

NORTH YORKSHIRE COUNTY COUNCIL

PENSION FUND COMMITTEE

22 NOVEMBER 2019

BUDGET / STATISTICS

Report of the Treasurer

1.0 PURPOSE OF THE REPORT

1.1 To report on the following:

- | | |
|--|-----------------|
| (a) 2019/20 budget - cost of running the Fund | (see section 2) |
| (b) the 2019/20 cashflow projection for the Fund | (see section 3) |

2.0 2019/20 BUDGET- COST OF RUNNING THE FUND

- 2.1 The latest forecast outturn position against the 2019/20 budget is attached as **Appendix 1**. An overspend of £6.5m is reported which is mainly due to overspends on Investment Fees (£6.2m) and Consultants' Fees (£230k).
- 2.2 As noted in the report to the Pension Fund Committee in July, the transaction costs disclosed by the fund managers at the end of 2018/19 were much higher than had been anticipated. These fees were disclosed after the Committee had agreed the 2019/20 budget and therefore the budget reflects a lower level of expenditure. It is important to note that this increase in forecast management fees does not impact on the net performance as they are not new costs, it is as a result of increased transparency on fees deducted from the Fund. In addition, as these transaction costs are deducted from assets under management there will also be no impact on cashflow.
- 2.3 The forecast for Investment Fees has been reduced by £900k in the quarter to £25.4m. This reduction is mainly due to performance fees being £1.3m less than previously reported, following the disinvestment from the Baillie Gifford Global Alpha Fund. This reduction is partially offset by higher management fees of £400k which have increased in line with the value of the fund. The forecast reflects the current valuation of the Fund and takes account of known factors such as the movement of funds during the period. However, it is difficult to predict the future market value of the Fund or the number of transactions that will be undertaken by the fund managers in the year, both of which will determine the actual fees charged.
- 2.4 Forecast expenditure on Consultants' fees is £380k, which exceeds the budget by £230k. In addition to the annual fixed fee of £69k, fees totalling £190k have been incurred for work on setting up Equity Protection, for due diligence on a number of BCPP sub-funds and for the Investment Strategy Review undertaken as part of the 2019 Triennial Valuation. A further estimate of c.£120k has been made for fees

incurred during the remainder of 2019/20. Whilst funds are being transitioned into the Pool, in order to undertake appropriate due diligence, it is likely that consultant fees will continue to be higher than in previous years.

- 2.5 Expenditure of £31k is forecast for the GMP Reconciliation Programme in 2019/20. This is mainly due to £21k of expenditure originally planned for 2018/19 not being incurred until 2019/20. In addition, £10k is required to allow a final reconciliation of GMP data and HMRC data, following a change in the HMRC process for responding to queries.
- 2.6 Other Admin Expenses are expected to exceed the budget by £22k. Costs have increased due to the planned addition of the Address Look Up and Member Self-Service modules to the Altair system (£70k in 19/20). This has been partially offset by the £50k underspend on the Website Review which is not expected to begin until 2020/21.
- 2.7 Variances are also reported against Oversight and Governance costs. Actuarial Fees are increased by £30k due to additional triennial valuation fees and work on Investment Strategy modelling. Custodian Fees will reduce in the second half of the year as the assets under custody are moved to the pool, leading to an underspend of around £30k.

3.0 1 YEAR CASHFLOW PROJECTION

- 3.1 The cash position of the Fund is presented in **Appendix 2**. The table shows the projected cashflows of the Fund over the next year. This cashflow includes the contribution income and benefits payable, the main inflow and outflow of the Fund, which will determine when the Fund will turn cashflow negative (deficit). In addition to this it also includes all other items that go through the bank account, for example, any costs of administering the scheme; this provides a more accurate prediction of the cash position of the Fund.
- 3.2 A 3 year cashflow position is normally reported but as the results of the 2019 Triennial Valuation are not yet fully available, anything beyond the current year would not reflect the true cashflow position at this stage. A review of the cashflow position will be undertaken as soon as the results from the 2019 Triennial Valuation are available and an updated cashflow position for the next 3 years will be provided to the Committee.
- 3.3 The estimated cashflow for the Fund in 2019/20 is a £4.7m deficit. This deficit position is mainly due to the £13m prepayment of deficit contributions relating to 2019/20 in 2017/18. The deficit has reduced since that of £12.1m reported to the Committee in the September meeting due to a £6.5m net decrease in payments made from the Fund and a £0.9m decrease in the costs of administering the Fund. This net decrease in the payments made of £6.5m is mainly as a result of increased Investment Income of £3.5m from Permira and an increase in the Management Fees being deducted from assets under management rather than invoiced to the Fund of £1.8m.

4.0 **RECOMMENDATIONS**

4.1 Members to note the contents of the report.

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

13 November 2019

North Yorkshire Pension Fund - 2019/2020 Budget - Cost of Running The Pension Fund

	Expenditure to 30/9/19 £k	Original Budget 2019/2020 £k	Forecast 2019/2020 £k	Variance £k
EXPENDITURE				
Admin Expenses				
Finance and Central Services inc ESS	0	520	520	0
Pensions Administration Team	0	980	980	0
GMP Reconciliation Programme	29	0	31	31
Pension Data Reconciliation	9	100	100	0
Other Admin Expenses	134	260	282	22
	172	1,860	1,913	53
Oversight and Governance				
Actuarial Fees	72	70	100	30
Custodian Fees	33	130	100	-30
Consultants Fees	213	150	380	230
Pooling Project Costs	146	140	146	6
Pooling Operational Charge	272	980	980	0
Other O & G Expenses	35	110	110	0
	770	1,580	1,816	236
Investment Fees				
Investment Management Base Fee invoiced	994	4,000	3,000	-1,000
Performance Fees Base Fee invoiced	-1,581	3,500	2,200	-1,300
Investment Base Fees deducted from Fund	0	11,700	20,200	8,500
	-587	19,200	25,400	6,200
TOTAL	354	22,640	29,129	6,489

The negative values in the "Expenditure to 30/9/19" column are due to costs in respect of 2018/19 that are yet to be invoiced for.

North Yorkshire Pension Fund - 2019/2020 Cashflow Projection

	Cashflow 2019/2020 £k
EXPENDITURE	
Benefits	
Pensions	91,000
Lump Sums	25,600
	116,600
Payments to and on account of leavers	
Transfers out	17,210
Refunds to leavers	600
	17,810
TOTAL EXPENDITURE	134,410
INCOME	
Employer and Employee Contributions	117,000
Transfers in (from other schemes)	16,840
Investment Income	4,820
TOTAL INCOME	138,660
SURPLUS/ (DEFICIT)	4,250
Add cost of administering the pension fund	29,129
Less Management Fees charged direct to the fund	(20,200)
NET SURPLUS/ (DEFICIT)	(4,679)