

ITEM 8 - LATE REPORT

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

4 July 2019

BUDGET / STATISTICS

Report of the Treasurer

1.0 PURPOSE OF THE REPORT

1.1 To report on the following:

- | | |
|---|-----------------|
| (a) the outturn position for 2018/19 | (see section 2) |
| (b) the 3 year cashflow projection for the Fund | (see section 3) |

2.0 2018/19 OUTTURN

2.1 To remind Members, due to the large agenda in the May PFC meeting and the need to prioritise the Investment Strategy review to inform the 2019 Triennial Valuation assumptions, this report on the 2018/19 outturn position was delayed until the July meeting. The Q1 position against the 2019/20 budget will be reported as normal at the 12 September 2019 meeting.

2.2 The budget and outturn position for 2018/19 is presented in **Appendix 1**. The total running costs of the Fund in 2018/19 were £27.7m against a budget of £22.6m.

2.3 This overspend of £5.1m is mainly due to an increase of £5.3m in Investment Fees. A breakdown of the fees by fund manager is presented in **Appendix 2**. The key variances are detailed below:

- Performance Fees were £2.7m less than expected due to a drop in performance in equities when compared with the previous year. In addition, there was a reduction in the fee rate charged
- The Transaction costs disclosed by the fund managers at the year-end, as required by the introduction of the voluntary Code of Transparency, were much higher than anticipated. All managers completed the Code of Transparency template in 2018/19. It is important to note that this is not a cash overspend to the Fund. These additional transaction costs incurred are a reporting issue and not new costs; they are as a result of the exposure of additional fees that are already deducted from the assets under management by the Fund Managers.

2.4 The increase in Investment Fees has been slightly offset by lower costs on Admin Expenses and Oversight and Governance costs. Variances in these costs include:

- Legal fees were £25k lower than expected
- Consultant fees were £23k higher than expected due to additional due diligence and investment strategy review work being carried out
- The Pooling Operational Charge was underspent, partly due to £47k transition costs being refunded due to a change in the way that this will be charged to Funds. Part of the underspend (£76k) will be carried forward for use in 2019/20.

2.5 As these additional transaction fees were disclosed following the production of the 2019/20 budget, that was presented to Members for approval in the February 2019 PFC meeting, they have not been included in the 2019/20 budget. If transaction costs are to follow the same trend, there will be a forecasted overspend in management fees against the 2019/20 budget. This will be picked up in more detail in the report that will be brought to Committee on 12 September 2019.

3.0 3 YEAR CASHFLOW PROJECTION

- 3.1 The cash position of the Fund is presented in **Appendix 3**. The table shows the actual cashflow in 2018/19 along with 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 (deficit). 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 actual cashflow for the Fund in 2018/19 was a deficit of £1.3m. At the Committee meeting on 21 February 2019 it was reported that the year-end deficit was expected to be £6m. Subsequently an additional £3m income was received, consisting of £2m of employer contributions and £1m of transfers in. A deficit position was expected in 2018/19 due to deficit payments being made in advance in 2017/18 that related to 2018/19.
- 3.3 The 2020/21 and 2021/22 cashflow estimates allow for increases in staff pay and in the number of pensioners, however these figures do not yet reflect the 2019 Triennial Valuation or recent investment strategy review, so will be subject to change.
- 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 advance for the 3 years by all employers, increasing the income received through contributions. However in 2021/22 based on current 2016 Valuation assumptions, it is estimated that the Fund will be in a deficit position again. As the results of the 2019 Triennial Valuation come in, that will impact on the contribution income received, officers will monitor the cashflow position of the Fund.

4.0 **RECOMMENDATIONS**

4.1 Members to note the contents of the report.

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Treasurer to North Yorkshire Pension Fund
NYCC
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25 June 2019

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

	Revised Budget 2018/2019 £k	Outturn 2018/2019 £k	Variance £k	Budget 2019/2020 £k
EXPENDITURE				
Admin Expenses				
Finance and Central Services inc ESS	500	500	0	520
Pensions Administration Team	850	876	26	980
GMP Reconciliation programme	100	79	-21	0
Pension Data Reconciliation	0	0	0	100
Other Admin Expenses	210	126	-84	260
	1,660	1,581	-79	1,860
Oversight and Governance				
Actuarial Fees	30	32	2	70
Custodian Fees	130	116	-14	130
Consultants Fees	140	163	23	150
Pooling Implementation Costs	269	269	0	0
Pooling Project Costs	0	0	0	140
Pooling Operational Charge	503	378	-125	980
Other O & G Expenses	110	76	-34	110
	1,182	1,034	-148	1,580
Investment Fees				
Investment Management Base Fee invoiced	4,800	4,382	-418	4,000
Performance Fees invoiced	5,000	2,276	-2,724	3,500
Investment base fees deducted from Fund	10,000	18,432	8,432	11,700
	19,800	25,090	5,290	19,200
TOTAL	22,642	27,705	5,063	22,640

North Yorkshire Pension Fund Management Fees 2018/19

		2018/19 fees (£000)					
		Management Base fees		Performance fees		Other Fees (deducted from AUM)	TOTAL
Fund Manager/ Mandate	31 March 2019 Market Value (£000)	Invoiced	Deducted from AUM	Invoiced	Deducted from AUM		
Baillie Gifford- Global Alpha	649,071	1,746		735		566	3,047
Baillie Gifford- LTGG	509,401	1,487		1,541		(94)	2,934
Fidelity	283,369	169	453	-		1,835	2,457
Dodge & Cox	208,283		1,036	-		380	1,416
Veritas	213,915		844	-		619	1,463
Standard Life- Equities	169,991	569		-		1,277	1,846
Standard Life- GARS	-		891	-		344	1,235
Newton Investments	146,066		848	-		288	1,136

* Based on 31/3/19 fund value, Baillie Gifford fees are tiered based on the value of assets under management

		2018/19 fees (£000)					
		Management Base fees		Performance fees		Other Fees (deducted from AUM)	TOTAL
Fund Manager/ Mandate	31 March 2019 Market Value (£000)	Invoiced	Deducted from AUM	Invoiced	Deducted from AUM		
M&G Investments	696,339		872		-	2,072	3,047
Hermes	36,528		136		83	136	2,934
Legal & General	70,000	411			-	171	2,457
Threadneedle	182,564		1,079		-	2,149	1,416
Bluebay	28,928		165		-	515	1,463
Permira	58,068		597		-	-	1,846
Leadenhall - NAT CAT	52,545		256		-	153	1,235
Leadenhall - Remote	53,617		152		-	234	1,136
Leadenhall - Diversified	53,229		288		-	87	
	3,411,914	4,382	7,617	2,276	83	10,732	25,090

North Yorkshire Pension Fund three year cashflow forecast

	Actual 2018/2019 £k	Cashflow 2019/2020 £k	Cashflow 2020/2021 £k	Cashflow 2021/2022 £k
EXPENDITURE				
Benefits				
Pensions	85,199	90,130	94,130	101,600
Lump Sums	23,783	24,300	24,300	24,300
	108,982	114,430	118,430	125,900
Payments to and on account of leavers				
Transfers out	10,141	10,000	10,000	10,000
Refunds to leavers	827	500	500	500
	10,968	10,500	10,500	10,500
TOTAL EXPENDITURE	119,950	124,930	128,930	136,400
INCOME				
Employer and Employee Contributions	113,081	113,250	128,545	113,250
Transfers IN (from other schemes)	13,542	12,000	12,000	12,000
Investment Income	1,292	1,320	1,320	1,320
TOTAL INCOME	127,915	126,570	141,865	126,570
SURPLUS/ (DEFICIT)	7,965	1,640	12,935	-9,830
Add cost of administering the pension fund	27,705	27,700	27,700	27,700
Less Management Fees charged direct to the fund	(18,432)	(18,400)	(18,400)	(18,400)
NET SURPLUS/ (DEFICIT)	(1,308)	(7,660)	3,635	(19,130)