

Pension Fund Committee

15 September 2022

Overall Value of Pension Fund Investments to 30 June 2022



Report of Paul Darby, 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 30 June 2022;
 - (b) movement in the cash balance during the last four quarters; and
 - (c) projected cash flow position up to 30 September 2023.

Executive Summary

2. The overall value of the Fund as at 30 June 2022 was £3.226 billion and the cash balance held in the Durham County Council Pension Fund bank account was £37.701 million. Fund managers also held cash of £9.142 million at that date. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters.
3. The cash flow forecast includes the recovery of funds from Fund Manager – BCPP, which will be drawn from the Listed Alternatives portfolio to match the value of investments being made in private markets. Appendix 2 sets out the cash flow forecast up to the quarter ending 30 September 2023.
4. The quarter ending 31 March 2023 figures shown within Appendix 2 include income due from the BCPP MAC fund of £11 million.
5. In June 2022 a commitment of £18 million was allocated to Foresight Regional Investment IV LP and the forecast within Appendix 2 includes capital calls on this sum estimated at £1m each quarter.
6. Should cash transfers to/from fund managers be excluded from the cash flow forecast, the net cash outflows in each of the future quarters are between £6 million and £7 million.

Recommendation

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

Background

Value of the Pension Fund

8. Reports from the four appointed fund managers, namely:

- AB
- BCPP
- CB Richard Ellis
- Mondrian

are included in Part B of today's agenda.

9. The value of the Fund at 30 June 2022 was £3.226 billion compared to £3.544 billion at 31 March 2022. This is a decrease of £318 million (or 8.97%) in the first quarter of 2022/23 which is mainly due to the global effects of the war between Russia and Ukraine.

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

10. 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.
11. 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.
12. 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 2022, the cash balance held in the Durham County Council Pension Fund bank account was £37.701 million. In addition to this, not included in this table, fund managers were holding cash of £9.142 million at 30 June 2022.
13. During the quarter ending 30 June 2022 further drawdowns totalling £10.192 million were made to BCPP to invest in private equity, infrastructure and private credit. In June 2022 a commitment of £18 million was allocated to Foresight Regional Investment IV LP who is expected to make capital calls on this sum as and when required over a 5 year period.

Cash Flow Forecast

14. Appendix 2 shows the projected cash flow for the Pension Fund for the period 1 July 2022 to 30 September 2023. 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.
15. In the following three quarters, it is anticipated that funds will be drawn from the Listed Alternatives portfolio to match the funds expected to be invested in private markets. In order to maintain the Fund's working cash position, the forecast for the quarter ending 31 March 2023 includes income due to be received from the BCPP MAC fund.
16. The forecast indicates net cash outflows in future quarters of between £6 million and £7 million. The size of the outflows are exacerbated due to the early receipt of Durham County deficit contributions in April 2023, the impact of which is an apparent reduction in future contributions receivable of £2.656 million per quarter.
17. The following assumptions have been used in the cash flow forecast:
 - (a) Annual investment income receivable is estimated to be £25 million and profiled to be received as follows:

(i) Quarter ended 30 September 2022	14%
(ii) Quarter ended 31 December 2022	58%
(iii) Quarter ended 31 March 2023	14%
(iv) Quarter ended 30 June 2023	14%
 - (b) Increases in contributions have been included in line with actuals, until the new employer contribution rates resulting from the 2022 actuarial valuation are made available.
 - (c) Transfer values due in are estimated at £1.250 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 9% for 2022/23 with effect from 4 April 2022.
 - (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.
18. 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

19. 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.
20. 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 2021 to 30 June 2022

Quarter Ended	30.09.21		31.12.21		31.03.22		30.06.22	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
	£	£	£	£	£	£	£	£
Cash Inflows								
Contributions - DCC	16,400,000	16,368,529	16,400,000	16,062,865	16,400,000	16,522,541	16,400,000	17,833,757
Contributions - Other	12,500,000	12,927,581	12,500,000	13,008,928	12,900,000	13,194,458	12,900,000	13,871,960
Unfunded pensions recharges	1,050,000	963,123	1,050,000	989,384	1,050,000	972,201	1,050,000	944,910
Transfer Values	1,250,000	2,347,137	1,250,000	2,065,930	1,250,000	1,073,906	1,250,000	1,320,801
Other income	1,500,000	715,767	1,500,000	1,119,736	1,500,000	1,823,950	1,500,000	1,052,313
Funds recovered from Managers	20,000,000	20,000,000	0	20,000,000	50,000,000	49,904,456	16,000,000	9,616,000
Interest on short term investments	2,000	3,066	2,000	4,104	1,500	16,973	2,500	70,476
Total Cash Inflow	52,702,000	53,325,203	32,702,000	53,250,947	83,101,500	83,508,485	49,102,500	44,710,217
Cash Outflows								
Payroll Paysheets	28,000,000	28,160,229	28,200,000	28,679,140	28,400,000	28,318,989	29,500,000	29,172,331
Payables Paysheets (incl. Managers' fees)	10,000,000	10,321,204	10,000,000	10,561,452	10,000,000	10,243,308	10,000,000	14,691,628
Funds transferred to Managers	7,000,000	12,017,375	7,000,000	29,768,186	19,000,000	13,329,520	24,000,000	9,646,960
Other Expenditure	1,000	920	1,000	876	1,000	853	1,000	910
Total Cash Outflows	45,001,000	50,499,728	45,201,000	69,009,654	57,401,000	51,892,671	63,501,000	53,511,829
Net Cash Inflow / (-) Outflow	7,701,000	2,825,475	-12,499,000	-15,758,707	25,700,500	31,615,815	-14,398,500	-8,801,612
Balance at Bank (opening)		27,855,839		30,642,471		14,922,665		46,805,379
Balance at Bank (closing)		30,642,471		14,922,665		46,805,379		37,701,207

Projected Cash Flow for the period 1 July 2022 to 30 September 2023

Quarter Ended	30.09.22	31.12.22	31.03.23	30.06.23	30.09.23
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
Cash Inflows					
Contributions - DCC	16,500,000	17,500,000	17,500,000	52,450,000	17,500,000
Contributions - Other	13,500,000	13,500,000	13,500,000	16,250,000	16,250,000
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	11,400,000	36,000,000	35,000,000	16,000,000	32,000,000
Interest on short term investments	55,000	45,000	50,000	50,000	50,000
Total Cash Inflow	45,255,000	70,845,000	69,850,000	88,550,000	69,600,000
Cash Outflows					
Payroll Paysheets	29,700,000	29,900,000	30,100,000	33,220,000	33,420,000
Payables Paysheets (incl. Managers' fees)	11,000,000	11,000,000	11,000,000	11,000,000	11,000,000
Funds transferred to Managers	21,500,000	25,000,000	25,000,000	17,000,000	33,000,000
Other Expenditure	1,000	1,000	1,000	1,000	1,000
Total Cash Outflows	62,201,000	65,901,000	66,101,000	61,221,000	77,421,000
Net Cash Inflow / (-) Outflow	-16,946,000	4,944,000	3,749,000	27,329,000	-7,821,000
Balance at Bank (opening)	37,701,207	20,755,207	25,699,207	29,448,207	56,777,207
Balance at Bank (closing)	20,755,207	25,699,207	29,448,207	56,777,207	48,956,207
Investment Income Received by Managers	3,500,000	14,500,000	3,500,000	3,500,000	3,500,000