed to establish whether they are appropriate to meet the current requirements of the Fund, and the expected impact on these requirements of changing circumstances - such as the Governments academisation programme.

Pensions Administration Team

- 4.3 Two issues in particular, being the introduction of the CARE scheme in 2014 and the GMP project, have increased the workload of the Pensions Administration Team over the last few years. However, a number of operational and process efficiencies have mitigated their impact so that it has been possible to keep on top of the additional work without the need to increase staffing.
- 4.4 Looking forward, there is the prospect of hundreds of new academies being created, with each being a separate NYPF employer. There is also the expectation that the newly created academies will, in some cases, alter contractual arrangements for services which will lead to TUPE transfers and new employer admissions into the Fund. Although the government has set out the timescale over which all primary and secondary schools must convert, there is some resistance to this agenda which is adding to a lack of clarity of the expected rate of conversions.
- 4.5 To deal with the additional workload the academisation programme will inevitably bring, officers estimate that an additional 3 FTE staff will be required as conversion activity escalates, most likely in early to mid-2017. The financial impact is shown in the table below.

| | Current Budget £ | Current Cost £ | Proposed Budget £ |
|------------------------|-----------------------------|---------------------------|------------------------------|
| Staffing | 750,000 | 750,000 | 824,000 |
| Overheads (10%) | 75,000 | 75,000 | 82,000 |
| Total | 825,000 | 825,000 | 906,000 |

- 4.6 As the proposed budget is based on an estimate of academy conversion activity, Members are asked only to note the potential budget increase at this time. The workload of the Pensions Administration Team will be periodically reassessed, and when appropriate Members will be asked to approve a change to the budget.

Finance Team

- 4.7 The budget for the Finance team was agreed a number of years ago and it has not been revisited since then. It was based on the requirements of the Fund half the size it is now, with half as many managers and mandates and half the number of employers.
- 4.8 The gradual growth of the Fund was managed within the budget constraints but more recently an increase in staffing has been required to meet the Funds needs in such areas as contractual arrangements, accounting requirements and more recently, on pooling. The current cost, shown in the table below, reflects an increase of 1.1 FTE above budget. This increase has not been charged to the Fund.
- 4.9 Looking forward, there is a need to deal with the increasing workload relating to pooling, the Governments academisation programme, to allocate significantly more time to class actions, and to increase resilience in the team. Class actions are described in the **Member & Employer Issues report, paragraph 5** and is an area with significant potential to generate additional income for the Fund. Key person risk has been identified as a significant risk for the Fund, reflected by its inclusion in the Risk Register.

4.10 The proposed budget in the table below reflects an increased cost of 1.7 FTE's (2.8 FTE's above budget) to address these issues.

| | Current Budget £ | Current Cost £ | Proposed Budget £ |
|--------------------------|-----------------------------|---------------------------|------------------------------|
| Staffing | 100,000 | 154,000 | 218,000 |
| Senior Management | 20,000 | 15,000 | 15,000 |
| Overheads (10%) | 12,000 | 17,000 | 23,000 |
| Total | 132,000 | 186,000 | 256,000 |

4.11 Ideally, a proposal to increase the level of staffing resources deployed on the Fund would have been included in the report to the PFC meeting on 25 February 2016 when Members approved the budget for 2016/17. However, this did not happen. Rather than revise this budget, Members are asked to approve the increase to be effective from April 2017, which will form part of the proposed budget for 2017/18.

CIPFA Benchmarking Exercise

4.12 NYPF is one of the more efficient LGPS funds with an administration cost of £14 per member, which compares very well to the average of £19 per member. If NYPF Finance Team staffing costs were to increase as described above, the cost would rise to £16 per member which would see NYPF remain in the bottom quartile. This is without taking into account costs for other LGPS funds which are also expected to increase in order to address these challenges.

5.0 **RECOMMENDATIONS**

5.1 Members approve an increase in the staffing budget of £123k for Finance Team costs, effective from April 2017.

GARY FIELDING
Treasurer
Central Services
County Hall
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11 May 2016

| | Budget 2015/16 £000 (i) | Profiled Budget to 31 Mar £000 (ii) | Actual Income / Expenditure to 31 Mar £000 (iii) | Variance ie (iii-ii) £000 (iv) | Budget 2016/17 £000 (vi) |
|-------------------------------------|----------------------------------|---|--|---|-----------------------------------|
| EXPENDITURE | | | | | |
| Benefits | | | | | |
| Pensions | 74,000 | 74,000 | 73,950 | -50 | 75,000 |
| Lump Sums (including refunds) | 26,000 | 26,000 | 24,810 | -1,190 | 27,000 |
| sub total (a) | 100,000 | 100,000 | 98,760 | -1,240 | 102,000 |
| Admin Expenses | | | | | |
| Finance and Central Services | 1,100 | 1,100 | 1,130 | 30 | 1,100 |
| Other Services | 210 | 210 | 220 | 10 | 250 |
| Other Admin Expenses | 200 | 200 | 190 | -10 | 200 |
| sub total (b) | 1,510 | 1,510 | 1,540 | 30 | 1,550 |
| Investment Expenses | | | | | |
| Investment Management Fees (Base) | 3,150 | 3,150 | 3,440 | 290 | 3,400 |
| Performance Related | 3,000 | 3,000 | 3,750 | 750 | 4,500 |
| Custodian Fees | 150 | 150 | 140 | -10 | 150 |
| Other Investment Expenses | 260 | 260 | 240 | -20 | 260 |
| sub total (c) | 6,560 | 6,560 | 7,570 | 1,010 | 8,310 |
| Total Expenditure (d) | 108,070 | 108,070 | 107,870 | -200 | 111,860 |
| INCOME | | | | | |
| Contributions | | | | | |
| Employer and Employee Contributions | 108,000 | 108,000 | 107,850 | -150 | 108,000 |
| Early Retirement Costs Recharged | 2,500 | 2,500 | 2,540 | 40 | 2,500 |
| sub total (e) | 110,500 | 110,500 | 110,390 | -110 | 110,500 |
| Transfers | | | | | |
| Transfers IN (per individuals) | 7,000 | 7,000 | 7,140 | 140 | 7,000 |
| Transfers OUT (per individuals) | -5,000 | -5,000 | -4,420 | 580 | -4,000 |
| sub total (f) | 2,000 | 2,000 | 2,720 | 720 | 3,000 |
| Other Income | | | | | |
| Other Investment Income | 1,000 | 1,000 | 1,250 | 250 | 1,300 |
| sub total (g) | 1,000 | 1,000 | 1,250 | 250 | 1,300 |
| Total Income (h) | 113,500 | 113,500 | 114,360 | 860 | 114,800 |
| Net Surplus (i) | 5,430 | 5,430 | 6,490 | 1,060 | 2,940 |