

## NORTH YORKSHIRE COUNTY COUNCIL

## PENSION FUND COMMITTEE

24 MAY 2018

## BUDGET / STATISTICS

## Report of the Treasurer

**1.0 PURPOSE OF THE REPORT**

1.1 To report on the following:

- |   |                 |
|---|-----------------|
| (a) the outturn position for 2017/18            | (see section 2) |
| (b) the draft 2018/19 budget for the Fund       | (see section 3) |
| (c) NYPF Business Plan                          | (see section 4) |
| (d) the 3 year cashflow projection for the Fund | (see section 5) |
| (e) timetable for NYPF Accounts approval        | (see section 6) |

**2.0 2017/18 OUTTURN**

- 2.1 The budget and outturn position for 2017/18 is presented in **Appendix 1**. The format of the budget has been changed for 2018/19, but the 2017/18 budget and outturn is still presented in the previous format for consistency. This change in budget format is discussed in further detail in Section 3 below.
- 2.2 The total budgeted surplus of £38m for 2017/18 was on a cash basis and included £26m of past service deficit that was paid in advance by employers, relating to 2018/19 and 2019/20. The outturn for 2017/18 on this basis was £0.2m below budget with a surplus position of £37.8m. The key variances to budget are detailed below:
- Whilst pensions payments were over budget by £2.6m, the lumps sums were under budget by £3.5m resulting in a net underspend of £0.9m against the budget.
  - Both investment base fees invoiced and performance fees were over budget by £0.9m and £3.8m respectively. This is due to the performance seen in global equities over the period and the resulting increase in the value of the Fund.
  - Transfers in were over budget by £6.3m and transfers out were were also over budget by £4m resulting in a net increase in income of £2.3m against the budget. These budgets are very volatile and therefore difficult to predict.

### 3.0 DRAFT BUDGET 2018/19

- 3.1 Members were provided with a preliminary draft budget for 2018/19 in the February PFC meeting, this budget is shown in column (a) of **Appendix 2**. It was agreed at the meeting that the budget would be brought back to the May meeting for Members to approve.
- 3.2 The latest draft budget can be found in column (b) of **Appendix 2**. In the February meeting the presentation of previous years' budgets was discussed. As a result it was agreed that in the past the budget table has tried to show the cash position of the Fund in addition to setting out the budget. To make it clearer and more transparent going forward the draft budget and the cashflow position of the Fund will be presented separately.
- 3.3 The total draft Fund budget for 2018/19 is £22.6m. This budget now only includes the costs that the Fund has control over. In order to break down the budget into high level categories the CIPFA 2016/17 guidance on accounting for management expenses has been followed. Some additional narrative is also provided in the comments column of the table to provide a further breakdown and explanation of the budget lines where necessary. The budget has been developed on an accruals basis, so reflects all expenditure relating to the financial year, rather than what is actually expected to incur on a cash basis, this cash forecast is included in the 3 year cashflow projection in section 5.
- 3.4 The table also includes a forecast outturn (column c) against the budget which will be updated on a quarterly basis. As provided in the past, any large variances to the budget will also be explained in the narrative of this report.
- 3.5 The key changes to the lines included within the Budget are as follows:
- The inflows and outflows of the Fund (i.e. Contribution income, Benefits Payable and transfers in and out) are now included in the cashflow position for the Fund (section 5 below) for Members to note rather than within the Budget. This is because these are not considered to be costs of running the Fund that can be controlled; they are predetermined inflows and outflows of the Fund that are determined by regulation.
  - The investment fees budget now also reflect those costs that are deducted directly from the assets held with fund managers as well as those that are invoiced and therefore impact on the cashflow of the Fund. These have been included to provide Members with a complete picture of the total estimated expenditure on fees in the year.
- 3.6 The Key changes to the budget figures from the 2017/18 budget are as follows:
- The budget for the Pensions Administration Team has increased by £88k. This is due to a pay award increase and a request of an additional 1.65 FTE in the team to cover a retiree who will be replaced by a full time person and to increase the staffing on the systems section to enable more efficient processing within the team. This was raised at the February PFC meeting and Members were supportive but were not asked to authorise at that stage.

- The investment base fees have been increased to reflect the increase in the value of the Fund, which the fees are based on. Performance fees have also increased to reflect the outperformance in global equities.
- Pooling implementation costs and GMP project are one off budgets for 2018/19. These budgets represent the remaining expenditure up until the projects are complete that has been carried forward from 2017/18.
- The budget for ongoing pooling costs has been included in the 2018/19 budget. These costs are for the 9 months of the year following go live in June 2018 and are based on the Annual Operating Charge that has been outlined for each Fund within the recent BCPP budget that was approved by each Fund. This budget report has been included in the Pooling report as a confidential appendix.
- Other Administration and other oversight and governance budgets have been reduced as items have been taken out and included as a separate budget to provide Members with further detail.

3.7 Members are asked to approve the draft budget for 2018/19 (column b). Once approved, this budget will remain unchanged except for any necessary budget adjustments that are approved by PFC in future meetings.

#### **4.0 NYPF BUSINESS PLAN**

4.1 In the July PFC meeting Members will be presented with a Draft NYPF Business Plan for approval, along with the other Fund governance documents. This Business Plan is to be produced in line with the TPR guidance on producing a business plan and will include all key tasks and activities that the Fund aims to achieve in the next financial year in order to meet its key objectives.

4.2 In future years this business plan will be brought to PFC along with the draft budget as the Business Plan should inform the items that will be included in the budget.

#### **5.0 3 YEAR CASHFLOW PROJECTION**

5.1 The cash position of the Fund is presented in **Appendix 3**. The table shows the projected cashflows of the Fund over the next 3 years. This cashflow includes the contribution income and benefits payable, the main inflow and outflow of the Fund, which will determine when the Fund will turn cashflow negative. In addition to this it also includes all other items that go through the bank account, for example, any costs of administering the scheme; this provides a more accurate prediction of the cash position of the Fund.

5.2 There is a separate paper (item 6) on the cashflow of the Fund from the Actuary; this is purely based on the contributions in against the benefits payable and goes beyond the next 3 years to determine when the Fund is predicted to go cashflow negative.

- 5.3 The estimated cashflow for the Fund in 2018/19 is a £4.6m deficit. This deficit is due to the £13m prepayment of deficit relating to 2018/19 in 2017/18. There is also an estimated deficit in 2019/20, again due to the prepayment of deficit in 2017/18. This deficit is slightly higher in 2018/19 due to the anticipated increase in pension benefit payments.
- 5.4 In 2020/21 the Fund is estimated to be back in a surplus cash position as it is assumed that deficits will be paid in the year by all employers. The 2020/21 cashflow estimates are assuming that employer contribution rates will remain the same following the 2019 Triennial Valuation so will be subject to change.

## **6.0 NYPF ACCOUNTS AND ANNUAL REPORT APPROVAL TIMETABLE**

- 6.1 To remind Members, the County Council now has an earlier deadline for the production of Statement of Final Accounts (SOFA) which, as administering authority, will include the NYPF accounts. The deadline to publish the draft SOFA is 31 May 2018 and the deadline for the Audit Committee to approve the final SOFA is 31 July 2018. As a result of these new deadlines, it is necessary to change the approach for PFC consideration of the NYPF accounts.
- 6.2 Due to the timing of the PFC and Audit Committee meetings, it is proposed that the PFC approve the NYPF draft SOFA on 5 July 2018. These accounts will then be submitted as part of the NYCC Final Accounts to Audit Committee on 26 July 2018. Under the new regime it is necessary for the Audit Committee to sign off the final accounts before the end of July. Should any changes be of significance then information will be shared with all Members of the PFC for noting.
- 6.3 The Pension Fund accounts form part of the NYCC Statement of Final Accounts which are subject to review and approval by the Audit Committee. It is therefore not legally necessary for the Pension Fund Committee to approve the Pension Fund Statement of Accounts; however the terms of reference for the PFC in the Constitution state that it shall “approve a Statement of Final Accounts”. Also as the accounts reflect the activities of the Pension Fund it is appropriate that they are brought to the PFC to provide the PFC with the opportunity to feed any comments to the Audit Committee.
- 6.4 Once audited, these Accounts will be incorporated into the NYPF 2017/18 Annual Report which will be placed on the NYPF web site [www.nypf.org.uk](http://www.nypf.org.uk). The Annual Report will be presented to the PFC for approval at the meeting on 13 September 2018.

## **7.0 RECOMMENDATIONS**

- 7.1 Members to approve the draft 2018/19 budget (Appendix 2)
- 7.2 Members to note the contents of the report.

GARY FIELDING  
Treasurer to North Yorkshire Pension Fund  
NYCC  
County Hall  
Northallerton

9 May 2018

## North Yorkshire Pension Fund Budget, Income and Expenditure as at 31 March 2018

	Budget 2017/18	Outturn 2017/18	Variance ie (ii-i)
	£000 (i)	£000 (ii)	£000 (iii)
<b>EXPENDITURE</b>			
<b>Benefits</b>			
Pensions	78,000	80,592	2,592
Lump Sums (including refunds)	28,500	25,042	-3,458
<b>sub total (a)</b>	<b>106,500</b>	<b>105,634</b>	<b>-866</b>
<b>Admin Expenses</b>			
Finance and Central Services inc ESS	1,220	1,322	102
Pooling Expenses	350	156	-194
GMP Reconciliation programme	230	133	-97
Other Admin Expenses	410	261	-149
<b>sub total (b)</b>	<b>2,210</b>	<b>1,871</b>	<b>-339</b>
<b>Investment Expenses</b>			
Investment Management Fees (Base)	3,700	4,565	865
Performance Related	3,500	7,268	3,768
Custodian Fees	150	137	-13
Other Investment Expenses	260	105	-155
<b>sub total (c)</b>	<b>7,610</b>	<b>12,074</b>	<b>4,464</b>
<b>Total Expenditure (d)</b>	<b>116,320</b>	<b>119,580</b>	<b>3,260</b>
<b>INCOME</b>			
<b>Contributions</b>			
Employer and Employee Contributions	148,000	148,438	438
Early Retirement Costs Recharged	2,500	2,738	238
<b>sub total (e)</b>	<b>150,500</b>	<b>151,176</b>	<b>676</b>
<b>Transfers</b>			
Transfers IN (per individuals)	7,500	13,782	6,282
Transfers OUT (per individuals)	-5,000	-8,957	-3,957
<b>sub total (f)</b>	<b>2,500</b>	<b>4,825</b>	<b>2,325</b>
<b>Other Income</b>			
Class Action Proceeds	0	0	0
Other Investment Income (Hermes)	1,300	1,328	28
<b>sub total (g)</b>	<b>1,300</b>	<b>1,328</b>	<b>28</b>
<b>Total Income (h)</b>	<b>154,300</b>	<b>157,329</b>	<b>3,029</b>
<b>Net Surplus (i)</b>	<b>37,980</b>	<b>37,749</b>	<b>-231</b>

## North Yorkshire Pension Fund - 2018/2019 Budget - Cost of Running the Pension Fund

	a	b	c	d	
	Original Budget 2018/2019 £k	Revised Budget 2018/2019 £k	Forecast 2018/2019 £k	Variance £k	Comments
<b>EXPENDITURE</b>					
<b>Admin Expenses</b>					
Finance and Central Services inc ESS	470	500	500	0	£256k Pensions Finance Team, £137.5k ESS
Pensions Administration Team	850	850	850	0	
GMP Reconciliation programme	0	100	100	0	Total estimated project cost £230k, £100k remaining in 2018/19
Other Admin Expenses	410	210	210	0	Main cost is £140K Heywood Ltd (Altair)
	<b>1,730</b>	<b>1,660</b>	<b>1,660</b>	<b>0</b>	
<b>Oversight and Governance</b>					
Actuarial Fees	0	30	30	0	18/19 Gross budget £110k, £80k recharged to employers
Custodian Fees	150	130	130	0	
Consultants Fees	0	140	140	0	
Pooling Implementation Costs	0	269	269	0	Budget £350k, estimated overspend £75k = £425k, 2017/18 outturn £156k
Pooling Operational Charge	0	503	503	0	£915k in 19/20, £725k in 20/21
Other O & G Expenses	260	110	110	0	£25k voting, £26k External Audit, £25k investment adviser fees
	<b>410</b>	<b>1,182</b>	<b>1,182</b>	<b>0</b>	
<b>Investment Fees</b>					
Investment Management Base Fee invoiced	4,300	4,800	4,800	0	
Performance Fees invoiced	5,000	5,000	5,000	0	
Investment base fees deducted from Fund	0	10,000	10,000	0	
	<b>9,300</b>	<b>19,800</b>	<b>19,800</b>	<b>0</b>	
<b>Other expenditure/ (income) included in previous budgets</b>	<b>(12,250)</b>				
<b>TOTAL</b>	<b>(810)</b>	<b>22,642</b>	<b>22,642</b>	<b>0</b>	

## North Yorkshire Pension Fund three year cash flow forecast

	Cash-flow 2018/2019 £k	Cash-flow 2019/2020 £k	Cash-flow 2020/2021 £k	Comments
<b>EXPENDITURE</b>				
<b>Benefits</b>				
Pensions	84,670	88,500	92,500	
Lump Sums	25,780	25,780	25,780	
	<b>110,450</b>	<b>114,280</b>	<b>118,280</b>	
<b>Payments to and on account of leavers</b>				
Transfers out	9,000	9,000	9,000	
Refunds to leavers	500	500	500	
	<b>9,500</b>	<b>9,500</b>	<b>9,500</b>	
<b>TOTAL EXPENDITURE</b>	<b>119,950</b>	<b>123,780</b>	<b>127,780</b>	
<b>INCOME</b>				
Employer and Employee Contributions	114,693	116,988	132,330	
Transfers IN (from other schemes)	12,000	12,000	12,000	
Investment Income	1,320	1,320	1,320	Hermes income and Barclays interest income
<b>TOTAL INCOME</b>	<b>128,013</b>	<b>130,308</b>	<b>145,650</b>	
<b>SURPLUS (DEFICIT)</b>	<b>8,063</b>	<b>6,528</b>	<b>17,870</b>	
<b>Add cost of administering the pension fund</b>	<b>22,642</b>	<b>22,702</b>	<b>22,529</b>	
<b>Less Management Fees charged direct to the fund</b>	<b>(10,000)</b>	<b>(10,000)</b>	<b>(10,000)</b>	
<b>NET SURPLUS (DEFICIT)</b>	<b>(4,579)</b>	<b>(6,174)</b>	<b>5,341</b>	The 20/21 cashflow includes 1 year past service deficit