

NORTH YORKSHIRE COUNCIL

PENSION FUND COMMITTEE

01 MARCH 2024

BUSINESS PLAN, BUDGET AND CASHFLOW FORECAST

Report of the Treasurer

1. Purpose of the Report

- 1.1. To report on the progress made against the key business plan activities identified for 2023/24.
- 1.2. To approve the draft Business Plan for 2024/25 to 2026/27.
- 1.3. To approve the draft 2024/25 Budget.
- 1.4. To report on the cashflow forecast of the Fund.

2. Progress Update

- 2.1. In the 2023/24 Business Plan, key actions for the year were identified and approved by Members at the March 2023 Committee meeting. It was agreed that officers would provide a progress report against these key actions. The latest update is attached as **Appendix 1**.

3. Draft 2024/25 Business Plan

- 3.1. The draft 2024/25 Business Plan is attached at **Appendix 2**. It sets out the purpose and strategy of the Fund with activities for the next three years to support the Committee in managing the Fund. The key initiatives are identified, with delivery dates to enable tracking of progress. The plan has been refreshed to cover the period 2024/25 to 2026/27. Any outstanding actions from 2023/24 have been rolled forward to 2024/25 where appropriate and some new actions have been identified. A summary of the business plan has also been attached as **Appendix 3**. Some of the main areas are described below.
- 3.2. **Online Monthly Employer Returns** – the phased-roll out of the online employer portal for submitting the monthly members data is still ongoing. Progress has been slower than anticipated but the remaining employers are relatively small, and we aim to finally complete this in 2024/25.
- 3.3. **Pooling** – the transition of assets to Border to Coast is continuing. Their UK Property fund is expected to be launched in the second half of 2024, and a Sustainable Bonds fund in 2025. Options to receive dividend and coupon income from investments are being explored, and we are working closely with Border to Coast on the gradual evolution of the approach to responsible investment alongside these fund launches.
- 3.4. **McCloud remedy** – progress has been much slower than anticipated. Data collection had to be redone and the data verified and updated on records manually. The data phase is now finished, and we can now move into the bulk calculation stage to identify and correct processing errors before running this phase in the live database.

4. 2024/25 Budget

- 4.1. The draft 2024/25 budget for the cost of running the Fund is presented in **Appendix 4** and totals £38.8m. It is based on the 2023/24 budget and the actual costs incurred during the year and is on an accruals basis.

- 4.2. The 2024/25 budget has increased by £1.7m compared with the 2023/24 budget. As with previous years, the largest increase relates to investment fees payable (+£1.7m) because of the projected growth in asset values during 2024/25. They are assumed to grow in line with the return assumptions used in the 2022 Valuation, 6.1% per annum. Most of the Fund's investments incur fees proportional to their value.
- 4.3. The budget for McCloud project costs has increased to reflect the additional work required this year. Pooling project costs were temporarily elevated in 2022/23 and 2023/24 to reflect the costs of developing the UK and Global Property funds. Global Property was launched in 2023 and UK Property will be launched in the second half of 2024. The other changes in the budget reflect the impact of inflation and increasing wage costs.
- 4.4. In line with normal practice, the Budget may be revised during the year if there are material changes, subject to approval by the Committee.

5. Cashflow Projection

- 5.1. The cash position of the Fund is presented in **Appendix 5**. The table shows the projected cashflows of the Fund in the 2023/24 and over the next 3 years.
- 5.2. The main inflow and outflow of the Fund are the contribution income from employers and active members and benefits payments to retired members respectively. This is to be expected and together they effectively determine when the Fund will turn cashflow negative.
- 5.3. The forecasts of both items are sensitive to the estimate of future inflation, which continues to be a subject of active debate among economists, with the prospect of lower but volatile inflation levels replacing the higher level of inflationary price pressure seen over the last two years. Assumptions for inflation and other key metrics impacting cashflow projection, such as the 2025 Valuation, will be periodically assessed and incorporated into future updates.
- 5.4. The Scheme Surplus or Deficit figures reflect the position in relation to the Fund's non-investment operations and are the relevant figures when assessing whether the Fund is in a cash surplus or deficit position.
- 5.5. The Surplus or Deficit After Investment Activities figures reflect the cash movements to or from investments, required to maintain a stable cash balance. The intention has been to maintain cash for operational purposes around 0.5% of the value of the Fund. Going forward, investment income or occasional divestments may be required to maintain this consistent level of cash. This is quite normal for a maturing pension fund.
- 5.6. The Fund currently has a much higher cash balance, which is not reflected in these figures. This excess of cash is treated as an investment alternative to equities, to reduce the overall risk the Fund is exposed to in a period where markets are expected to be volatile. It is not treated as operational cash.

6. Recommendations

- 6.1. Note the progress made against the 2023/24 Business Plan.
- 6.2. Approve the draft 2024/25 Business Plan.
- 6.3. Approve the draft 2024/25 Budget.
- 6.4. Note the 3-year cashflow projection for the Fund.

Gary Fielding
Treasurer of North Yorkshire Pension Fund
NYCC
County Hall
Northallerton

19 February 2024