Appendix 17

North Yorkshire Pension Fund

Cashflow Policy

June 2023

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

Contents

1.0 Introduction

1.1 This Policy sets out how the North Yorkshire Pension Fund (NYPF, or 'the Fund') will manage its cashflow requirements. As Pension Funds mature, the monitoring of the inflows and outflows of the Fund takes on increasing importance. This is because over time benefits payable are expected to overtake the contributions received from employers, putting the Fund into cashflow negative territory. NYPF is now approaching this position. A contributing factor has been the significant improvement in the funding level over recent years, such that employer deficit contributions received are no longer material. In addition, as part of its de-risking strategy, the Fund is building up investments in alternative asset classes. As they require regular capital commitments over a long term investment period, this will increase outflows of cash.

1.2 The Policy will be kept under review by the Fund with regard to applicable legislation and guidance. The Pension Fund Committee (PFC) will be asked to formally review and approve the Policy on an annual basis.

2.0 Management of Pension Fund cash

2.1 The Fund holds working cash balances to manage its cashflow requirements on a day-to-day basis. This cash balance is managed by the Administering Authority, North Yorkshire Council (NYC), within a separate bank account, in line with 'The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016'. This cash balance is kept to a minimum, with any balances not immediately required being invested in an overnight deposit facility. Cash investments are made in accordance with NYC's Treasury Management Policy and are placed with an approved list of counterparties. All counterparties are approved at Full Council.

2.2 The Fund does not have an allocation to cash investments in its long term investment strategy. However, it recognises that in the short term it can be beneficial to hold cash investments for the security of capital values, to aid implementation of the long term strategy and for liquidity purposes. Any cash investments will be placed with NYC in the same way as the working cash balance, or with the Fund's custodian Northern Trust.

3.0 Cashflow management and disinvestment policy

3.1 Cashflow of the Fund is monitored regularly by officers. Each year, or more frequently as required, a detailed cashflow projection is produced to show the value and timing of cash requirements over the coming years. This projection takes into account the main cash inflows and outflows, including benefits payable and contribution income, the costs of running the Fund and also any investment income and known capital calls to fund investment commitments.

3.2 The policy of the Fund will be to enhance income generation and keep disinvestments to a minimum. The following areas will therefore be of focus going forward:

- Maximisation of income generation within the Fund's current investments, where appropriate
- Review of opportunities for new income generating assets as part of the implementation of the current long term investment strategy
- Reviewing income generation requirements as part of future investment strategy reviews

3.3 Where cashflow monitoring determines that after all available investment income is received, disinvestments are still required to meet cashflow requirements, a plan will be produced to determine where funds will be disinvested and the appropriate timing of the disinvestment. This disinvestment plan will be managed by the Treasurer and reviewed by the PFC. Disinvestments will be based on the most advantageous option available under current circumstances and will take the following into consideration:

- Liquidity and yield
- Any transaction costs on disinvestment
- Security of capital value
- Alignment to long term investment strategy

3.4 Whilst a disinvestment plan will cover all known cash requirements, there will inevitably be circumstances where additional cash is required unexpectedly. The Fund will ensure that there is a level of liquidity within its portfolio to ensure that cash can be sourced in a timely manner through disinvestment if required. If in the unlikely circumstances immediate liquidity was an issue, under the 2016 Regulations the authority may borrow by way of a temporary loan or overdraft facility, which is liable to be repaid out of the Fund, for the purposes of paying benefit obligations due under the Scheme or for rebalancing purposes. This must be repaid by the Fund within 90 days. This facility would only be used once all other options have been exhausted and with prior approval from the Treasurer.

4.0 Cashflow Reporting

4.1 The cashflow of the Fund is reported to the PFC as required, usually on a quarterly basis. This includes information on cash movements for rebalancing purposes that have taken place in the previous quarter, and a three year cashflow projection.