

## NORTH YORKSHIRE COUNTY COUNCIL

## PENSION FUND COMMITTEE

21 FEBRUARY 2019

## BUDGET / STATISTICS

## Report of the Treasurer

**1.0 PURPOSE OF THE REPORT**

1.1 To report on the following:

- |   |                 |
|---|-----------------|
| (a) 2018/19 budget- Cost of running the Fund        | (see section 2) |
| (b) the 3 year cashflow projection for the Fund     | (see section 3) |
| (c) NYPF Draft Business Plan                        | (see section 4) |
| (d) 2019/20 draft budget - Cost of running the Fund | (see section 5) |

**2.0 2018/19 BUDGET- COST OF RUNNING THE FUND**

2.1 The latest forecast outturn position against the 2018/19 budget is attached as **Appendix 1**. The running costs of the Fund are currently forecast to be £1.5m under budget at £21.2m. The notable areas of change in the forecast are as follows:

- There have been lower than expected performance fees relating to equities for the period covering March 2018 to September 2018. This is in part due to a change in the performance fee level charged by the Manager and also due to lower levels of performance in equities over the period. The forecast outturn has therefore been reduced by £2.5m
- There has been an increase in the forecast for management fees of £1.2m due to an increase in the anticipated transaction costs and the overall value of the Fund.
- It is estimated that there will be an underspend against the 2018/19 BCPP Annual Operating Charge of around £0.1m that has been reflected in the forecast outturn.

**3.0 3 YEAR CASHFLOW PROJECTION**

3.1 The cash position of the Fund is presented in **Appendix 2**. 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.

- 3.2 The estimated cashflow for the Fund in 2018/19 is a £6m deficit; this has improved from last quarter where an £8.6m deficit was reported. This is due to the forecast reduced cost of administering the Fund as described in section 2 above.
- 3.3 There is also an estimated deficit cashflow position in 2019/20. These deficit positions in both 2018/19 and 2019/20 are due to the prepayment of deficit contributions in 2017/18 relating to the three years. This 2019/20 deficit is slightly higher than the deficit in 2018/19 due to the anticipated increase in pension benefit payments.
- 3.4 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. It is important to note that 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. Any changes in management fees and transition costs due to pooling have also not been taken into account in the cashflow estimate.

#### 4.0 DRAFT 2019/20 BUSINESS PLAN

- 4.1 In the NYPF 2018/19 Business Plan ten key actions for the year were identified and approved by Members in the May 2018 Committee meeting. It was agreed that officers would provide a progress report against these key actions, this progress report is attached as **Appendix 4**.
- 4.2 The NYPF Business Plan is to be updated annually and it was agreed that this updated plan would be brought for approval along with the annual budget each year as the key priorities and the budget of the Fund are closely linked. The draft 2019/20 NYPF Business Plan is attached as **Appendix 5**. Any outstanding key actions from 2018/19 have been rolled forward to 2019/20 and some new actions have been identified.
- 4.3 The key activities for 2019/20 are as follows:
  - a) **Website review** - will take place throughout 2019/20 with a target for completion in Q4. The aim of this project is to develop and improve the website to enable members and employers to self-serve easily and efficiently. This will reduce the volume of work received by the team enabling staff to be more focussed on adding value and undertaking projects such as data cleansing and reconciliation.
  - b) **Pensioner reconciliation project** - will take place in 2019/20 with a target for completion in Q4. Pensioner data is held on two separate databases and they do not reconcile to each other. It is critical for liability assessment, funding position assessment and data quality measures that we establish an accurate pensioner payroll position which we can maintain and reconcile regularly.
  - c) **People** - the new structure being introduced in Q1 2019 within the pensions administration team will help deliver a number of activities identified in the business plan. The introduction of a new employer relationship role will develop employer engagement and partnership working so that we can improve the

quality and timeliness of information being received which in turn increases efficiency. Charging of employers will also commence in 2019/20 to try and improve the data for employers that repeatedly provide incorrect data.

- d) **Investment Strategy Review**- the Fund will undertake an investment strategy review as part of the 2019 Triennial Valuation to ensure that the Strategy is in line with the funding position of the Fund. This will also be linked with transition of funds to the pool to ensure that we do not incur unnecessary transition costs due to changes in strategy.
- e) **Pooling**- There will continue to be a large amount of work carried out on the transitioning of funds to BCPP during 2019/20 and ensuring that sub-funds are set up that will meet the needs of the NYPF Investment Strategy.
- f) **2019 Triennial Valuation**- work on the Valuation will be undertaken during 2019/20 and new employer rates will commence from April 2020.

4.4 Members are asked to approve the Draft Business Plan.

## 5.0 DRAFT 2019/20 BUDGET

5.1 The draft 2019/20 budget for the Cost of running the Pension Fund is presented in **Appendix 3** and totals £22.6m. This budget only includes the costs that the Fund has control over and has been developed on an accruals basis.

5.2 The total 2019/20 budget is broadly in line with the 2018/19 budget, however there have been some movement across the budget lines reported. The key changes to the budget figures from the 2018/19 budget are as follows:

- The Pooling Annual Operating Charge has been updated to reflect the new 2019/20 charge from BCPP. In 2019/20 the Annual Operating Charge will be £980k. This is made up of a governance element which is split on a one twelfth basis and an AUM charge based on the Fund's strategic asset split at March 2018.
- The pooling implementation costs line has now been removed as the set-up of BCPP was completed in 2018/19. This has been replaced with a one-off Projects Budget for 2019/20. The total BCPP budget for project costs is £1.6m, of which the NYPF element is around £140k on a one twelfth basis. This project budget is to cover the set-up of the Alternatives and Global Equity sub-funds.
- The investment management fees have been increased by £900k. The changes in Annual Management fees during the year as a result of disinvesting from current managers and transitioning into the pool have not been reflected in this budget, with the exception of UK Equities, as the changes in fees are an unknown at this stage until each sub-fund has been set up. Any fee changes and the impact this will have on the forecasted spend against the budget will be communicated with Members throughout the year.
- The performance fees have been reduced by £1.5m, this is to bring them more in line with the 2018/19 actual fees which reflect a period of lower performance and the new performance fee structure. As with the management fees, this budget does not reflect the impact of transitioning funds to the pool.

- The Pensions Administration Budget has been increased by £130k to reflect the new Pay Review and also changes identified as part of the staffing review that will take place during 2019/20.
- The Pensioner Data Reconciliation exercise has been included as a new one off budget of £100k for 2019/20.
- The other Administration budget line has been increased by £50k on a one-off basis to include the NYPF Website review planned for 2019/20 within the draft NYPF Business Plan.
- The Actuarial fee budget has been increased by £40k for 2019/20 to include the expected 2019 Triennial Valuation costs.
- The Finance budget has been inflated by £20k to reflect the new pay review

5.3 **It is important to note that transition costs have not been included in this budget.** These are expected to be significant costs but they are very difficult to predict until the amount to be transitioned is known and a transition plan is produced at the start of each transition. As each transition progresses **Members will be kept informed of the planned and actual transition costs.** During 2019/20 it is expected that UK equities, global equities, fixed income and some alternative sub-funds will be available for the Fund to invest in.

5.4 Members are asked to approve the draft budget for 2019/20. Once approved, this budget will remain unchanged except for any necessary budget adjustments that are approved by PFC in future meetings.

## 6.0 RECOMMENDATIONS

6.1 Members to approve the draft 2019/20 NYPF Business Plan

6.2 Members to approve the Draft 2019/20 Budget

6.3 Members to note the contents of the report.

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

11 February 2019

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

|   | Expenditure to<br>31.12.2018 | Revised<br>Budget<br>2018/2019<br>£k | Forecast<br>2018/2019<br>£k | Variance<br>£k | Comments  |
|---|------------------------------|--------------------------------------|-----------------------------|----------------|---|
| <b>EXPENDITURE</b>                      |                              |                                      |                             |                |   |
| <b>Admin Expenses</b>                   |                              |                                      |                             |                |   |
| Finance and Central Services inc ESS    | 300                          | 500                                  | 500                         | 0              |   |
| Pensions Administration Team            | 633                          | 850                                  | 850                         | 0              |   |
| GMP Reconciliation programme            | 79                           | 100                                  | 100                         | 0              |   |
| Other Admin Expenses                    | 157                          | 210                                  | 210                         | 0              | Main cost is £140K Heywood Ltd (Altair)   |
|   | <b>1169</b>                  | <b>1,660</b>                         | <b>1,660</b>                | <b>0</b>       |   |
| <b>Oversight and Governance</b>         |                              |                                      |                             |                |   |
| Actuarial Fees                          | 12                           | 30                                   | 30                          | 0              | 18/19 Gross budget £110k, £80k recharged to employers   |
| Custodian Fees                          | 75                           | 130                                  | 130                         | 0              |   |
| Consultants Fees                        | 74                           | 140                                  | 140                         | 0              |   |
| Pooling Implementation Costs            | 269                          | 269                                  | 269                         | 0              |   |
| Pooling Operational Charge              | 503                          | 503                                  | 406                         | -97            | there is expected to be an underspend in the year against the Operating Charge, some of this will be carried forward to 2019/20 |
| Other O & G Expenses                    | 49                           | 110                                  | 110                         | 0              |   |
|   | <b>982</b>                   | <b>1,182</b>                         | <b>1,085</b>                | <b>-97</b>     |   |
| <b>Investment Fees</b>                  |                              |                                      |                             |                |   |
| Investment Management Base Fee invoiced | 3,431                        | 4,800                                | 5,000                       | 200            |   |
| Performance Fees invoiced               | 2,436                        | 5,000                                | 2,436                       | -2,564         |   |
| Investment base fees deducted from Fund | 8,200                        | 10,000                               | 11,000                      | 1,000          |   |
|   | <b>14,067</b>                | <b>19,800</b>                        | <b>18,436</b>               | <b>-1,364</b>  |   |
|   |                              |                                      |                             |                |   |
| <b>TOTAL</b>                            | <b>16,217</b>                | <b>22,642</b>                        | <b>21,181</b>               | <b>-1,461</b>  |   |

## North Yorkshire Pension Fund – Three year cash flow forecast

|  | Cash-flow<br>2018/2019<br>£k | Cash-flow<br>2019/2020<br>£k | Cash-flow<br>2020/2021<br>£k | Comments  |
|--|------------------------------|------------------------------|------------------------------|---|
| <b>EXPENDITURE</b>                                     |                              |                              |                              |   |
| <b>Benefits</b>  |                              |                              |                              |   |
| Pensions   | 86,300                       | 90,130                       | 94,130                       |   |
| Lump Sums  | 24,300                       | 24,300                       | 24,300                       |   |
|  | <b>110,600</b>               | <b>114,430</b>               | <b>118,430</b>               |   |
| <b>Payments to and on account of leavers</b>           |                              |                              |                              |   |
| Transfers out  | 9,500                        | 9,000                        | 9,000                        |   |
| Refunds to leavers                                     | 500                          | 500                          | 500                          |   |
|  | <b>10,000</b>                | <b>9,500</b>                 | <b>9,500</b>                 |   |
| <b>TOTAL EXPENDITURE</b>                               | <b>120,600</b>               | <b>123,930</b>               | <b>127,930</b>               |   |
| <b>INCOME</b>  |                              |                              |                              |   |
| Employer and Employee Contributions                    | 111,000                      | 113,250                      | 128,545                      |   |
| Transfers IN (from other schemes)                      | 12,500                       | 12,000                       | 12,000                       |   |
| Investment Income                                      | 1,320                        | 1,320                        | 1,320                        | Hermes income and Barclays interest income              |
| <b>TOTAL INCOME</b>                                    | <b>124,820</b>               | <b>126,570</b>               | <b>141,865</b>               |   |
| <b>SURPLUS/ (DEFICIT)</b>                              | <b>4,220</b>                 | <b>2,640</b>                 | <b>13,935</b>                |   |
| <b>Add cost of administering the pension fund</b>      | <b>21,181</b>                | <b>22,640</b>                | <b>22,640</b>                |   |
| <b>Less Management Fees charged direct to the fund</b> | <b>(11,000)</b>              | <b>(11,700)</b>              | <b>(11,700)</b>              |   |
| <b>NET SURPLUS/ (DEFICIT)</b>                          | <b>(5,961)</b>               | <b>(8,300)</b>               | <b>2,995</b>                 | The 20/21 cashflow includes 1 year past service deficit |

## North Yorkshire Pension Fund – 2019/20 Budget – Cost of Running the Pension Fund

|   | Budget<br>2018/2019<br>£k | Budget<br>2019/2020<br>£k | Variance<br>£k |
|---|---------------------------|---------------------------|----------------|
| <b>EXPENDITURE</b>                      |                           |                           |                |
| <b>Admin Expenses</b>                   |                           |                           |                |
| Finance and Central Services inc ESS    | 500                       | 520                       | 20             |
| Pensions Administration Team            | 850                       | 980                       | 130            |
| GMP Reconciliation programme            | 100                       | 0                         | -100           |
| Pension Data Reconciliation             | 0                         | 100                       | 100            |
| Other Admin Expenses                    | 210                       | 260                       | 50             |
|   | <b>1,660</b>              | <b>1,860</b>              | <b>200</b>     |
| <b>Oversight and Governance</b>         |                           |                           |                |
| Actuarial Fees                          | 30                        | 70                        | 40             |
| Custodian Fees                          | 130                       | 130                       | 0              |
| Consultants Fees                        | 140                       | 150                       | 10             |
| Pooling Implementation Costs            | 269                       | 0                         | -269           |
| Pooling Project Costs                   | 0                         | 140                       | 140            |
| Pooling Operational Charge              | 503                       | 980                       | 477            |
| Other O & G Expenses                    | 110                       | 110                       | 0              |
|   | <b>1,182</b>              | <b>1,580</b>              | <b>398</b>     |
| <b>Investment Fees</b>                  |                           |                           |                |
| Investment Management Base Fee invoiced | 4,800                     | 4,000                     | -800           |
| Performance Fees invoiced               | 5,000                     | 3,500                     | -1,500         |
| Investment base fees deducted from Fund | 10,000                    | 11,700                    | 1,700          |
|   | <b>19,800</b>             | <b>19,200</b>             | <b>-600</b>    |
|   |                           |                           |                |
| <b>TOTAL</b>                            | <b>22,642</b>             | <b>22,640</b>             | <b>(2)</b>     |

## NYPF 2018/2021 Business Plan Update

| Action  | Resource  | Timescale | Progress Update Jan 2019  |
|---|---|-----------|---|
| <b>Effective and efficient member administration</b><br>Website review<br>Administration software review<br>Business process re-engineering | Head of Pensions Administration                         | 2018/2020 | In progress<br>Work underway with requirement gathering and process mapping.<br>Software contract extended for 1 year.  |
| <b>Improve Data Quality</b><br>GMP Reconciliation<br>Pensioner Reconciliation<br>Employer interaction<br>Create Data Improvement plan       | Head of Pensions Administration                         | 2018/2019 | In progress<br>GMP reconciliation continues.<br>Pensioner reconciliation on hold until GMP project finished.  |
| <b>People</b><br>Review of team structure<br>Training<br>Cross skilling<br>Resilience<br>Succession planning                                | Head of Pensions Administration                         | 2018/2019 | In progress<br>Structure review being finalised which will address the issues highlighted.<br>On target to be live in 2019  |
| <b>Excellent Customer Service</b><br>Improved employer engagement<br>Partnership working with employers                                     | Head of Pensions Administration/<br>Senior Accountant   | 2019/2020 | In progress<br>Structure review being finalised which will address the issues highlighted.<br>On target to be live in 2019  |
| <b>Effective Investment Strategy</b><br>Review of Investment Strategy<br>Fund Manager performance reviews                                   | Pension Fund Committee                                  | 2018/2019 | The Fund has already undertaken some de-risking during 2018/19 due to the funding level. As part of the 2019 Triennial Valuation the Fund will undertake a full Investment Strategy review in 2019/20.  |
| <b>Pooling</b><br>Transition plan<br>Effective management of transition<br>NYPF representation  | Pension Fund Committee/<br>Treasurer/ Senior Accountant | 2018/2021 | Work is ongoing on setting up the new sub-funds. Workshops are being held to allow each partner fund to input into the design of the sub-funds. The first sub-fund that NYPF will invest in is UK Equities Alpha, work on due diligence and transition management is ongoing. |



**NYPF 2018/2021 Business Plan Update  
Cont'd**

| Action   | Resource   | Timescale | Progress Update Jan 2019  |
|--|--|-----------|---|
| <b>Monitor Income</b><br>Monitor monthly employer and member pension contributions<br>Effective financial management                                   | Senior Accountant                                    | 2018/2019 | This is an ongoing target of the Fund. Work is in progress on addressing late payments and paperwork, charging will come into force in April 2019.  |
| <b>Effective Fund Governance</b><br>Committee and Board skills evaluation<br>Committee and Board training plan   | Pension Fund Committee                               | 2018/2019 | The skills evaluation frameworks have been approved and work is ongoing to collect responses from Members and Board members.<br>Following data gathering on skills a training plan will be developed to address any gaps. |
| <b>Triennial Valuation</b><br>Agree assumptions<br>Review of scheme factors<br>Data cleansing<br>Employer engagement<br>Review of strength of covenant | Head of Pensions Administration<br>Senior Accountant | 2018/2020 | In progress<br>Initial data extract provided and data cleansing underway.<br>Assumptions and requirements being agreed.   |



# North Yorkshire Pension Fund

## **Business Plan 2019/20 – 2021/22**



**If you require this information in an alternative language or another format such as large type, audio cassette or Braille, please contact the Pensions Help & Information Line on  
01609 536335**

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## 1. Background

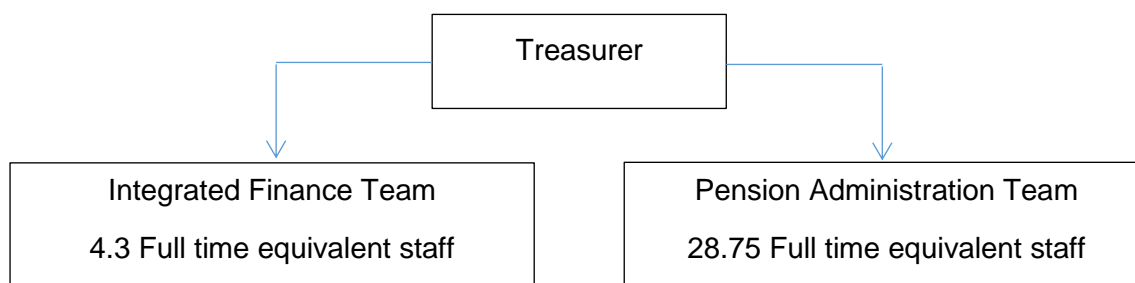
North Yorkshire County Council (NYCC) is the statutory administering authority for the North Yorkshire Pension Fund (NYPF), which is part of the Local Government Pension Scheme (LGPS). All aspects of the Fund's management and administration, including investment matters, are overseen by the Pension Fund Committee (PFC), which is a committee of the NYCC.

The purpose of the Fund is to provide retirement benefits specified by the LGPS regulations for staff working for local authority employers, and other employers admitted by agreement, in the North Yorkshire area.

The day to day running of the NYPF is delegated to the Treasurer who is the Corporate Director – Strategic Resources of the NYCC and is responsible for implementing the decisions made by the PFC.

Supporting him is a team of staff split into two sections. The Pension Administration team administers all aspects of member records, pension benefits etc. and the Integrated Finance team looks after the accounting and management information requirements of the Fund. All aspects of the day to day management of investment funds are undertaken by external fund managers.

Current structure:



The Scheme is governed by the Public Service Pensions Act 2013 and is administered in accordance with the following secondary legislation:

- the LGPS Regulations 2013 (as amended)
- the LGPS (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the LGPS (Management and Investment of Funds) Regulations 2016
- the LGPS (Amendment) Regulations 2018

The main systems utilised in the running of the NYPF are Oracle, a third party finance and accounting system provided by the Oracle Corporation, and Altair a third party pensions administration system provided by Aquila Heywood.

This business plan should be read in conjunction with the administration strategy and the investment strategy statement, these being the key documents that set out the principles of the running of the NYPF.

These can be found on our website at <https://www.nypf.org.uk/nypf/policiesandstrategies.shtml>

## 2. Introduction

As part of its programme of improving the standards of governance across all pension schemes the Pensions Regulator has recommended that each scheme should have a business plan in place which sets out a clear purpose and strategy. This plan should be used to manage the scheme effectively and enable members to get good outcomes. Having a business plan will enable the PFC to plan ahead and improve their ability to comply with legal requirements.

This Plan will be reviewed annually and objectives and key actions revised accordingly. Progress reviews will be undertaken every six months and progress reported to the PFC.

### 3. Vision

To ensure sufficient assets are available to pay the right pension benefits at the right time.

### 4. Objectives

The objectives set out below will enable the Fund to achieve its long term vision to ensure sufficient assets are available to pay the right pension benefits at the right time.

We will:

1. Maximise investment returns
2. Manage Scheme funding
3. Provide excellent customer service
4. Ensure effective Fund governance

### 5. Key Actions

The following key actions have been identified:

| Action  | Resource   | Timescale  |
|---|--|--|
| <b>Effective and efficient member administration</b><br>Website review<br>Administration software review<br>Business process re-engineering | Head of Pensions Administration                      | Q4 2019/20<br>Q1 2020/21<br>Q4 2019/20                             |
| <b>Improve Data Quality</b><br>GMP Reconciliation<br>Pensioner Reconciliation<br>Employer interaction<br>Create Data Improvement plan       | Head of Pensions Administration                      | Q1 2019/20<br>Q4 2019/20<br>Q2 2019/20<br>Q1 2019/20               |
| <b>People</b><br>Review of team structure<br>Training<br>Cross skilling<br>Resilience<br>Succession planning                                | Head of Pensions Administration                      | Q1 2019/20<br>Q4 2019/20<br>Q4 2019/20<br>Q4 2019/20<br>Q4 2019/20 |
| <b>Excellent Customer Service</b><br>Improved employer engagement<br>Partnership working with employers<br>Pension Fund rebrand             | Head of Pensions Administration/ Senior Accountant   | Q4 2021/22<br>Q4 2021/22<br>Q4 2019/20                             |
| <b>Effective Investment Strategy</b><br>Review of Investment Strategy   | Pension Fund Committee                               | Q4 2019/20   |
| <b>Pooling</b><br>Effective management of transition<br>NYPF representation   | Pension Fund Committee/ Treasurer/ Senior Accountant | Q4 2021/22<br>Q4 2021/22   |
| <b>Monitor Income</b><br>Introduce monthly monitoring of employer and member pension contributions<br>Effective financial management        | Senior Accountant                                    | Q1 2019/20<br>Q4 2021/22   |
| <b>Effective Fund Governance</b><br>Committee and Board skills evaluation<br>Committee and Board training plan                              | Pension Fund Committee                               | Q1 2019/20<br>Q2 2019/20   |

| Action                         | Resource          | Timescale  |
|--------------------------------|-------------------|------------|
| <b>Triennial Valuation</b>     | Head of Pensions  |            |
| Agree assumptions              | Administration    | Q1 2019/20 |
| Review of scheme factors       | Senior Accountant | Q1 2019/20 |
| Data cleansing                 |                   | Q1 2019/20 |
| Employer engagement            |                   | Q2 2019/20 |
| Review of strength of covenant |                   | Q2 2019/20 |

The following resources have been identified as key to ensuring delivery of the objectives identified:

- a. Systems and technology which are fit for purpose
- b. People
  - i. Focussed on customers' needs
  - ii. Highly skilled and knowledgeable
- c. The right information and data
  - i. Financial
  - ii. Performance
  - iii. Benchmarking
  - iv. Membership data
- d. Third party service providers
  - i. Actuary
  - ii. Legal Advisers
  - iii. Custodian
  - iv. Fund Managers
  - v. Investment Consultants
  - vi. Software provider
  - vii. Borders to Coast Pensions Partnership (BCPP)

These actions are recorded and scheduled in more detail in the NYPF scheduler which is used by officers to ensure the appropriate actions are taken to deliver the business plan.