

# NORTH YORKSHIRE COUNTY COUNCIL

## PENSION FUND COMMITTEE

24 MAY 2024

### 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 3 year cashflow projection for the Fund                 | (see section 3) |
| (c) the position on the audit of the 2021/22 and 2022/23 audits | (see section 4) |

#### 2.0 2023/24 BUDGET AND THE COST OF RUNNING THE FUND

- 2.1 The draft outturn position against the 2023/24 budget is presented in **Appendix 1**. It shows total running costs of £35.1 million against a budget of £36.8 million. The draft underspend is therefore £1.7 million for the financial year. The final position will be established on completion of the 2023/24 Accounts, but no material changes are expected.
- 2.2 As is often the case, the largest variance is on investment manager fees. In 2023/24 the main reason for this was rebalancing activity, where divestments were either reallocated to lower cost investments or were held as cash. For example, in the December 2023 quarter there were divestments from externally managed equity funds, with part of the proceeds reinvested in Border to Coast's internally managed government bonds fund and part retained in cash in anticipation of private markets capital calls.
- 2.3 Other than on investment fees, variances were relatively minor. The largest was an overspend on the Pensions Administration Team because of project work undertaken throughout the year, which is difficult to predict.

#### 3.0 3 YEAR CASHFLOW PROJECTION

- 3.1 The cash position of the Fund operations is presented in **Appendix 2**. It does not include cashflows from investment activity. The table shows the projected cash flows of the Fund for the current financial year and the following three years. This cash flow 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 cash flow negative.

- 3.2 The forecast for pension benefits payments is based on revised assumptions on annual increases in pensioner numbers and inflation. CPI in September 2023 was used to uplift benefit payments in April 2024, and this was 6.7%. Inflation is expected to continue to fall but there is a risk that it stabilises at a level significantly above the Bank of England's long-term target of 2%. This will be given detailed consideration next year as part of the 2025 Valuation, as inflation is one of the key assumptions impacting on liability values. In the meantime, this and other assumptions will continue to be reviewed and updated regularly to reflect any new information that becomes available.
- 3.3 The forecast for contribution income is based on the employers' current contribution rates and takes into account the employer results from the 2022 Triennial Valuation. Future year contributions have been increased in line with the Council's forecast for pay included in its budget. The Council is the largest employer in the Fund by far, and its arrangements are a reasonable proxy for all the Fund's employers. Aon's Quarterly Funding and Investments Report notes that future employer contribution requirements could be lower than forecast at the 2022 Valuation date. However, this is based on 2022 assumptions rolled forward. Revised assumptions will be used in the 2025 Valuation, and other matters such as the level of prudence in aiming for a fully funded position will be considered. At this stage, it is too early to predict changes to employer contribution rates and what this might mean for the Fund's cashflow.
- 3.4 The Fund's overall cash flow forecast is for steadily increasing operational deficits in each year from 2023/24. In the years up to 2022/23 there was a steadily decreasing surplus. This reflects the typical journey of a pension fund as it matures. For the Fund as a whole and each employer in the Fund, the balance of pension fund members gradually tilts towards pensioner members, due to factors such as increasing life expectancy.
- 3.5 The cashflow shortfall will be met by the Fund's investments. The first port of call is the income distributed to the Fund, such as property rental income, dividends from equities and coupons from bonds. Historically most of this income has been automatically reinvested, but options to withdraw it are being explored with all the Fund's investment managers, Border to Coast in particular. Income currently reinvested is significantly more than the forecast cashflow shortfalls over the next three years. While these options are being explored, some of the cash from recent divestments from Baillie Gifford is being used to meet the small shortfall.

#### **4.0 2021/22 AND 2022/23 AUDITS**

- 4.1 The 2021/22 audit of the Accounts was completed several months ago, as was the audit work on the 2021/22 Annual Report. However, Deloitte has still not issued the Independent Auditors Statement on the Annual Report.
- 4.2 The audit of the 2022/23 Accounts is still ongoing. Most of the audit work has been completed, but there are a small number of issues outstanding. It should not be very long before the audit work is finished, when the Accounts will be ready to be

completed as part of the Council's Accounts. This will be followed by audit work on the Fund's 2022/23 Annual Report and ultimately Deloitte issuing their Independent Auditors Statement.

**5.0 RECOMMENDATIONS**

5.1 Members to note the contents of the report.

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

15 May 2024

**North Yorkshire Pension Fund - 2023/2024 Budget**  
**Cost of Running The Pension Fund**

	<b>Budget 2023/2024 £k</b>	<b>Provisional Outturn 2023/2024 £k</b>	<b>Variance £k</b>
<b>EXPENDITURE</b>			
<b><u>Admin Expenses</u></b>			
Finance and Central Services	470	453	- 17
Provision of Pensioner Payroll (ESS)	80	78	- 2
Pensions Administration Team	1,460	1,537	77
McCloud	50	50	-
Other Admin Expenses	620	621	1
<b>Total Admin Expenses</b>	<b>2,680</b>	<b>2,739</b>	<b>59</b>
<b><u>Oversight and Governance</u></b>			-
Actuarial Fees	60	64	4
Custodian Fees	70	60	- 10
Investment Consultant Fees	150	180	30
Pooling: Governance & Projects	550	542	- 8
Other O & G Expenses	100	104	4
<b>Total Oversight and Governance</b>	<b>930</b>	<b>950</b>	<b>20</b>
<b><u>Investment Fees</u></b>			
Performance Fees	2,660	2,542	- 118
Investment Base Fees	30,540	28,902	- 1,638
<b>Total Investment Fees</b>	<b>33,200</b>	<b>31,444</b>	<b>- 1,756</b>
<b>TOTAL</b>	<b>36,810</b>	<b>35,133</b>	<b>- 1,677</b>

## North Yorkshire Pension Fund - Cash Flow

	2023/2024 £k	2024/2025 £k	2025/2026 £k	2026/2027 £k
<b>SCHEME PAYMENTS</b>				
<b>Benefits</b>				
Pensions	(128,662)	(134,000)	(142,000)	(150,000)
Lump Sums	(28,727)	(31,000)	(32,000)	(33,000)
	<b>(157,389)</b>	<b>(165,000)</b>	<b>(174,000)</b>	<b>(183,000)</b>
Transfers out	(22,696)	(20,200)	(20,500)	(20,800)
Refunds to leavers	(770)	(900)	(1,000)	(1,100)
	<b>(23,466)</b>	<b>(21,100)</b>	<b>(21,500)</b>	<b>(21,900)</b>
<b>Operational Expenses</b>				
Admin Expenses	(2,545)	(2,900)	(3,000)	(3,100)
Oversight and Governance	(1,440)	(1,100)	(1,100)	(1,100)
	<b>(3,985)</b>	<b>(4,000)</b>	<b>(4,100)</b>	<b>(4,200)</b>
<b>TOTAL PAYMENTS</b>	<b>(184,840)</b>	<b>(190,100)</b>	<b>(199,600)</b>	<b>(209,100)</b>
<b>SCHEME RECEIPTS</b>				
Employer and Employee Contributions	149,080	152,000	155,000	158,000
Transfers in	23,275	20,600	20,900	21,200
<b>TOTAL RECEIPTS</b>	<b>172,355</b>	<b>172,600</b>	<b>175,900</b>	<b>179,200</b>
<b>SCHEME SURPLUS/ (DEFICIT)</b>	<b>(12,485)</b>	<b>(17,500)</b>	<b>(25,700)</b>	<b>(31,900)</b>