Hackney

REPORT OF THE GROUP DIRECTOR, FINANCE & CORPORATE RESOURCES		
Cashflow Planning **Pensions Committee** **30 September 2021**	**Classification** **Public** **Ward(s) affected** **ALL**	**Enclosures** **One** **AGENDA ITEM NO.** **5**

1. INTRODUCTION

1.1 This report presents a report from the Fund's Investment Consultants in respect of cashflow planning. It sets out the Fund's near term cashflow requirements and the longer term outlook taking into account current commitments to the private market and infrastructure.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to:

- note the report; and
- agree to continue to maintain £50m holding in Blackrock Ultra Short Bond Fund

3. RELATED DECISIONS

- Pensions Committee (Urgency Delegation March 2020) – 2019 Final Valuation Report and Funding Strategy Statement
- Pensions Committee 29th March 2017 –Investment Strategy Statement
- Pensions Committee - 31 March 2021 - Investment Strategy Implementation

4. COMMENTS OF THE GROUP DIRECTOR OF FINANCE & CORPORATE RESOURCES

4.1 The Pensions Committee has delegated responsibility for management of the Pension Fund, including matters concerning its investment strategy, funding levels and related matters.

4.2 The cash flow of the Fund has a direct impact on the investment opportunities and strategy adopted by the Fund and it is therefore vital that the Committee monitors the cashflow position and plan for the likely scenarios ahead of time. In this way, the Committee can ensure that decisions in respect of future funding and investment strategy are relevant and reflective of the availability of cash to pay future benefits as they become due.

4.4 Whilst there are no immediate direct impacts from the information contained in this report, ongoing monitoring of the position should continue in order the Committee can continue to make informed decisions regarding changes to the Fund's investment and funding strategies.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

5.1 The Pensions Committee's Terms of References sets out its responsibility for management of the Pension Fund. The Committee has delegated responsibility:

- To make arrangements for the triennial actuarial valuation, monitor liabilities and to undertake any asset/liability and other relevant studies as required.
- To monitor the performance and effectiveness of the investment managers and their compliance with the Statement of Investment Principles (Investment Strategy Statement).
- To set an annual budget for the operation of the Pension Fund and to monitor income and expenditure against budget.
- To act as Scheme Manager for the Pension Fund

5.2 Given these responsibilities, it is appropriate for the Committee to consider the cashflow position of the fund and to plan accordingly.

6. CASHFLOW PLANNING

6.1 Committee has been informed on various occasions that the Pension Fund is cashflow positive, ie, income to the Fund is in excess of payments made by the fund.

6.2 The paper at Appendix 1, prepared by our investment consultants, sets out an analysis of the future cashflow position, looking at 2 scenarios in respect of the future employer contribution levels.

6.3 In both scenarios, it sets out that the Fund is likely to become cashflow negative during 2023, albeit only moderately so in each scenario, ranging from c£15m assuming current levels of employer contribution are maintained, to c £35m assuming that employer contributions were to be reduced by 1% per annum from 6 years from 2022/23.

6.4 This is an important factor to consider in setting future funding and investment strategies and will need to be considered when setting employer contribution rates at the next valuation, taking effect from 2022/23 financial year.

6.5 The switch from cashflow positive to negative will have an impact on investment strategy going forward as the Fund needs to ensure that it has sufficient liquidity to pay benefits and other expenses as they become due.

6.6 As set out in the paper, this needs to be considered carefully in future strategies to avoid the Fund becoming forced sellers at market lows. In such a situation the Fund would not then be able to take advantage of future market growth as when this happens , assets would already have been sold.

6.7 By considering cashflow early, the investment strategy can be changed such that the Fund switches some of its investments to income generating assets, thus removing the requirement to disinvest from assets suboptimally.

6.8 The scenarios set out in the paper only take account of contributions receivable and benefits payable and so it should be noted that income from investments will bridge some of the gap going forward. However at present all investment mandates are set up so that any income received is reinvested - this may need to be reconsidered in future.

6.9 It should also be noted that the drawdown requirements of current commitments to private debt and infrastructure mandates will have a call and impact on cash although this is being managed through the reallocation of investments from equity mandates. Nonetheless, it is important that these cash outflows are monitored carefully. Of course in time, these mandates will become income generators to the Fund and hence assist positively on cashflow.

6.10 The Fund's investment consultants will be attending the Committee meeting to talk through the attached paper and its implications for the future in more detail.

Ian Williams
Acting Chief Executive / S151 Officer

Appendices:
Appendix - Cashflow Planning Paper from Hymans Robertson

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