

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

10 September 2021

BUDGET / STATISTICS

Report of the Treasurer

1.0 PURPOSE OF THE REPORT

1.1 To report on the following:

- | | |
|---|-----------------|
| (a) the 2020/21 budget and the cost of running the Fund | (see section 2) |
| (b) the 2021/22 budget and the cost of running the Fund | (see section 3) |
| (c) the 3 year cashflow projection for the Fund | (see section 4) |
| (d) the pooling costs and savings analysis (2021) | (see section 5) |

2.0 2020/21 BUDGET - THE COST OF RUNNING THE FUND

- 2.1 The budget and outturn position for 2020/21 is presented in **Appendix 1**. The total running costs of the Fund in 2020/21 were £31.4m against a budget of £30m. The overspend of £1.4m is mainly due to an increase against budgeted costs for investment management fees, which have arisen as they are based on the values of the Fund's assets and these have increased well above our original expectations.
- 2.2 The outturn is in line with the Fund's Q3 forecast i.e. a forecasted overspend of £1.4m, which was reported to the Committee in March 2021. There are a number of small changes for individual budget lines, though these mostly offset each other leaving only a minor total net change of £20k.

3.0 2021/22 BUDGET - THE COST OF RUNNING THE FUND

- 3.1 The latest forecast outturn position against the 2021/22 budget is presented in **Appendix 2**. It shows an estimated total running cost of £34.1m for the Fund against a budget of £33.9m, as at the end of June 2021 (Q2). The expected £0.2m overspend is mainly due to an increase in the operational overhead charges from Border to Coast as a result of the Fund's gradual shift of its assets into the pooling arrangement, which in turn attracts a greater share of the pool's overhead (from 5.9% to 6.3%), alongside an increase in the pool's overall operational costs (from £12m to £14m) this year.
- 3.2 The current forecast has not included any potential project cost from Border to Coast's proposal for additional resource commitment from each Partner Fund to continue development of its property sub-fund, beyond its design stage. Details of this proposal can be found in the Asset Allocation report for this Committee meeting.

4.0 3 YEAR CASHFLOW PROJECTION

- 4.1 The cash position of the Fund is presented in **Appendix 3**. The table shows the actual cashflow in 2020/21 along with the projected cashflows of the Fund over the next 2 years. This cashflow includes the contribution income and benefits payable, the main inflow and outflow of the Fund, which are the two key determining factors for when the Fund will turn cashflow negative (deficit).
- 4.2 The forecast for pension benefits payments is based on revised assumptions (3.5% annual increase in pensioner numbers and 2.1% annual inflation uplift). These are indicative and will need to be monitored and reviewed closely during 2021/22.
- 4.3 The forecast for contribution income is based on the assumption that the higher elective contribution rate for the employer NYCC will continue in 2022/23.
- 4.4 The overall cashflow position is a surplus for 2020/21, which is also projected for 2021/22 and 2022/23. However due to the volatile nature of some of the income and expenditure incurred by the Fund, an element of fluctuation is to be expected.
- 4.5 In this revised version of the cashflow projection, the cashflow position also includes cashflows arising from the Fund's investment activities, including bringing the cash balance to be within 0.5% of the value of the Fund. However please note that this version does not yet factor in private market investment activities; these will depend on the final decision on the Listed Alternatives investment by the Committee, after which more modelling work will be needed to further refine the forecast.

5.0 POOLING COSTS AND SAVINGS

- 5.1 At the time the Committee decided to join the Border to Coast arrangement, forecasts of costs and investment fee savings were made as part of a cost benefit analysis. This analysis also considered less tangible benefits, such as the ability to invest in parts of the investment market otherwise out of reach, and the potential for improvements in investment performance. However, the focus of the analysis was on the forecasts of costs and savings and the estimated payback period.
- 5.2 Cumulative net costs were forecast to peak at £3.3 million in 2018/19 and a net saving position was forecast to be reached in 2022/23, with a forecast saving of £1.1 million by March 2024. However, these 2016 forecasts were made before Border to Coast Pensions Partnership Limited was created and included a range of assumptions including the number of investment funds to be launched, the cost of transition arrangements, and external manager fees.
- 5.3 Five years later, a thorough review has been carried out. This was led by Border to Coast, who have the responsibility of reporting collective savings to MHCLG, and involved officers at each of the eleven partner funds. This review was on an individual partner fund basis and looked at the actual costs and savings up to the end of March 2021 as well as forecast costs and savings and is attached as Appendix 4.
- 5.4 The outcome of the 2021 review is surprisingly close to that of the 2016 review, given the very many assumptions made in 2016. Net cost peaked at £1.9 million in 2019/20. The payback period is forecast to be reached during the 2022/23 financial year. By

the end of March 2024, just under 3 years from now, cumulative savings are forecast to be £4.4 million.

- 5.5 Within setup and operational costs are one-off costs incurred in establishing Border to Coast, the cost of company shares, and ongoing governance costs. These costs are equally shared between the partner funds. The governance costs are central costs which are not related to the value of investments being managed, such as board members' salary costs.
- 5.6 All other costs relate to investments, so are apportioned pro rata to each partner fund based on the value of their investments being managed by Border to Coast. These costs are netted off against the investment management fee savings, to either show a net saving or a net cost.
- 5.7 The NYPF fee savings are the result of fee negotiations outside of Border to Coast. Border to Coast fee savings in public and private markets are from reduced manager fees as a result of economies of scale.
- 5.8 Transition costs in relation to the transfer of equities and government bonds have been included as they represent costs that may not have been incurred were it not for pooling. Transition costs relating to corporate bonds, multi asset credit and listed alternatives have not been included as these asset classes are new to the strategy and would have been incurred anyway.
- 5.9 Although it is encouraging to see that significant savings are being made, the real test is whether or not improved investment outcomes net of costs are being achieved. An assessment will be made in due course. NYPF first invested with Border to Coast in 2019, and a track record of at least three years, preferably longer, will be required before this assessment should be made.

6.0 **RECOMMENDATIONS**

- 6.1 Members to note the contents of the report.

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10 September 2021

North Yorkshire Pension Fund - 2020/21 Budget - Cost of Running the Pension Fund

	Budget 2020/21 £k	Outturn 2020/21 £k	Variance £k
EXPENDITURE			
Admin Expenses			
Finance and Central Services	430	415	(15)
Provision of Pensioner Payroll (ESS)	140	138	(2)
Pensions Administration Team	1,090	1,059	(31)
Pension Data Reconciliation	50	60	10
McCloud	0	0	0
Other Admin Expenses	270	244	(26)
	1,980	1,916	(64)
Oversight and Governance			
Actuarial Fees	40	21	(19)
Custodian & Performance Monitoring Fees	50	70	20
Consultants Fees	290	273	(17)
Pooling Project Costs	70	143	73
Pooling Operational Charge	600	711	111
Other O & G Expenses	100	63	(37)
	1,150	1,281	131
Investment Fees			
Investment Management Base Fee invoiced	2,200	2,812	612
Performance Fees invoiced	2,000	2,406	406
Investment Fees deducted from Fund	22,760	23,080	320
	26,960	28,298	1,338
TOTAL	30,090	31,495	1,405

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

	Budget 2021/22 £k	Forecast 2021/22 £k	Variance £k
EXPENDITURE			
Admin Expenses			
Finance and Central Services	440	440	-
Provision of Pensioner Payroll (ESS)	90	90	-
Pensions Administration Team	1,120	1,20	-
McCloud	80	-	(80)
Other Admin Expenses	510	510	-
	2,240	2,160	(80)
Oversight and Governance			
Actuarial Fees	20	40	20
Custodian & Performance Monitoring Fees	50	50	-
Consultants Fees	200	290	90
Pooling Project Costs	26	26	-
Pooling Operational Charge	750	877	127
Other O & G Expenses	100	100	-
	1,146	1,383	237
Investment Fees			
Investment Management Base Fee invoiced	2,900	2,900	-
Performance Fees invoiced	2,820	2,820	-
Investment Fees deducted from Fund	24,800	24,800	-
	30,520	30,520	-
TOTAL	33,906	34,063	157

North Yorkshire Pension Fund Cashflow Forecast

	Actual Cashflow 2020/2021 £k	Forecast Cashflow 2021/2022 £k	Forecast Cashflow 2022/2023 £k
SCHEME PAYMENTS			
Benefits			
Pensions	(95,937)	(101,310)	(106,980)
Lump Sums	(25,625)	(27,230)	(28,750)
	(121,562)	(128,540)	(135,730)
Payments to and on account of leavers			
Transfers out	(7,992)	(8,000)	(8,000)
Refunds to leavers	(387)	(380)	(380)
	(8,379)	(8,380)	(8,380)
Operational Expenses			
Admin Expenses	(1,916)	(2,160)	(2,220)
Oversight and Governance	(1,281)	(1,383)	(1,420)
	(3,197)	(3,543)	(3,640)
TOTAL PAYMENTS	(133,138)	(140,463)	(147,750)
SCHEME RECEIPTS			
Employer and Employee Contributions	133,082	137,070	141,180
Transfers in (from other schemes)	10,575	8,000	8,000
	143,657	145,070	149,180
TOTAL RECEIPTS			
	10,519	4,607	1,430
SCHEME SURPLUS/ (DEFICIT)			
CASH FLOW FROM INVESTMENT ACTIVITIES			
Fees Invoiced Paid to Fund Managers	(5,219)	(4,800)	(4,300)
Investment Income from Fund Managers	4,786	3,000	2,000
Withdrawals and (Deposits) with Fund Managers	(37,135)	(90,000)	-
	(37,568)	(91,800)	(2,300)
TOTAL CASH FLOW FROM INVESTMENT			
SURPLUS/ (DEFICIT) AFTER INVESTMENT	(27,049)	(87,193)	(870)
CASH BALANCE B/F	138,897	111,848	24,655
CASH BALANCE C/F	111,848	24,655	23,785

Pooling Costs & Savings - North Yorkshire

	2016/17	2017/18	2018/19	2019/20	2020/21	Cumulative to 2020/21	2021/22	2022/23	2023/24
	Actual	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Company creation	0.03	0.15	0.24	-	-	0.42	-	-	-
Company shares	-	-	0.83	-	0.35	1.18	-	-	-
Governance	-	-	0.17	0.19	0.23	0.60	0.30	0.30	0.30
Development/project costs	-	-	0.20	0.36	0.26	0.81	0.41	0.34	-
Total Set up and Operating Costs	0.03	0.15	1.44	0.55	0.84	3.02	0.70	0.64	0.30
Transition Costs				0.90	0.01	0.91	0.42	-	-
NYPF fee savings due to pooling	0.14	0.34	0.36	0.34	0.73	1.90	0.77	0.51	0.51
Border to Coast private markets fee savings				(0.12)	0.06	(0.07)	0.68	1.29	1.47
Border to Coast public markets fee savings				0.16	0.47	0.63	0.79	0.95	0.95
Total Fee Savings	0.14	0.34	0.36	0.38	1.25	2.46	2.24	2.75	2.93
Net Position	0.11	0.18	(1.08)	(1.07)	0.40	(1.47)	1.11	2.11	2.64
Cumulative Net Position	0.11	0.29	(0.79)	(1.87)	(1.47)	(1.47)	(0.36)	1.76	4.39

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