

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

26 November 2021

BUDGET / STATISTICS

Report of the Treasurer

1.0 PURPOSE OF THE REPORT

1.1 To report on the following:

- (a) the 2021/22 budget and the cost of running the Fund (see section 2)
- (b) the 4 year cashflow projection for the Fund (see section 3)

2.0 2021/22 BUDGET - THE COST OF RUNNING THE FUND

2.1 The latest forecast outturn position against the 2021/22 budget is presented in **Appendix 1**. It shows an estimated total running cost of £34.0m for the Fund against a budget of £33.9m, as at the end of September 2021 (Q2). There have been no significant changes since the Q1 forecast of £34.1m that was brought to the Committee in September 2021.

3.0 4 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 financial year and the following three. This cashflow includes the contribution income and benefits payable, being the main inflows and outflows of the Fund, which are the two key determining factors for when the Fund will turn cashflow negative (deficit).

3.2 The future forecast for pension benefits payments is based on indicative assumptions (4% annual increase in pensioner numbers and 4%, 3% and 2% annual inflation uplifts for 2022/23, 2023/24 and 2024/25 respectively). The assumptions will continue to be reviewed and updated regularly to reflect any new information that becomes available on future inflation and membership numbers.

3.3 The future forecast for contribution income is based on the assumption that there will be annual increases of 3% due to pay inflation and membership numbers. It has been further assumed that from 2023/24, the 2022 Valuation will reduce the average contribution rate from the current 18.6% to 17.5%. These assumptions are clearly speculative, however we will be able to improve our model of the impact of the 2022 Valuation as the Valuation progresses.

- 3.4 The operating cashflow position for the Fund is projected to be small surpluses in 2021/22 and 2022/23, turning into deficits in 2023/24 and 2024/25.
- 3.5 Although the Fund is moving into negative cashflow territory this is a completely normal issue for pension funds as they mature. To give this some context, it is worth noting that the forecast 2023/24 cash position of negative £8.7 million represents approximately 0.2% of the current value of the Fund, and is not material when compared to the expected annual growth in the value of the Fund of 5.6%.
- 3.6 The operating cashflow projection is then combined with further forecast cashflows arising from the Fund's investment activities. In the current year 2021/22 changes have been made to bring the cash balance back to below 0.5% of the value of the Fund. This is done to improve investment efficiency whilst maintaining a sufficient level of cash to address the Fund's growing allocation to private markets investments. Further portfolio rebalancing activities have also been profiled in for future years in order to maintain the cash balance near to 0.5%.
- 3.6 The current version of cashflow projection takes into account the expected distributions to be received from our private markets investments, however we will continue to refine the model to identify the future private markets capital calls separately from net deposits/withdrawals to fund managers, so that the forecasts are more informative.

4.0 **RECOMMENDATIONS**

- 4.1 Members to note the contents of the report.

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Treasurer to North Yorkshire Pension Fund
NYCC
County Hall
Northallerton

17 November 2021

North Yorkshire Pension Fund - 2021/22 Budget - Cost of Running the Pension Fund

	Budget 2021/22 £k	Forecast 2021/22 £k	Variance £k
EXPENDITURE			
Admin Expenses			
Finance and Central Services	440	440	0
Provision of Pensioner Payroll (ESS)	90	90	0
Pensions Administration Team	1,120	1,120	0
McCloud	80	35	-45
Other Admin Expenses	510	510	0
	2,240	2,195	-45
Oversight and Governance			
Actuarial Fees	20	40	20
Custodian Fees	50	70	20
Consultants Fees	200	220	20
Pooling Operational Charge and Project Costs	776	903	127
Other O & G Expenses	100	100	0
	1,146	1,333	187
Investment Fees			
Base Fees invoiced	2,900	2,900	0
Performance Fees invoiced	2,820	2,820	0
Fees deducted from Fund	24,800	24,800	0
	30,520	30,520	0
TOTAL	33,906	34,048	142

North Yorkshire Pension Fund Cash Flow

	2021/2022 £k	2022/2023 £k	2023/2024 £k	2024/2025 £k
SCHEME PAYMENTS				
Benefits				
Pensions	(100,446)	(108,481)	(116,075)	(123,040)
Lump Sums	(28,470)	(29,267)	(30,086)	(30,929)
	(128,915)	(137,748)	(146,161)	(153,968)
Transfers out	(9,137)	(13,060)	(13,060)	(13,060)
Refunds to leavers	(328)	(380)	(380)	(380)
	(9,465)	(13,440)	(13,440)	(13,440)
Operational Expenses				
Admin Expenses	(2,195)	(2,220)	(2,214)	(2,209)
Oversight and Governance	(1,333)	(1,420)	(1,448)	(1,477)
	(3,528)	(3,640)	(3,663)	(3,686)
TOTAL PAYMENTS	(141,908)	(151,188)	(159,601)	(167,408)
SCHEME RECEIPTS				
Employer and Employee Contributions	134,985	139,035	137,004	141,114
Transfers in	9,641	13,060	13,060	13,060
	144,626	152,095	150,064	154,174
TOTAL RECEIPTS	144,626	152,095	150,064	154,174
SCHEME SURPLUS/ (DEFICIT)	2,718	907	(9,537)	(13,234)
CASH FLOW FROM INVESTMENT ACTIVITIES				
Fees Paid to Fund Managers	(5,720)	(6,519)	(6,910)	(7,325)
Distributions from Fund Managers	19,839	19,839	19,839	19,839
Withdrawals and (Deposits)	(120,000)	(17,500)	(1,000)	0
	(105,881)	(4,180)	11,929	12,514
TOTAL CASH FLOW FROM INVESTMENT ACTIVITIES	(105,881)	(4,180)	11,929	12,514
SURPLUS/ (DEFICIT) AFTER INVESTMENT ACTIVITIES	(103,163)	(3,273)	2,392	(720)
CASH BALANCE B/F	111,848	8,685	5,412	7,804
CASH BALANCE C/F	8,685	5,412	7,804	7,084