

NORTH YORKSHIRE COUNTY COUNCIL

PENSION BOARD

06 October 2022

BUDGET AND CASHFLOW

Report of the Treasurer

1.0 PURPOSE OF THE REPORT

1.1 To report on the following:

- | | |
|---|-----------------|
| (a) the 2021/22 budget and the outturn position of the Fund | (see section 2) |
| (b) the 4 year cashflow forecast for the Fund | (see section 3) |

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

2.1 The budget and outturn position for 2021/22 is presented in **Appendix 1**. The total running costs of the Fund in 2021/22 were £30.3m against a budget of £33.9m. The underspend of £3.6m is primarily due to a decrease against budgeted costs for investment management fees, which has arisen from:

- the Fund's assets performed below the long term return expectations, which in turn resulted in lower than expected fees as they are based on the values of the assets;
- one-off transition costs to Border to Coast (B2C) funds were included in the budget, however they did not materialise;
- the gradual shift of assets into B2C has led to overall lower ongoing management fees.

2.2 Variances for non-fee budget items include an increase in the pooling operating charge to the Fund. This is also a result of asset transitions to B2C, which in turn attracts a greater share of the pool's overheads.

2.3 The outturn differs significantly from the Fund's last reported forecast of £0.1m overspend in November 2021. The main difference again is on the investment management fees, which were previously forecast as being on budget. Asset values fell significantly in the first quarter of 2022 due to concerns over inflation, the Russian invasion of Ukraine and global supply chains.

3.0 4 YEAR CASHFLOW FORECAST

- 3.1 The cashflow forecast of the Fund is presented in **Appendix 2**. This shows the actual 2021/22 position along with the projected cashflows over the following 4 years. It details contribution income and benefits payable, which are the two key determining factors for when the Fund will turn cashflow negative.
- 3.2 At the current time the rate of inflation is extremely difficult to predict. This will have a significant effect on pension payments and will also impact pay increases. The forecast should therefore be seen as an indication of the direction of travel, rather than an accurate prediction.
- 3.3 The forecast for pension benefit payments including lump sums is based on assumptions on annual increases in pensioner numbers and inflationary rises, expected to be a combined 12% in 2023/24. This assumes the September 2022 figure for CPI will be 10%. Pensions in payment will increase by this amount in April 2023. The figures for later years in the forecast are 5% in 2024/25 and 3% in 2025/26. A 2% increase in pensioner numbers has been factored in each year, which is in line with recent experience.
- 3.4 The forecast for contribution income is based on the employers' current contribution rates which are in turn based on the 2019 Triennial Valuation. Early indications from the 2022 Valuation are that the solvency position at the Fund level has improved, but that the cost of future accrual has increased. These two factors approximately balance each other out, which suggests contribution requirements will remain broadly stable. However individual employer results could vary significantly.
- 3.5 The pay increase assumption for 2022/23 is based on the offer to local authorities of £1,925 per employee. The estimate for pay increases in later years is assumed to be 4% in 2023/24, 3% in 2024/25 and 2% in 2025/26.
- 3.6 The overall cashflow forecast position is a surplus in 2021/22 and 2022/23, with small but increasing deficits thereafter. However, as noted in paragraph 3.2 these figures are heavily caveated.
- 3.7 The forecast also takes into account the future cashflows from the Fund's investment activities, which in time are expected to be needed to support the Fund's operational expenditure. This has been anticipated for a number of years and is an inevitable consequence of a maturing pension fund. Cash will be available from investment income or from scheduled asset sales from the Fund's liquid assets, which make up approximately 75% of the Fund by value. This will help keep the cash balance around 0.5% of the value of the Fund, which is the agreed pragmatic level of cash required to manage the day to day requirements of the Fund.

4.0 RECOMMENDATIONS

- 4.1 Pension Board members to note the contents of the report.

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

26 September 2022

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

	Budget 2021/22 £k	Outturn 2021/22 £k	Variance £k
EXPENDITURE			
Admin Expenses			
Finance and Central Services	440	388	(52)
Provision of Pensioner Payroll (ESS)	90	138	48
Pensions Administration Team	1,120	1,164	44
McCloud	80	40	(40)
Other Admin Expenses	510	483	(27)
	2,240	2,213	(27)
Oversight and Governance			
Actuarial Fees	20	96	76
Custodian Fees	50	100	50
Consultants Fees	200	143	(57)
Pooling Operational Charge and Project Costs	776	1,057	281
Other O & G Expenses	100	71	(29)
	1,146	1,467	321
Investment Fees			
Base Fees invoiced	2,900	2,656	(244)
Performance Fees invoiced	2,820	3,527	707
Fees deducted from Fund	24,800	20,401	(4,399)
	30,520	26,584	(3,936)
TOTAL	33,906	30,264	(3,642)

North Yorkshire Pension Fund - Cash Flow

	2021/22 £k	2022/23 £k	2023/24 £k	2024/25 £k	2025/26 £k
SCHEME PAYMENTS					
Benefits					
Pensions	(99,282)	(110,000)	(123,000)	(132,000)	(136,000)
Lump Sums	(29,518)	(31,000)	(32,000)	(33,000)	(34,000)
	(128,800)	(141,000)	(155,000)	(165,000)	(170,000)
Transfers out	(8,878)	(12,000)	(13,000)	(13,000)	(14,000)
Refunds to leavers	(405)	(500)	(550)	(600)	(650)
	(9,283)	(12,500)	(13,550)	(13,600)	(14,650)
Operational Expenses					
Admin Expenses	(2,294)	(2,400)	(2,500)	(2,600)	(2,700)
Oversight and Governance	(1,387)	(1,430)	(1,470)	(1,510)	(1,560)
	(3,681)	(3,830)	(3,970)	(4,110)	(4,260)
TOTAL PAYMENTS	(141,764)	(157,330)	(172,520)	(182,710)	(188,910)
SCHEME RECEIPTS					
Employer and Employee Contributions	135,497	146,000	152,000	156,000	159,000
Transfers in	11,941	15,000	16,000	17,000	18,000
TOTAL RECEIPTS	147,438	161,000	168,000	173,000	177,000
SCHEME SURPLUS/ (DEFICIT)	5,674	3,670	(4,520)	(9,710)	(11,910)
CASH FLOW FROM INVESTMENT ACTIVITIES	(95,780)	0	4,000	10,000	12,000
SURPLUS/ (DEFICIT) AFTER INVESTMENT ACTIVITIES	(90,106)	3,670	(520)	290	90
CASH BALANCE B/F	111,848	21,742	25,412	24,892	25,182
CASH BALANCE C/F	21,742	25,412	24,892	25,182	25,272