

NORTH YORKSHIRE COUNCIL

PENSION FUND COMMITTEE

15 September 2023

BUDGET AND CASHFLOW

Report of the Treasurer

1.0 PURPOSE OF THE REPORT

1.1 To report on the following:

- (a) the 2023/24 budget and the cost of running the Fund (see section 2)
- (b) the 4 year cashflow projection for the Fund (see section 3)
- (c) update on the Fund's final accounts and annual report 2021/22 (see section 4)

2.0 2023/24 BUDGET - THE COST OF RUNNING THE FUND

- 2.1 The forecast position against the 2023/24 budget as at the end of June 2023 is presented in **Appendix 1**. The budget for Pooling Operational Costs has been reduced by £0.3m to agree to the charges set out in Border to Coast's annual service plan. The budget for Investment Base Fees has been reduced by £0.74m to reflect better quality of data used in forecasting. The Fund is a member of the Scheme Advisory Board's Cost Transparency Initiative which is helping to drive improvements in this area. These changes are considered to be minor corrections to the budget which do not require Committee approval.
- 2.2 At this early stage in the financial year, no significant variances are expected.

3.0 4 YEAR CASHFLOW PROJECTION

- 3.1 The cash position of the Fund is presented in **Appendix 2**. The table shows the projected cash flows of the Fund for the current financial year and the following three years. Contribution income and benefits payable are the main inflows and outflows of the Fund, so essentially determine when the Fund will turn cash flow negative as it gradually matures.
- 3.2 The forecast for pension benefits payments is based on assumptions on annual increases in pensioner numbers and inflation. CPI in September 2022 was used to uplift benefit payments from April 2023, and this was 10.1%. Inflation and other assumptions will continue to be reviewed and updated regularly to reflect any new information that becomes available. 6% has been assumed for September 2023 and 2% for each subsequent September. The long-term assumption in the Funding Strategy Statement, for comparison, is 2.3% per annum.

- 3.3 The forecast contribution income is based on the employers' new contribution rates as determined by the 2022 Triennial Valuation. The pay on which these rates are based assumes an increase of £1,925 per employee in 2023/24. Negotiations on the increase have not been concluded so this could change. Future year contributions have been increased in line with the forecast included in the Council's budget.
- 3.4 The overall cash flow position is expected to be a Scheme deficit in 2023/24. Increasing deficits are projected from 2024/25, where an equivalent amount of income from investments will be required to address this. As previously reported to the Committee, it is a natural development for a pension fund to become cashflow negative, due to factors such as increasing life expectancy.
- 3.5 The cash flow forecast shows the movements relating to the Fund's investments. The first port of call in covering any deficit will be income distributed to the Fund, such as property rental income, dividends from equities and coupons from bonds. This is already being received to a limited extent. Options to increase receivable income through Border to Coast continue to be explored.

4.0 FINAL ACCOUNTS AND ANNUAL REPORT 2021/22

- 4.1 At time of writing, the audit of the Council's Accounts 2021/22, which includes the Fund Accounts, is still not complete.
- 4.2 No material issues have been identified from the audit of the Fund Accounts and it is expected that the Fund's auditor Deloitte will issue an unqualified opinion in due course. As the Fund Accounts are a part of the Council's accounts, this cannot happen until the Council's Accounts have been completed. One issue remains to be resolved, relating to treatment of the Council's pension liabilities. However, it is hoped that this will be resolved in the next few weeks.
- 4.3. Once the Fund's audit has been completed, a final version of the Fund Annual Report 2021/22 will replace the published draft version. Adjustments to the Annual Report and Accounts are not expected, but if this does happen the Committee will be informed.

5.0 RECOMMENDATIONS

- 5.1 Members to note the contents of the report.

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04 September 2023

North Yorkshire Pension Fund - 2023/24 Budget - Cost of Running the Pension Fund

| | Budget 2023/24 £k | Forecast 2023/24 at Q1 £k | Variance £k |
|--|-------------------------|------------------------------------|----------------|
| EXPENDITURE | | | |
| Admin Expenses | | | |
| Finance and Central Services | 470 | 470 | - |
| Provision of Pensioner Payroll (ESS) | 80 | 80 | - |
| Pensions Administration Team | 1,460 | 1,460 | - |
| McCloud | 50 | 50 | - |
| Other Admin Expenses | 620 | 620 | - |
| Total Admin Expenses | 2,680 | 2,680 | - |
| Oversight and Governance | | | |
| Actuarial Fees | 60 | 60 | - |
| Custodian Fees | 70 | 70 | - |
| Consultants Fees | 150 | 150 | - |
| Pooling Operational Charge and Project Costs | 550 | 550 | - |
| Other O & G Expenses | 100 | 100 | - |
| Total Oversight and Governance | 930 | 930 | - |
| Investment Fees | | | |
| Performance Fees | 2,660 | 2,660 | - |
| Investment Base Fees | 29,800 | 29,800 | - |
| Total Investment Fees | 32,460 | 32,460 | - |
| TOTAL | 36,070 | 36,070 | - |

North Yorkshire Pension Fund - Cash Flow

| | 2023/24 £k | 2024/25 £k | 2025/26 £k | 2026/27 £k |
|---|------------------|------------------|------------------|------------------|
| SCHEME PAYMENTS | | | | |
| Benefits | | | | |
| Pensions | (120,000) | (131,000) | (138,000) | (145,000) |
| Lump Sums | (30,000) | (31,000) | (32,000) | (33,000) |
| | (150,000) | (162,000) | (170,000) | (178,000) |
| Transfers out | (14,800) | (15,100) | (15,400) | (15,700) |
| Refunds to leavers | (800) | (900) | (1,000) | (1,100) |
| | (15,600) | (16,000) | (16,400) | (16,800) |
| Operational Expenses | | | | |
| Admin Expenses | (2,700) | (2,800) | (2,900) | (3,000) |
| Oversight and Governance | (900) | (900) | (900) | (900) |
| | (3,600) | (3,700) | (3,800) | (3,900) |
| | | | | |
| TOTAL PAYMENTS | (169,200) | (181,700) | (190,200) | (198,700) |
| SCHEME RECEIPTS | | | | |
| Employer and Employee Contributions | 138,000 | 142,000 | 145,000 | 147,000 |
| Transfers in | 18,900 | 19,200 | 19,500 | 19,800 |
| | 156,900 | 161,200 | 164,500 | 166,800 |
| | | | | |
| SCHEME SURPLUS/ (DEFICIT) | (12,300) | (20,500) | (25,700) | (31,900) |
| | | | | |
| CASH FLOW FROM INVESTMENT ACTIVITIES | (1,600) | 20,500 | 25,700 | 31,900 |
| | | | | |
| SURPLUS/ (DEFICIT) AFTER INVESTMENT ACTIVITIES | (13,900) | 0 | 0 | 0 |
| | | | | |
| CASH BALANCE B/F | 38,900 | 25,000 | 25,000 | 25,000 |
| CASH BALANCE C/F | 25,000 | 25,000 | 25,000 | 25,000 |