

Non-Executive Report of the: Pensions Committee 27 July 2020	
Report of: Neville Murton, Corporate Director, Resources	Classification: Unrestricted
Report on 2020/21 Fund Liquidity and Cash Flow Forecast	

Originating Officer(s)	Miriam Adams, Pensions & Investments Manager
Wards affected	All wards

Summary

The London Borough of Tower Hamlets Pension Fund is open to new entrants however it is maturing fast.

This report is an update on the Pension Fund's projected cash flow forecast for 2020/21 to 2022/23. The Fund is projecting a £0.584m projected surplus on its income and expenditure at the end of the financial year without any cash draw down from investments. The Fund is expecting a projected cash short fall in 2021/22 and 2022/23, a request for cash draw down is presented. A request for estimated cash drawdown of £20m from Equity Protection proceeds is being requested in this paper. Significant cash flow short fall is estimated for 2021/22 and 2022/23. This is where the Fund expenditure exceeds the income from contributions.

Recommendations

The Pensions Committee is recommended to:

- Note the cash flow forecast from operational activities (Appendix A); and
- Agree to fund the projected 2021/22 and 2022/23 cash flow deficit from Equity Protection proceeds

1. REASONS FOR THE DECISION

1.1 The London Borough of Tower Hamlets Pension Fund is part of the wider Local Government Pension Scheme (LGPS). The Scheme as with other LGPS schemes is funded and distinct from 'pay as you go' schemes which are unfunded.

1.2 The Fund receives contributions and investment income from current members, employers and fund assets which is used to pay benefits as they fall due. Consequently, one of the main objectives of the Fund is to ensure that sufficient funds are available to meet all benefits as they fall due for payment. However, this objective may be jeopardised if the Fund does not maintain sufficient liquidity. The Pension Committee is charged with meeting the duties of the Council in respect of the Pension Fund.

2. ALTERNATIVE OPTION

- 2.1 The Fund is bound by legislation to ensure that members of the Fund receive benefits as they fall due under the Fund's terms. Although the Fund is free to determine how best to fund its liabilities as they fall due. It is expected to meet such obligations to its retired members.

3. DETAILS OF REPORT

- 3.1 it is difficult to be exact about the day at which the Fund will become cashflow negative given the potential impact of transfers in/out and payment of lumpsum amounts, both of which are very difficult to predict as they do not follow a set pattern. Nevertheless, based on actuals to date and, it is expected that the Fund will report a cash balance of £0.584m at 31 March 2020.
- 3.2 In the past, Fund has always been cash flow positive and therefore has always been able to meet all its liabilities without the need to sell any of its assets or recall dividends from its fund managers. However, in 2017/18 and 2018/19, the Fund utilised cash to part fund investments in the London CIV. In November the Fund reported estimated cash flow deficit of £12.243m. The Committee agreed to fund this by disinvesting £11m from LCIV Global equities and £2m from Schroders Real Estate fund. A sum of £13m was received from respective fund managers in December 2019. The closing cash position at 31 March 2020 was £3.033m.
- 3.3 The Funding Strategy Statement assumes that the Fund will mature at some point in the future, maturity has been reached a lot sooner than has been anticipated due to the cash outflow.
- 3.4 A further contributor to the cash flow position has been the reduction in payroll numbers, the Council's reduction in deficit funding from £15m to £13.65m and employer contribution rates 19.9% in 2020/21, 19.3% in 2021/22 and 18.8% in 2022/23. This affects the Fund in two ways: firstly the Fund loses income that it could otherwise have received as contributions from employees and who are active members of the Fund and also employer contributions to the Fund by the Council in relation to active members; secondly, some staff will be made redundant or retire both of which cases will mean immediate entitlements to cash lumps ums/retirement benefits, both of which will have the effect of impacting cash flow negatively.
- 3.5 The table below shows the membership over the last 4 years.

Membership Type	2016/17	2017/18	2018/19	2019/20	June 20
Actives	7,256	6,809	6,740	7,120	7,252
Deferred	7,842	7,817	7,744	7,845	7,980
Pensioners	5,870	6,333	6,465	6,660	6,698

- 3.6 The general belief is that LGPS funds have lot of assets, but don't hold lots of cash. There good reasons for this – funds generally invest for the longer term and holding too much cash leads to lost opportunities on other assets that offer higher expected returns. Funds are therefore constantly trying to balance the need to hold enough cash to meet all benefit payments against the need to invest the need to invest in return seeking assets. LGPS funds also had very young age profile which meant income received from contributions far exceeded expenditure from benefit payments. Over the last decade LGPS funds are beginning to reach a mature age profile. Although 2018/19 figures released by the SAB showed that overall in England and Wales LGPS funds till remain cash flow positive.

3 OPTIONS TO IMPROVE FUND LIQUIDITY

- 3.1 As with all LGPS schemes, a key objective of the LBTH Pension Fund funding policy is to ensure that sufficient funds are available to meet all benefits as they fall due for payment. Given that the Fund is expected to be cash flow negative in 2021/22 and 2022/23, necessary measures are being put in place to ensure liquidity is maintained within the Fund and that the Fund can meet its obligations to scheme members.
- 3.2 The Committee is asked to agree to use £20m of the £48m proceeds of Equity Protection. Moreover, due to the impact of COVID-19 the payment of dividends has been temporarily stopped by most companies. This means that the Funding option for future years which the Committee agreed in November 2019 to utilise dividend from LCIV Global Equities fund is not a viable option currently available to investors.

4. INTERNAL CASH MANAGEMENT

- 4.1 Pension Fund cash balances held for operational activities is managed in accordance with the Council's Treasury Management Strategy agreed by Full Council, which is delegated to the Corporate Director, Resources to manage on a day to day basis within the agreed parameters.

5. COMMENTS OF THE CHIEF FINANCE OFFICER

- 5.1 Finance comments are included in the report.

6. LEGAL COMMENTS

- 6.1 The Council as administering authority of the pension fund must ensure that it complies with its statutory duties in relation to the proper management of the pension funds. It is necessary and appropriate for the Pensions Committee to receive information on the performance of the fund in relation to the fund liquidity as set out in this report.

7. ONE TOWER HAMLETS CONSIDERATIONS

- 7.1 The employer's contribution is a significant element of the Council's budget and consequently any improvement in investment performance will reduce the contribution and increase the funds available for other corporate priorities.

8. BEST VALUE (BV) IMPLICATIONS

- 8.1 The Pension Fund accounts demonstrate the financial stewardship of the scheme members and employers' assets.

9. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT

- 9.1 There is no Sustainable Action for a Greener Environment implication arising from this report.

10. RISK MANAGEMENT IMPLICATIONS

- 10.1 Any form of investment inevitably involves a degree of risk.
- 10.2 To minimise risk, the Pensions Committee attempts to achieve a diversified portfolio. Diversification relates to asset classes and management styles.

11. CRIME AND DISORDER REDUCTION IMPLICATIONS

- 11.1 There are no crime and disorder reduction implications arising from this report.

Linked Reports, Appendices and Background Documents

Linked Report

- None

Appendices

- **Cash flow forecast 2020/21 (Appendix A)**

Local Government Act, 1972 Section 100D (As amended)

List of "Background Papers" used in the preparation of this report

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Appendix A

2020/21 Pension Fund Cash Flow Forecast					
	2018/19	2019/20	2020/21	2021/22	2022/23
	Actual	Draft	Forecast	Forecast	Forecast
	£,000	£,000	£,000	£,000	£,000
Contributions					
- from Employer	31,762	35,170	38,670	40,170	41,170
- from Employees	11,945	11,156	12,656	12,956	13,256
-Prepayment of Deficit Contributions	53	53	13,650	13,650	13,650
Transfer Values In	6,156	8,589	10,789	11,789	12,789
Other Income	1,816	1,851	1,900	2,100	2,100
Other	2,551	424	100	100	100
Sub - Total Income	54,283	57,243	77,765	80,765	83,065
Interest on internal cash	54	0	0	0	0
TOTAL INCOME	54,337	57,243	77,765	80,765	83,065
EXPENDITURE					
Benefits Payable	(44,498)	(47,594)	(50,594)	(53,094)	(55,594)
- Lump Sums: Retirement Allowances & Death Grants	(13,508)	(13,229)	(14,729)	(16,729)	(18,229)
Payments to and on account of leavers					
- Refunds of Contributions	(223)	(756)	(250)	(250)	(700)
- Transfer Values Out	(4,847)	(7,061)	(8,561)	(10,561)	(12,561)
Administrative and other expenses borne by the scheme					
- Administration and processing	(1,004)	(1,152)	(1,500)	(1,500)	(1,500)
- Administration - other					
Sub - Total Expenses	(64,080)	(69,792)	(75,634)	(82,134)	(88,584)
Investment management Expenses	(407)	(3,930)	(4,080)	(4,230)	(4,380)
Internal Cash used to finance new investment purchase	(10,000)				
Investment Redemption		13,000	20,000	0	
Other expenditure			(500)	(500)	(500)
TOTAL EXPENDITURE	(74,487)	(60,722)	(60,214)	(86,864)	(93,464)
NET CASH INFLOW/OUTFLOW	(20,150)	(3,479)	17,551	(6,099)	(10,399)
Opening Cash balance	512	6,512	3,033	20,584	14,485
Closing balance MMF	6,000	0	0	0	0
FORECAST CLOSING CASH POSITION	6,512	3,033	20,584	14,485	4,086
Actual Opening Bank Balance	2,483	512	3,033	20,584	14,485
Total Income per bank	141,555	78,388	97,765	80,765	83,065
Total Expenditure per bank	(143,526)	(75,866)	(80,214)	(86,864)	(93,464)
Actual Closing Bank Balance	512	3,033			
MMF	6,000	0	0	0	0
TOTAL CASH BALANCE	6,512	3,033	20,584	14,485	4,086