

Non-Executive Report of the:  <b>Pensions Committee</b>  Monday, 25 September 2023	 <b>TOWER HAMLETS</b>
<b>Report of:</b> Corporate Director, Resources	<b>Classification:</b> Unrestricted
<b>Report on 2023/24 Fund Liquidity and Cash Flow Forecast</b>	

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

### Summary

The London Borough of Tower Hamlets Pension Fund is open to new entrants, a number of council insourcing are expected in 2023/24 and 204/25, however the Fund is also maturing fast.

This report is an update on the Pension Fund's projected cash flow forecast for 2023/24 to 2025/26. The Fund is projecting a £8.4m positive net cash flow by 2025/26 without any cash draw down from investments.

### 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 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 an estimated positive cash balance of £16.8m on 31 March 2024.
- 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.

The Fund has also supported London CIV Renewable Energy capital calls in 201/22 and 2022/23 pending divestments from Goldmans and Insight.

- 3.3 The Funding Strategy Statement assumes that the Fund will mature at some point in the future, however maturity may be reached a lot sooner than has been anticipated due to the cash outflow or increase in manager fees paid inhouse aside from those deducted from Net Asset Value and increases in actuarial fees.
- 3.4 A future contributor to the cash flow position is the anticipated GLL insourcing which has an increase in payroll numbers for the council as well as other insourcing of services currently provided by contractors or organisations not in the scheme.

The significant increase in contribution rates for Housing Associations and lumpsums deficit funding will also have a positive impact on cashflow.

On the other current savings pressures from the council may impact 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	March 20	March 21	March 22	March 23	June 23
Actives	7,301	7,372	7,652	7,791	7,810
Deferred	7,902	7,953	8,321	8,399	8,392
Pensioners	6,683	6,705	6,979	7,186	7,139

- 3.6 The general belief is that LGPS funds have lot of assets, but don't hold lots of cash. There are 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 2021/22 figures released by the SAB showed that overall, in England and Wales LGPS funds till remain cash flow positive.

#### Monitoring

- 3.7 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 positive in 2023/24, 2024/25 and 2025/26, aside from continued monitoring, no immediate measures are being put in place to ensure liquidity is maintained within the Fund so that the Fund can continue to meet its obligations to scheme members.

#### Internal Cash Management

- 3.8 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.

### **4. EQUALITIES IMPLICATIONS**

- 4.1 There are no direct equality implications regarding this matter.

### **5. OTHER STATUTORY IMPLICATIONS**

- 5.1 This section of the report is used to highlight further specific statutory implications that are either not covered in the main body of the report or are required to be highlighted to ensure decision makers give them proper consideration. Examples of other implications may be:

- Best Value Implications,

- Consultations,
- Environmental (including air quality),
- Risk Management,
- Crime Reduction,
- Safeguarding.
- Data Protection / Privacy Impact Assessment.

#### Risk Management

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

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

- 6.1 Finance comments are included in the report.
- 6.2 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. COMMENTS OF LEGAL SERVICES**

- 7.1 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 liquidity as set out in this report.

---

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

### **Linked Report**

- None

### **Appendices**

- **Cash flow forecast 2023/24 (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:**

- Miriam Adams, Interim Head of Pensions and Treasury x4248  
Email: [Miriam.adams@towerhamlets.gov.uk](mailto:Miriam.adams@towerhamlets.gov.uk)

## Cash Flow Forecast 2023/24 to 2025/26

## Appendix A

	2022/23 Actual £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
<b>CASH IN</b>				
<b>Contributions</b>				
From Employers	-42,843	-46,843	-49,500	-52,000
From Employees	-15,002	-16,352	-17,497	-18,372
Payment of Deficit Contributions	-13,664	-15,473	-15,473	-15,473
Augumentation	-2,654	-2,000	-2,000	-2,000
<b>Transfer Values In</b>	-8,413	-9,700	-10,400	-11,300
<b>Other Income</b>				
From Pensions over payments and returned bacs	-117	-140	-140	-140
AVC in	-24	-40	-40	-40
Income from Recoverable Taxes	129	-98	-98	0
Intransit payments	-754	0	0	0
VAT refund	-166	-200	-240	-285
Reimbursement of Council Overseas Pensioners		-37	-37	-37
Income from Fund Manager Fee Rebates	-78	-23	0	0
	-83,586	-90,906	-95,425	-99,647
Cash from divestments	0	0	0	0
<b>TOTAL CASH IN</b>	<b>-83,586</b>	<b>-90,906</b>	<b>-95,425</b>	<b>-99,647</b>
<b>CASH OUT</b>				
Benefit Payable	53,534	62,379	69,179	74,713
Lump Sums, Retirement Allowances & Death Grants	11,474	13,000	14,000	15,000
<b>Payment to and on account of leavers</b>				
Refund of Contributions	322	350	350	350
Transfer Values Out	8,377	9,000	9,000	9,000
Capital Calls funded with inhouse cash	6,917	2,432	0	0
<b>Expenses</b>				
Fund manager fees paid in house	1,566	1,970	2,300	2,450
Admin Expenses	1,975	2,500	2,800	2,900
Oversight and Governance fees	474	590	680	760
Previous Year's recharges paid				
	84,640	92,221	98,309	105,173
<b>NET INCOME/EXPENDITURE</b>	<b>1,054</b>	<b>1,315</b>	<b>2,884</b>	<b>5,526</b>
Opening Cash balance	-19,186	-18,132	-16,817	-13,933
Net Cash Movement	1,054	1,315	2,884	5,526
<b>CLOSING CASH POSITION</b>	<b>-18,132</b>	<b>-16,817</b>	<b>-13,933</b>	<b>-8,407</b>