

Pension Fund Committee

12 March 2020

Overall Value of Pension Fund Investments to 31 December 2019



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 December 2019;
 - (b) movement in the cash balance during the last four quarters; and
 - (c) projected cash flow position up to 31 March 2021.

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 December 2019 the value of the Fund was £3.104 billion and the cash balance held in the Durham County Council Pension Fund bank account was £39.426 million. Fund Managers also held cash of £32.044 million at that date.
3. The cash flow forecast detailed in Appendix 2 indicates net cash outflows in future quarters, excluding cash withdrawals from fund managers, of between £8 million and £10 million.
4. As the Pension Fund is expecting to receive Durham County Council's pension deficit contribution relating to 2020/21 to 2022/23 in one lump sum in April 2020, there have been no cash withdrawals from fund managers built in to the forecast over the next five quarters.

Recommendation

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

Background

Value of the Pension Fund

6. Reports from the six appointed fund managers, namely:
 - AB
 - BlackRock
 - BCPP
 - CB Richard Ellis
 - Mondrian
 - Royal Londonare included in Part B of today's agenda.
7. The value of the Fund at 31 December 2019 was £3.104 billion compared to £3.130 billion at 30 September 2019. This is a decrease of £25.572 million (or 0.83%) in the third quarter of 2019/20.

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

8. 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.
9. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from fund managers.
10. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters. As at 31 December 2019 the cash balance held in the Durham County Council Pension Fund bank account was £39.426 million. In addition to this, not included in this table, fund managers were holding cash of £32.044 million at 31 December 2019.
11. During the quarter ending 31 December 2019, the third private equity drawdown of £0.079 million and the second and third infrastructure drawdowns totalling £0.803 million were made to BCPP.

Cash Flow Forecast

12. Appendix 2 shows the projected cash flow for the Pension Fund for the period 1 January 2020 to 31 March 2021. 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.

13. The forecast includes the anticipated early receipt of Durham County Council's pension deficit contribution in one lump sum in April 2020. Without this, the Fund will need to make cash withdrawals from fund managers to maintain sufficient working cash balances.
14. The forecast indicates net cash outflows in future quarters of between £8 million and £10 million.
15. The following assumptions have been used in the cash flow forecast:
 - (a) Annual investment income receivable is estimated to be £26.5 million and profiled to be received as follows:

(i)	Quarter ended 31 March 2020	29%
(ii)	Quarter ended 30 June 2020	21%
(iii)	Quarter ended 30 September 2020	24%
(iv)	Quarter ended 30 September 2020	26%
 - (b) DCC contributions have been increased in line with the latest triennial valuation results; the other employer's contributions will be updated as soon as the final actuarial valuation report is available.
 - (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 applied is the estimated pension indexation rate of 1.7% for 2020/21 with effect from 1 April 2020.
 - (e) Payroll paysheets (payments to pensioners) are forecast to increase by £0.25 million per quarter. 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.
16. 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

17. Fund rebalancing is the mechanism by which the Pension Fund would ensure that the asset allocation to fund 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.
18. 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 January 2019 to 31 December 2019

Quarter Ended	31.03.19		30.06.19		30.09.19		31.12.19	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
	£	£	£	£	£	£	£	£
Cash Inflows								
Contributions - DCC	13,950,000	14,096,247	13,950,000	14,914,521	15,100,000	15,268,926	15,250,000	15,254,601
Contributions - Other	9,600,000	9,821,075	9,760,000	10,469,144	9,950,000	10,480,363	10,480,000	10,510,402
Unfunded pensions recharges	1,120,000	1,124,595	1,140,000	1,007,809	1,080,000	1,220,458	1,080,000	440,628
Transfer Values	1,250,000	805,197	1,250,000	832,205	1,250,000	2,092,081	1,250,000	3,509,472
Other income	2,000,000	3,311,968	2,000,000	1,563,888	2,000,000	1,070,689	2,000,000	1,483,864
Funds recovered from Managers	0	0	20,000,000	20,000,000	0	0	20,000,000	20,122,522
Interest on short term investments	85,000	104,769	85,000	78,697	84,000	84,864	65,000	70,530
Total Cash Inflow	28,005,000	29,263,850	48,185,000	48,866,264	29,464,000	30,217,381	50,125,000	51,392,019
Cash Outflows								
Payroll Paysheets	26,000,000	25,824,012	26,850,000	26,499,473	27,100,000	26,802,176	27,350,000	27,102,239
Payables Paysheets (incl. Managers' fees)	12,000,000	11,429,632	12,000,000	12,642,023	12,000,000	14,159,792	12,000,000	13,142,293
Funds transferred to Managers	5,600,000	0	5,900,000	3,640,602	0	1,303,736	0	881,383
Other Expenditure	1,000	794	1,000	1,284	1,000	1,293	1,000	1,282
Total Cash Outflows	43,601,000	37,254,438	44,751,000	42,783,382	39,101,000	42,266,998	39,351,000	41,127,196
Net Cash Inflow / (-) Outflow	-15,596,000	-7,990,588	3,434,000	6,082,882	-9,637,000	-12,049,617	10,774,000	10,264,822
Balance at Bank (opening)		45,870,405		37,289,542		42,645,995		29,882,861
Balance at Bank (closing)		37,289,542		42,645,995		29,882,861		39,426,392

Projected Cash Flow (including forecast dividends receivable by Fund Managers) - for the period 1 January 2020 to 31 March 2021

Quarter Ended	31.03.20	30.06.20	30.09.20	31.12.20	31.03.21
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Cash Inflows					
Contributions - DCC	15,250,000	46,070,000	16,900,000	16,900,000	16,900,000
Contributions - Other	10,480,000	10,480,000	10,480,000	10,480,000	10,480,000
Unfunded pensions recharges	1,080,000	1,080,000	1,080,000	1,080,000	1,080,000
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					
Interest on short term investments	65,000	75,000	85,000	70,000	55,000
Total Cash Inflow	30,125,000	60,955,000	31,795,000	31,780,000	31,765,000
Cash Outflows					
Payroll Paysheets	27,600,000	27,820,000	28,070,000	28,320,000	28,570,000
Payables Paysheets (incl. Managers' fees)	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
Funds transferred to Managers	0	0	0	0	0
Other Expenditure	1,000	1,000	1,000	1,000	1,000
Total Cash Outflows	39,601,000	39,821,000	40,071,000	40,321,000	40,571,000
Net Cash Inflow / (-) Outflow	-9,476,000	21,134,000	-8,276,000	-8,541,000	-8,806,000
Balance at Bank (opening)	39,426,392	29,950,392	51,084,392	42,808,392	34,267,392
Balance at Bank (closing)	29,950,392	51,084,392	42,808,392	34,267,392	25,461,392
Investment Income Received by Managers	7,685,000	5,565,000	6,360,000	6,890,000	7,685,000