

Non-Executive Report of the:  <b>Pensions Committee</b>  25 March 2021	 <b>TOWER HAMLETS</b>
<b>Report of</b> Kevin Bartle, Interim Corporate Director, Resources	<b>Classification:</b> Unrestricted
<b>Report on 2020/21 to 2022/23 Liquidity Forecast</b>	

<b>Originating Officer(s)</b>	Miriam Adams, Interim Head of Pensions & Treasury
<b>Wards affected</b>	All wards

### Summary

This report provides an update on the Pension Fund's projected cash flow forecast for 2020/21 to 2022/23. The Fund is projecting a £20.335m projected cash balance. This includes the £20m draw down from proceeds of equity protection which the Committee agreed in July for operational use and projected cash flow short falls identified in 2021/22 and 22/23. No further shortfall is forecast for the next 2 financial years.

### Recommendations

The Pensions Committee is recommended to:

- Note the cash flow forecast from operational activities (Appendix A)

#### 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 Although the Funding Strategy Statement has assumed that the Fund will mature at some point in the future, it is difficult to be exact about the day at which the Fund will become cash flow negative given the potential impact of transfers in/out and payment of lump sum amounts, both of which are very difficult to predict. Nevertheless, based on actuals to date and current forecast, it is expected that the Fund will remain cash flow positive for the next 2 years. This healthy cash flow position is due to the £20m cash received from Equity Protection proceeds.

- 3.3 The table below shows the membership over the last 4 years.

<b>Membership Type</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2019/20</b>	<b>Dec 20</b>
Actives	6,809	6,740	7,120	7,338
Deferred	7,817	7,744	7,845	7,913
Pensioners	6,333	6,465	6,660	6,679

- 3.5 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. 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 to invest in return seeking assets. Over the last decade LGPS funds are beginning to reach a mature age profile. Although 2018/19 figures released by the LGPS Scheme Advisory Board (SAB) showed that overall, in England and Wales LGPS funds till remain cash flow positive including investment income.

### **3 OPTIONS TO IMPROVE FUND LIQUIDITY**

- 3.3.1 Given the current cash flow position for 2020/21 and next 2 years, there are no immediate plans to liquidate assets. Officers will continue to report the cash flow position of the Fund to the Committee on an annual basis and more frequently if necessary

### **4. COMMENTS OF THE CHIEF FINANCE OFFICER**

4.1 Finance comments are included in the report.

## **5. LEGAL COMMENTS**

5.1 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.

## **6. ONE TOWER HAMLETS CONSIDERATIONS**

6.1 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.

## **7. BEST VALUE (BV) IMPLICATIONS**

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

## **8. SUSTAINABLE ACTION FOR A GREENER ENVIRONMENT**

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

## **9. RISK MANAGEMENT IMPLICATIONS**

9.1 Any form of investment inevitably involves a degree of risk.

9.2 To minimise risk, the Pensions Committee attempts to achieve a diversified portfolio. Diversification relates to asset classes and management styles.

## **10. CRIME AND DISORDER REDUCTION IMPLICATIONS**

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

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### **Linked Reports, Appendices and Background Documents**

#### **Linked Report**

- None

#### **Appendices**

- **Cash flow forecast 2020/21 – 2022/23 (Appendix A)**

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

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

**Officer contact details for documents:**

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**Cash flow 2020/21 to 2022/23**

**Appendix A**

	2019/20 Actual £'000	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
<b>CASH IN</b>				
<b>Contributions</b>				
From Employers	-39,250	-39,647	-40,147	-40,447
From Employees	-11,049	-12,425	-12,725	-13,025
Payment of Deficit Contributions	-53	-13,677	-13,677	-13,677
Other miscellaneous credits		-643		
<b>Transfer Values In</b>	-8,596	-6,544	-8,000	-9,000
<b>Other Income</b>				
From Returned Pensions Payroll Bacs				
From Pensions Over payments	-42	-145	-140	-140
Interest on internal cash	-55	0		
Income from Recoverable Taxes	-249	-171	-100	-100
Income from Fund Manager Fee Rebates	-94	-97	-66	-66
	-59,388	-73,349	-74,855	-76,455
Cash from Money Market Funds				
Cash from divestments	-13,000	-20,000	0	0
<b>TOTAL CASH IN</b>	<b>-72,388</b>	<b>-93,349</b>	<b>-74,855</b>	<b>-76,455</b>
<b>CASH OUT</b>				
Benefit Payable	49,808	50,535	52,535	54,035
Lump Sums, Retirement Allowances & Death Grants	14,283	14,013	15,000	16,000
<b>Payment to and on account of leavers</b>				
Refund of Contributions	756	208	200	200
Transfer Values Out	8,608	6,844	9,000	10,000
Other Miscellaneous Payments	0	1,682		
<b>Expenses</b>				
Fund manager fees paid in house	1,123	901	950	1,100
Custodian fees	100	53	60	70
Other admin expenses	1,188	1,812	2,312	2,712
Previous Year's recharges paid				
	75,866	76,048	80,057	84,117
<b>NET INCOME/EXPENDITURE</b>	<b>3,478</b>	<b>-17,301</b>	<b>5,202</b>	<b>7,662</b>
Opening Cash balance	-512	-3,034	-335	-133
Closing balance MMF for operational Use	-6,000	0	-20,000	-15,000
<b>FORECAST CLOSING CASH POSITION</b>	<b>-3,034</b>	<b>-20,335</b>	<b>-15,133</b>	<b>-7,471</b>