

## Pension Fund Committee

6 September 2018

### Overall Value of Pension Fund Investments to 30 June 2018



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**John Hewitt, Corporate Director of Resources**

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#### 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 2018;
  - (b) movement in the cash balance during the last four quarters;
  - (c) projected cash flow position up to 30 September 2019.

#### Value of the Pension Fund

2. 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.

3. The value of the Fund at 30 June 2018 was £2.835 billion compared to £2.759 billion at 31 March 2018. This is an increase of £75.82 million (or 2.74%) in the first quarter of 2018/19.

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

4. New investment money is allocated to Fund Managers when the Pension Fund has cash which is not needed to be available as a working cash balance, for example for the payment of pensioners or fees.
5. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from Fund Managers.
6. 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 2018 the cash balance held in the Durham County Council Pension Fund bank account was

£22.077 million. In addition to this, not included in this table, Fund Managers were holding cash of £77.418 million at 30 June 2018.

### Cash Flow Forecast 2018/19

7. Appendix 2 shows the projected cash flow for the Pension Fund for the period July 2018 to September 2019. 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.
8. The forecast includes the recovery of £20 million from Fund Managers, in the quarters ending 30 September 2018, 31 March 2019 and 30 September 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 September 2019.
9. The forecast indicates net cash outflows in future quarters of between £10 million and £11.5 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.
10. The following assumptions have been used to calculate the cash flow forecast:
  - (a) Annual dividend income receivable is estimated to be £28 million and profiled to be received as follows:

(i)	Quarter ended 30 September 2018	24%
(ii)	Quarter ended 31 December 2018	26%
(iii)	Quarter ended 31 March 2019	29%
(iv)	Quarter ended 30 June 2019	21%
  - (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 will be 3% with effect from 1 April 2018.
  - (e) Payroll paysheets (payments to pensioners) are forecast to increase by £0.25 million per quarter, from 1 April 2018. 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.
11. 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**

12. 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 (ISS). It is also the means by which cash is moved to or from Managers as a consequence of the cash flow forecasts.
13. Due to the current suspension of fund rebalancing, there was no rebalancing exercise this quarter.

### **Recommendation**

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

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## Actual Cash Flow – For the period 1 July 2017 to 30 June 2018

Quarter Ended	30.09.17		31.12.17		31.03.18		30.06.18	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
	£	£	£	£	£	£	£	£
<b>Cash Inflows</b>								
Contributions - DCC	13,805,000	13,689,270	13,775,000	13,793,663	13,775,000	13,821,664	13,800,000	14,026,059
Contributions - Other	8,610,000	8,496,465	8,665,000	8,659,201	8,665,000	8,539,955	8,925,000	9,435,259
Unfunded pensions recharges	1,145,000	1,168,998	1,145,000	1,111,703	1,135,000	1,127,645	1,170,000	1,095,967
Transfer Values	750,000	1,119,502	1,000,000	2,245,256	1,000,000	1,127,398	1,250,000	1,505,702
Other income	2,000,000	1,021,246	2,000,000	2,398,751	2,000,000	3,309,977	2,000,000	1,280,190
Funds recovered from Managers	0	0	15,000,000	15,000,000	20,000,000	20,000,000	0	0
Interest on short term investments	9,000	34,166	35,000	31,895	30,000	23,166	30,000	46,562
<b>Total Cash Inflow</b>	<b>26,319,000</b>	<b>25,529,648</b>	<b>41,620,000</b>	<b>43,240,469</b>	<b>46,605,000</b>	<b>47,949,804</b>	<b>27,175,000</b>	<b>27,389,739</b>
<b>Cash Outflows</b>								
Payroll Paysheets	24,000,000	24,164,845	24,400,000	24,294,397	24,600,000	24,489,507	25,500,000	25,076,412
Payables Paysheets (incl. Managers' fees)	11,250,000	12,798,593	12,000,000	12,225,874	12,000,000	10,303,580	12,000,000	15,369,235
Funds transferred to Managers	0	0	0	0	0	0	0	0
Other Expenditure	1,000	1,485	1,000	1,337	1,000	1,808	1,000	4,439
<b>Total Cash Outflows</b>	<b>35,251,000</b>	<b>36,964,923</b>	<b>36,401,000</b>	<b>36,521,608</b>	<b>36,601,000</b>	<b>34,794,895</b>	<b>37,501,000</b>	<b>40,450,085</b>
<b>Net Cash Inflow / (-) Outflow</b>	<b>-8,932,000</b>	<b>-11,435,275</b>	<b>5,219,000</b>	<b>6,718,861</b>	<b>10,004,000</b>	<b>13,154,910</b>	<b>-10,326,000</b>	<b>-13,060,346</b>
Balance at Bank (opening)		28,879,256		16,915,978		23,095,655		35,680,827
Balance at Bank (closing)		16,915,978		23,095,655		35,680,827		22,076,786

**Projected Cash Flow** (including forecast dividends receivable by Fund Managers) - for the period 1 July 2018 to 30 September 2019

Quarter Ended	30.09.18	31.12.18	31.03.19	30.06.19	30.09.19
	Estimate	Estimate	Estimate	Estimate	Estimate
	£	£	£	£	£
<b>Cash Inflows</b>					
Contributions - DCC	13,810,000	13,810,000	13,810,000	13,810,000	13,810,000
Contributions - Other	9,055,000	9,055,000	9,055,000	9,055,000	9,055,000
Unfunded pensions recharges	1,170,000	1,170,000	1,170,000	1,170,000	1,170,000
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	20,000,000
Interest on short term investments	40,000	35,000	35,000	35,000	30,000
<b>Total Cash Inflow</b>	<b>47,325,000</b>	<b>27,320,000</b>	<b>47,320,000</b>	<b>27,320,000</b>	<b>47,315,000</b>
<b>Cash Outflows</b>					
Payroll Paysheets	25,750,000	26,000,000	26,250,000	26,500,000	26,750,000
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
<b>Total Cash Outflows</b>	<b>37,751,000</b>	<b>38,001,000</b>	<b>38,251,000</b>	<b>38,501,000</b>	<b>38,751,000</b>
<b>Net Cash Inflow / (-) Outflow</b>	<b>9,574,000</b>	<b>-10,681,000</b>	<b>9,069,000</b>	<b>-11,181,000</b>	<b>8,564,000</b>
Balance at Bank (opening)	22,076,786	31,650,786	20,969,786	30,038,786	18,857,786
Balance at Bank (closing)	31,650,786	20,969,786	30,038,786	18,857,786	27,421,786
Dividends Received by Managers	6,830,000	7,360,000	8,070,000	5,740,000	6,830,000