

22 March 2012

Agenda Item:4

REPORT OF SERVICE DIRECTOR – FINANCE & PROCUREMENT

PENSION FUND CASH FLOW FORECAST AND ALLOCATION

Purpose of the Report

1. To inform the Sub-Committee of estimates of the cash accruing to the Pension Fund during 2011/12 and 2012/13.

Information and Advice

2. A forecast of the cash movement on the Fund for 2011/12 and 2012/13 has been completed and is produced below for Members' information. Actual figures for 2009/10 and 2010/11 are provided for comparison purposes.

	Actuals		Estimates	
	2009/10	2010/11	2011/12	2012/13
	£m	£m	£m	£m
Contributions				
Employees Contributions	46.0	45.8	41.0	38.0
Employers Contributions	129.2	131.0	130.7	130.0
Transfer Values Received	16.4	16.6	10.0	10.0
Total Contributions	191.6	193.4	181.3	178.0
Benefits				
Pensions	98.3	103.6	118.8	128.0
Lump Sums	29.3	39.9	38.0	29.0
Transfer Values Paid	14.6	24.5	11.0	10.0
Total Benefits	142.2	168.0	167.8	167.0
Administration Expenses	1.4	1.4	1.4	1.4
Net Contributions	48.0	24.0	12.1	9.6
Add Investment Income	77.4	78.4	81.4	83.8
Less Investment Expenses	(3.8)	(4.5)	(5.0)	(5.0)
Total Surplus	121.6	97.9	88.5	88.4

3. In 2011/12, the Fund is estimated to receive approximately £181m in employers/employees contributions and transfers in, and to pay benefits and transfers out of approximately £168m. This would produce net contributions to the Fund of £12m after administrative expenses. Net investment income for 2011/12 is expected to be £81m.
4. It can be seen that employee contributions have reduced as a result of the number of leavers from the scheme during 2010/11 and 2011/12. A smaller decrease in employer contributions is forecast as the new contribution rates (agreed at the 2010 valuation) have been implemented from 1 April 2011. Pension payments are forecast to increase as a result of the higher numbers of pensioners and the pensions increase (3.1% in 2011/12). Lump sum payments during 2011/12 are almost at the level seen in 2010/11 and this suggests a similar trend of reducing contributions and increasing pensions for 2012/13. The current forecast of net cash inflow from dealings with members for 2012/13 is just under £10m.
5. The table below shows the asset allocation of the Fund as at 31 December 2011 and compares this to the BNY Mellon average fund at that date.

	Fund as at 31/12/11		BNY Mellon Average
	£m	%	%
UK Fixed Interest	302	11%	43%
Overseas Fixed Interest	40	1%	2%
UK Equities	980	34%	18%
Overseas Equities	912	32%	27%
Property	412	14%	4%
Other Assets	125	4%	2%
Cash	111	4%	4%
TOTAL	2,882	100%	100%

6. The Fund currently has sterling cash balances of £88m. Of this, approximately £33m is allocated to managers (as investment income and sale proceeds from bonds and equities accrues to be reinvested by the fund managers). There are outstanding commitments of up to £21m arising from previous decisions to invest in residential land. The Fund has also agreed to increase its commitments to private equity and to invest in infrastructure funds.
7. The current private equity programme includes total commitments of approximately £97m of which £23m is still undrawn. This amount will, however, be drawn down over a number of years and it is expected that distributions from the existing investments will be more than sufficient to cover the calls. The Statement of Investment Principles (SIP) includes a target commitment of 10% of the Fund to private equity and infrastructure (which would give a net exposure level of approximately 5%) and it is proposed to continue making new commitments over time up to this level.
8. At the previous Sub-Committee meeting in December 2011, a proposal to invest in a local private equity fund to be set up to invest in businesses in Nottingham and Nottinghamshire was discussed. The County and City Councils are currently investigating the best way to create such a fund to be run by an external investment manager along similar lines as the existing private equity funds. It is proposed to commit £10m to this fund subject to suitable due diligence of the fund terms and management arrangements.

9. It is not proposed to make any additional allocations to new investments at this stage but it is suggested that a Working Party could be convened during 2012/13 to consider the balance of the Fund's investments and whether additions or changes are appropriate.

Statutory and Policy Implications

10. This report has been compiled after consideration of implications in respect of finance, equal opportunities, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATION/S

- 1) That the cash flow forecasts for the Fund be noted.
- 2) That additional commitments continue to be made to private equity and infrastructure within the allocation level included in the SIP.
- 3) That £10m is committed to a local private equity fund to be sourced by Nottinghamshire County and Nottingham City Councils subject to suitable due diligence of the fund and management arrangements once set up.
- 4) That the Sub-Committee considers whether to convene a meeting of the Working Party to consider asset allocation further.

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Background Papers

None