

CAMBRIDGESHIRE PENSION FUND

Pension Fund Board

26 April 2024

Report by: HEAD OF PENSIONS

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| Subject | Cashflow Projections Report |
| Purpose of the Report | To present to the Pension Board a summary of the Cashflow projections report produced by the Fund's Actuary |
| Recommendations | The Pension Board is asked to note the contents of the report |
| Enquiries to: | Cory Blose Employer services and Communications Manager |

1. Background

- 1.1. The Pension Fund collects contributions from members and employers on a monthly basis. These contributions are used to pay benefits already due with any excess being invested to build up assets which can be used to pay benefits as they fall due in the future.
- 1.2. As a pension fund matures the value of benefit payments will start to exceed the income from contributions. At this point the fund is considered to be cashflow negative.
- 1.3. As long as this transition is monitored and managed effectively, being cashflow negative is not a problem. The assets have been built up for this purpose but if not managed effectively it could pose a liquidity risk and the Fund may become a forced seller of assets and may not get the desired return on its investments.
- 1.4. Knowing when the Fund is likely to be cash flow negative is helpful in the development of the Fund's funding and investment strategies helping to ensure that the Fund:
 - has enough cash available to pay benefits to members
 - can maintain stable employer contribution strategies over time and withstand market volatility
 - understands the amount of cash balance that needs to be retained
 - avoids the risk of being a forced seller
 - has adequate income generating assets
 - makes the most efficient use of income generated by the Fund's assets
 - implements an optimum cash management policy
- 1.5. Member benefits are protected against inflation through the Pension Increase order which is linked to the consumer prices index (CPI) as at the previous September. The value of member benefits and the Fund's cashflow position is therefore sensitive to the rate of inflation.
- 1.6. The focus on cashflow is greater due to the significant increase in the rate of inflation and resulting increase to benefits at April 2023 (10.1%) and April 2024 (6.7%).

- 1.7. The report therefore considers three potential inflation scenarios; a baseline scenario based on consensus forecasts on future inflation, a plausible high inflation scenario and a plausible recession scenario.

2. Executive Summary

- 2.1. This report provides a summary of a report by the Fund Actuary on the results of recent cashflow projections modelling.
- 2.2. A full report has been provided by the Fund Actuary and is included as appendix A to this report. The Actuary summarised the report at the last meeting of the Pension Fund Committee.
- 2.3. The report considers the expected value of member and employer contributions paid into the Fund against the value of benefit payments paid out of the Fund.
- 2.4. When the value of contributions received exceeds the value of benefit payments, the Fund has a positive cashflow position and is able to pay benefits as they fall due from the income received from the contributions.
- 2.5. When the value of contributions received is less than the value of benefit payments, the Fund has a negative cashflow position and will need to draw on the Fund's invested assets to meet benefit payments as they fall due, either by using the income generated by the Fund assets or by selling Fund assets.
- 2.6. A negative cashflow position is not an issue as long as it is monitored and planned for. Fund assets have been building up for the purpose of paying benefits but if the position is not monitored and managed effectively, the Fund could be forced to sell assets at an inopportune time.
- 2.7. By monitoring when the Fund can expect to become cash flow negative allows for a planned and managed sale of assets.
- 2.8. The Fund's cashflow position is sensitive to inflation due to members benefits being index linked with the revaluation of benefits and pension increases being linked to CPI.
- 2.9. The report considers the potential net cashflow position of the Fund across three possible inflation scenarios. A baseline scenario representing consensus forecasts for future inflation based on current market data as well as a scenario assuming a recession (with low inflation) and a high inflation scenario.
 - Baseline scenario: The Fund is expected to become cashflow negative by 2030.
 - Recession: The Fund is expected to remain broadly cashflow neutral over the short and medium term.
 - High Inflation: The Fund is expected to become cashflow negative over the next few years.

3. Issues and Choices

3.1 Summary of Results

The headlines from the report are as follows:

- **Baseline scenario:** The Fund is expected to become cashflow negative by 2030 but is generating sufficient income to meet the expected cashflow shortfall over the next 20 years.
- **Recession:** The Fund is expected to remain broadly cashflow neutral in the short to medium term if inflation is low.

- **High Inflation:** The Fund is expected to become cashflow negative over the next few years with the gap growing if high inflation persists. This could create a requirement for more income generating assets to ensure there is sufficient cash to pay benefits.

3.2 Presentation by Fund Actuary

At the meeting of the Pension Fund Committee, the Actuary summarised the report covering:

- Background to why we monitor cashflow positions (pages 5-7 of the report)
- The inflation scenarios used (page 9 of the report)
- Cashflow projections under each scenario with key learnings (pages 11-18 of the report)
- Next steps

4. Relevant Pension Fund Objectives

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| To have robust governance arrangements in place, to facilitate informed decision making, supported by appropriate advice, policies and strategies, whilst ensuring compliance with appropriate legislation and statutory guidance. |
| To ensure the relevant stakeholders responsible for managing, governing and administering the Fund, understand their roles and responsibilities and have the appropriate skills and knowledge to ensure those attributes are maintained in a changing environment. |
| To continually monitor and manage risk, ensuring the relevant stakeholders are able to mitigate risk where appropriate. |
| To put in place a strategic asset allocation ensuring it is appropriately maintained taking into account the Funding strategy. |
| To ensure an appropriate cash management strategy is in place so that net cash outgoings can be met as and when required |

5. Risk management

- 5.1. There is a risk that the Fund does not have a diverse membership which could impact effective governance. There is also the risk that the Fund is not engaging with as many members/stakeholders as it could be to provide valuable scheme information.
- 5.2. The mitigated risks associated with this report has been captured in the Fund's risk register as detailed below –

| Risk | Residual risk rating |
|---|----------------------|
| Information may not be provided to stakeholders as required. | Green |
| Failure to provide relevant information to the Pension Fund Committee/Pension Board to enable informed decision making. | Green |
| Failure to respond to changes in economic conditions | Amber |

- 5.3. The executive summary can be found on the Fund's website at the following link:

[Cambridgeshire Risk Register](#)

6. Implications (including financial implications)

Resources and Financial

6.1 The results of this report will be used to review the Fund’s cashflow management policy, investment strategy and may impact the allocation and management of the Fund’s assets, including liquidation of assets where appropriate.

Legal

6.2 There are no legal implications arising from the proposals.

Consultation

6.3 The Cashflow Projections report was produced by the Fund Actuary.

7. Background Papers

7.1. None

8. Appendices

8.1. Appendix A – Cashflow Monitoring Report

| Checklist of Key Approvals | |
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| Has this report been cleared by Head of Pensions? | Mark Whitby – 27/03/2024 |