

Pension Fund Committee

11 October 2021

Overall Value of Pension Fund Investments to 30 June 2021



Report of Paul Darby, Corporate Director of Resources (Interim)

Purpose of the Report

1. To provide an update to Members on the:
 - (a) overall value of the Pension Fund's investments at 30 June 2021;
 - (b) movement in the cash balance during the last four quarters; and
 - (c) projected cash flow position up to 30 September 2022.

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 30 June 2021 the value of the Fund was £3.601 billion and the cash balance held in the Durham County Council Pension Fund bank account was £27.856 million. Fund managers also held cash of £66.591 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 £12 million and £14 million. A recovery of £20 million from fund managers in the quarters ending 30 September 2021, 31 March 2022 and 30 September 2022 has been included in the forecast.

Recommendation

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

Background

Value of the Pension Fund

5. Reports from the five appointed fund managers, namely:

- AB
- BlackRock
- BCPP
- CB Richard Ellis
- Mondrian

are included in Part B of today's agenda.

6. The value of the Fund at 30 June 2021 was £3.601 billion compared to £3.433 billion at 31 March 2021. This is an increase of £168 million (or 4.89%) in the first quarter of 2021/22.

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 When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from fund managers.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 30 June 2021, the cash balance held in the Durham County Council Pension Fund bank account was £27.856 million. In addition to this, not included in this table, fund managers were holding cash of £66.591 million at 30 June 2021.

10. During the quarter ending 30 June 2021 further drawdowns totalling £7.356 million were made to BCPP to invest in private equity, infrastructure and private credit.

Cash Flow Forecast

11. Appendix 2 shows the projected cash flow for the Pension Fund for the period 1 July 2021 to 30 September 2022. 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.

12. The forecast includes the recovery of £20 million from Fund Managers in the quarters ending 30 September 2021, 31 March 2022 and 30 September 2022. Without the recovery of the aforementioned amounts, the Pension Fund is estimated to be in a cash negative position in all quarters to 30 September 2022.
13. The forecast indicates net cash outflows in future quarters of between £12 million and £14 million. The size of the outflows are exacerbated due to the early receipt of Durham County Council's deficit contribution in April 2020, the impact of which is an apparent reduction in future contributions receivable of £2.476 million per quarter.
14. 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 30 September 2021	21%
(ii) Quarter ended 31 December 2021	24%
(iii) Quarter ended 31 March 2022	26%
(iv) Quarter ended 30 June 2022	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 applied is the estimated pension indexation rate of 0.7% for 2021/22 with effect from 12 April 2021.
 - (e) Payroll paysheets (payments to pensioners) are forecast to increase by £0.20 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.

15. 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

16. 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.
17. 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 July 2020 to 30 June 2021

Quarter Ended	30.09.20		31.12.20		31.03.21		30.06.21	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
	£	£	£	£	£	£	£	£
Cash Inflows								
Contributions - DCC	16,900,000	15,889,112	16,500,000	16,975,404	16,500,000	16,373,095	16,500,000	16,179,251
Contributions - Other	10,480,000	11,981,629	11,600,000	12,574,269	11,600,000	13,840,399	11,600,000	12,519,409
Unfunded pensions recharges	1,050,000	720,935	1,050,000	1,105,483	1,050,000	997,505	1,050,000	1,282,189
Transfer Values	1,250,000	1,012,935	1,250,000	699,626	1,250,000	1,295,926	1,250,000	2,401,896
Other income	2,000,000	1,039,005	1,500,000	1,091,573	1,500,000	2,134,211	1,500,000	759,882
Funds recovered from Managers	0	0	0	0	20,000,000	20,000,000	0	0
Interest on short term investments	80,000	14,459	2,000	5,320	2,000	3,567	2,000	6,198
Total Cash Inflow	31,760,000	30,658,075	31,902,000	32,451,677	51,902,000	54,644,703	31,902,000	33,148,825
Cash Outflows								
Payroll Paysheets	28,070,000	27,582,685	27,750,000	27,608,520	28,000,000	27,749,126	28,450,000	27,884,214
Payables Paysheets (incl. Managers' fees)	12,000,000	9,197,600	11,000,000	9,263,003	11,000,000	9,155,996	11,000,000	13,108,703
Funds transferred to Managers	0	3,046,947	3,000,000	3,343,661	3,000,000	4,971,934	3,000,000	7,355,588
Other Expenditure	1,000	1,361	1,000	1,013	1,000	914	1,000	902
Total Cash Outflows	40,071,000	39,828,593	41,751,000	40,216,198	42,001,000	41,877,970	42,451,000	48,349,407
Net Cash Inflow / (-) Outflow	-8,311,000	-9,170,518	-9,849,000	-7,764,521	9,901,000	12,766,733	-10,549,000	-15,200,583
Balance at Bank (opening)		47,222,886		38,050,655		30,290,299		43,058,895
Balance at Bank (closing)		38,050,655		30,290,299		43,058,895		27,855,839

Projected Cash Flow for the period 1 July 2021 to 30 September 2022

Quarter Ended	30.09.21	31.12.21	31.03.22	30.06.22	30.09.22
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Cash Inflows					
Contributions - DCC	16,400,000	16,400,000	16,400,000	16,400,000	16,400,000
Contributions - Other	12,500,000	12,500,000	12,500,000	12,500,000	12,500,000
Unfunded pensions recharges	1,050,000	1,050,000	1,050,000	1,050,000	1,050,000
Transfer Values	1,250,000	1,250,000	1,250,000	1,250,000	1,250,000
Other income	1,500,000	1,500,000	1,500,000	1,500,000	1,500,000
Funds recovered from Managers	20,000,000		20,000,000		20,000,000
Interest on short term investments	2,000	2,000	2,000	2,000	2,000
Total Cash Inflow	52,702,000	32,702,000	52,702,000	32,702,000	52,702,000
Cash Outflows					
Payroll Paysheets	28,000,000	28,200,000	28,400,000	28,600,000	28,800,000
Payables Paysheets (incl. Managers' fees)	10,000,000	10,000,000	10,000,000	10,000,000	10,000,000
Funds transferred to Managers	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000
Other Expenditure	1,000	1,000	1,000	1,000	1,000
Total Cash Outflows	45,001,000	45,201,000	45,401,000	45,601,000	45,801,000
Net Cash Inflow / (-) Outflow	7,701,000	-12,499,000	7,301,000	-12,899,000	6,901,000
Balance at Bank (opening)	27,855,839	35,556,839	23,057,839	30,358,839	17,459,839
Balance at Bank (closing)	35,556,839	23,057,839	30,358,839	17,459,839	24,360,839
Investment Income Received by Managers	5,565,000	6,360,000	6,890,000	7,685,000	5,565,000