



Report of John Hewitt, Corporate Director of Resources

Purpose of the Report

1. To provide an update to Members on the:
 - (a) overall value of the Pension Fund's investments at 31 March 2019;
 - (b) movement in the cash balance during the last four quarters;
 - (c) projected cash flow position up to 30 June 2020.

Executive Summary

2. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters. At 31 March 2019 the value of the Fund was £2.935 billion and the cash balance held in the Durham County Council Pension Fund bank account was £37,290 million. Fund Managers also held cash of £40.563 million at that date.
3. The cash flow forecast detailed in Appendix 2 indicates net cash outflows, excluding cash withdrawals from fund managers, in future quarters of between £10 million and £17 million. As fund rebalancing has been suspended whilst the strategic asset allocation is under review, a recovery of £20 million from Fund Managers in the quarters ending 30 June 2019 and 31 December 2019 has been included in the forecast.

Recommendation

4. Members are asked to note the information contained in this report.

Background

Value of the Pension Fund

5. Reports from the seven appointed Fund Managers, namely:

- Aberdeen Standard
- AB
- BlackRock
- Bank of New York Mellon (Walter Scott)
- CB Richard Ellis
- Mondrian
- Royal London

are included in other papers within this agenda.

6. The value of the Fund at 31 March 2019 was £2.935 billion compared to £2.742 billion at 31 December 2018. This is an increase of £192.35 million (or 7.02%) in the fourth quarter of 2018/19.

Allocation of New Investment Money/ Withdrawal of Investment Money to Deal with Estimated Shortfall

7. New investment money is allocated to Fund Managers when the Pension Fund has cash which is not required to be available as a working cash balance, for example to pay pensioners or fees.
8. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from Fund Managers.
9. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters. As at 31 March 2019 the cash balance held in the Durham County Council Pension Fund bank account was £37.290 million. In addition to this, not included in this table, Fund Managers were holding cash of £40.563 million at 31 March 2019.

Cash Flow Forecast 2018/19

10. Appendix 2 shows the projected cash flow for the Pension Fund for the period April 2019 to June 2020. It should be noted that this is only in respect of cash held in the Pension Fund bank account and that income earned from investments is currently retained by Managers.

11. The forecast includes the recovery of £20 million from Fund Managers in the quarters ending 30 June 2019 and 31 December 2019. Without the recovery of the aforementioned amounts, the Pension Fund is estimated to be in a cash negative position in all quarters to 30 June 2020.
12. The forecast indicates net cash outflows in future quarters of between £10 million and £17 million. The size of the outflows are exacerbated due to the early receipt of Durham County and Darlington Borough Councils' deficit contributions in April 2017, the impact of which is an apparent reduction in future contributions receivable of £6.598 million per quarter.
13. The following assumptions have been used in the cash flow forecast:
 - (a) Annual dividend income receivable is estimated to be £26.5 million and profiled to be received as follows:

(i) Quarter ended 30 June 2019	21%
(ii) Quarter ended 30 September 2019	24%
(iii) Quarter ended 31 December 2019	26%
(iv) Quarter ended 31 March 2019	29%
 - (b) Increases in contributions are included in line with the actuarial valuation.
 - (c) Transfer values due in are estimated at £1.25 million per quarter. It is anticipated that transfers in will continue as the LGPS remains relatively attractive to employees.
 - (d) Pensions increase was 2.4% with effect from 1 April 2019.
 - (e) Payroll paysheets (payments to pensioners) are forecast to increase by £0.25 million per quarter, from 1 April 2019. This figure will alter if there are large numbers of retirements from the employing authorities. It is anticipated however that the actual figure will not be materially different to the forecast since the position of the County Council, being the largest employer in the Fund, has been taken into account.
 - (f) Payable paysheets are forecast on the basis of the previous year's profile and adjusted for known one-off payments, although this can be the most volatile figure as it includes payments of lump sums and fees to managers. This assumption errs on the side of prudence, in that this is an average figure taken from previous quarterly payments.

14. Appendix 2 provides an early indication of the likely impact on the Pension Fund's cash flow position over the next 15 months. It is continuously under review and is refined to take any new information into account as it becomes available.

Fund Rebalancing

15. Fund rebalancing is the mechanism by which the Pension Fund would ensure that the asset allocation to Investment Managers is maintained at the target levels previously agreed by the Pension Fund Committee and as set out in the Investment Strategy Statement. It is also the means by which cash is moved to or from managers as a consequence of the cash flow forecasts.
16. Due to the current suspension of fund rebalancing, there was no rebalancing exercise this quarter.

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Actual Cash Flow – For the period 1 April 2018 to 31 March 2019

Quarter Ended	30.06.18		30.09.18		31.12.18		31.03.19	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
	£	£	£	£	£	£	£	£
Cash Inflows								
Contributions - DCC	13,800,000	14,026,059	13,810,000	14,031,093	13,810,000	13,958,692	13,950,000	14,096,247
Contributions - Other	8,925,000	9,435,259	9,055,000	9,427,471	9,055,000	9,655,168	9,600,000	9,821,075
Unfunded pensions recharges	1,170,000	1,095,967	1,170,000	1,120,692	1,170,000	1,101,373	1,120,000	1,124,595
Transfer Values	1,250,000	1,505,702	1,250,000	808,619	1,250,000	1,024,338	1,250,000	805,197
Other income	2,000,000	1,280,190	2,000,000	2,028,874	2,000,000	1,126,820	2,000,000	3,311,968
Funds recovered from Managers	0	0	20,000,000	20,000,000	0	26,000,000	0	0
Interest on short term investments	30,000	46,562	40,000	38,822	50,000	65,169	85,000	104,769
Total Cash Inflow	27,175,000	27,389,739	47,325,000	47,455,569	27,335,000	52,931,560	28,005,000	29,263,850
Cash Outflows								
Payroll Paysheets	25,500,000	25,076,412	25,750,000	25,426,232	25,750,000	25,727,276	26,000,000	25,824,012
Payables Paysheets (incl. Managers' fees)	12,000,000	15,369,235	12,000,000	10,557,206	12,000,000	13,631,809	12,000,000	11,429,632
Funds transferred to Managers	0	0	0	0	0	0	5,600,000	0
Other Expenditure	1,000	4,439	1,000	785	1,000	790	1,000	794
Total Cash Outflows	37,501,000	40,450,085	37,751,000	35,984,223	37,751,000	39,359,875	43,601,000	37,254,438
Net Cash Inflow / (-) Outflow	-10,326,000	-13,060,346	9,574,000	11,471,347	-10,416,000	13,571,685	-15,596,000	-7,990,588
Balance at Bank (opening)		35,680,827		22,076,786		32,948,356		45,870,405
Balance at Bank (closing)		22,076,786		32,948,356		45,870,405		37,289,542

Appendix 2

Projected Cash Flow (including forecast dividends receivable by Fund Managers) - for the period 1 April 2019 to 30 June 2020

Quarter Ended	30.06.19	30.09.19	31.12.19	31.03.20	30.06.20
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Cash Inflows					
Contributions - DCC	13,950,000	13,950,000	13,950,000	13,950,000	13,950,000
Contributions - Other	9,760,000	9,850,000	9,850,000	9,850,000	9,850,000
Unfunded pensions recharges	1,140,000	1,140,000	1,140,000	1,140,000	1,140,000
Transfer Values	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
Other income	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Funds recovered from Managers	20,000,000	0	20,000,000	0	0
Interest on short term investments	85,000	75,000	75,000	70,000	45,000
Total Cash Inflow	48,185,000	28,265,000	48,265,000	28,260,000	28,235,000
Cash Outflows					
Payroll Paysheets	26,850,000	27,100,000	27,350,000	27,600,000	27,850,000
Payables Paysheets (incl. Managers' fees)	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
Funds transferred to Managers	5,900,000	0	0	0	0
Other Expenditure	1,000	1,000	1,000	1,000	1,000
Total Cash Outflows	44,751,000	39,101,000	39,351,000	39,601,000	39,851,000
Net Cash Inflow / (-) Outflow	3,434,000	-10,836,000	8,914,000	-11,341,000	-11,616,000
Balance at Bank (opening)	37,289,542	40,723,542	29,887,542	38,801,542	27,460,542
Balance at Bank (closing)	40,723,542	29,887,542	38,801,542	27,460,542	15,844,542
Dividends Received by Managers	5,740,000	6,830,000	7,360,000	8,070,000	8,070,000