

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

21 FEBRUARY 2020

BUDGET / STATISTICS

Report of the Treasurer

1.0 PURPOSE OF THE REPORT

1.1 To report on the following:

- | | |
|---|-----------------|
| (a) 2019/20 budget - cost of running the Fund | (see section 2) |
| (b) the 3 year cashflow projection for the Fund | (see section 3) |

2.0 2019/20 BUDGET- COST OF RUNNING THE FUND

- 2.1 The latest forecast outturn position against the 2019/20 budget is attached as **Appendix 1**. An overspend of £6.2m is forecast which is due to expenditure on Investment Fees exceeding the original budget, as previously reported to the Committee.
- 2.2 Oversight and Governance costs are forecast to be in line with the budget of £1.6m, an improvement from the overspend of £236k reported in the previous quarter. This reduction in expenditure is mainly due to the reported costs of the Pooling Operational Charge being less than expected due to a review of the assets under management for some sub-funds which has resulted in a reduced charge of £150k. In addition, pooling costs of around £115k for the Alternative funds will now be deducted directly from the fund value rather than being invoiced, so whilst this is not a true reduction in costs, it is a reduction in the costs reported here.
- 2.3 The reduced costs are partially offset by a small increase in Consultants Fees of £24k in the quarter, as a result of further due diligence work undertaken on new sub-funds.
- 2.4 The forecast expenditure on Administration Expenses has reduced by £87k since the previous quarter due mainly to work on the Pension Data Reconciliation being delayed. Work will continue in 2020/21 and anticipated expenditure has been reflected in the 2020/21 draft budget.

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 for the current and following three 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 estimated cashflow for the Fund in 2019/20 is a £7.1m deficit. The deficit has increased since that of £4.7m reported to the Committee in the November meeting as expenditure has been increased to reflect two large bulk transfers out of the pension scheme.
- 3.3 The cashflow projection for the three years 2020/21 to 2022/23 has now been produced which reflects the following:
- Now that the 2019 Triennial Valuation is nearing conclusion, the employer contributions have been calculated based on these latest contribution rates
 - Pensions expenditure has been increased to account for rising numbers of pensioners (7% per annum) and for annual payment increases (2.1%)
 - Within the cost of administering the pension fund, pay increases of 2% per annum have been included for pension administration staff and investment fees have been adjusted to allow for annual fund growth (3.1%)
- 3.4 The cashflow of the Fund is expected to stay in a deficit position over the next three years, increasing from £7.1m in 2019/20 to £34.8m in 2022/23. The increase is due to total income staying fairly static at around £140m while expenditure grows from £138.3m in 2019/20 to £165.8m in 2022/23. The increased funding position at the current valuation has also accelerated this position for the Fund as there are lower deficit amounts due to the Fund.
- 3.5 As pension funds mature it is expected that there will be an increase in the cost of benefits that will eventually overtake the income received in employer contributions. Many LGPS Funds are already in this cashflow negative position. Now that the cashflow position of the Fund has been assessed confirming a negative position going forward, further consideration will be given to how we derive income from existing assets and new income generating assets will be factored into future investment strategy considerations to ensure that disinvestments purely for cashflow purposes are kept to a minimum.

4.0 **RECOMMENDATIONS**

- 4.1 Members to note the contents of the report.

GARY FIELDING
Treasurer to North Yorkshire Pension Fund
NYCC
County Hall
Northallerton
11 February 2020

North Yorkshire Pension Fund - 2019/2020 Budget - Cost of Running the Pension Fund

	Expenditure to 31/12/19 £k	Original Budget 2019/2020 £k	Forecast 2019/2020 £k	Variance £k
EXPENDITURE				
Admin Expenses				
Finance and Central Services	0	380	380	0
Provision of Pensioner Payroll (ESS)	0	140	140	0
Pensions Administration Team	0	980	980	0
GMP Reconciliation Programme	40	0	40	40
Pension Data Reconciliation	18	100	18	(82)
Other Admin Expenses	350	260	268	8
	408	1,860	1,826	(34)
Oversight and Governance				
Actuarial Fees	175	70	100	30
Custodian Fees	56	130	90	(40)
Consultants Fees	286	150	404	254
Pooling Project Costs	146	140	146	6
Pooling Operational Charge	586	980	711	(269)
Other O & G Expenses	77	110	128	18
	1,326	1,580	1,579	(1)
Investment Fees				
Investment Management				
Base Fee invoiced	2,011	4,000	3,000	(1,000)
Performance Fees				
Base Fee invoiced	(1,581)	3,500	2,200	(1,300)
Investment Base Fees deducted from Fund	0	11,700	20,200	8,500
	430	19,200	25,400	6,200
TOTAL	2,164	22,640	28,805	6,165

The negative values in the "Expenditure to 31/12/19" column are due to costs in respect of 2018/19 that are yet to be paid.

North Yorkshire Pension Fund Cashflow Forecast

	Cashflow 2019/2020 £k	Cashflow 2020/2021 £k	Cashflow 2021/2022 £k	Cashflow 2022/2023 £k
EXPENDITURE				
Benefits				
Pensions	92,000	100,370	109,500	119,460
Lump Sums	27,950	27,950	27,950	27,950
	119,950	128,320	137,450	147,410
Payments to and on account of leavers				
Transfers out	17,750	17,750	17,750	17,750
Refunds to leavers	600	600	600	600
	18,350	18,350	18,350	18,350
TOTAL EXPENDITURE	138,300	146,670	155,800	165,760
INCOME				
Employer and Employee Contributions	117,000	116,420	114,680	113,080
Transfers in (from other schemes)	16,840	16,840	16,840	16,840
Investment Income	6,010	6,810	8,570	8,570
	139,850	140,070	140,090	138,490
SURPLUS/ (DEFICIT)	1,550	(6,600)	(15,710)	(27,270)
Add cost of administering the pension fund	28,805	30,090	31,560	32,390
Less Management Fees charged direct to the fund	(20,200)	(22,760)	(24,160)	(24,910)
NET SURPLUS/ (DEFICIT)	(7,055)	(13,930)	(23,110)	(34,750)