

Report for: Pensions Committee and Board – 13 July 2023

Item number:

Title: Investment Strategy Review: Cashflow Requirements Review

Report

authorised by: Josephine Lyseight, Assistant Director of Finance (Deputy Section 151 Officer)

Lead Officer: Tim Mpofu, Head of Pensions and Treasury
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Ward(s) affected: N/A

Report for Key/

Non Key Decision: Not applicable

1. Describe the issue under consideration

- 1.1. This report provides the Pensions Committee and Board with a review of the Pensions Fund's cashflow requirement over the short to medium term.
- 1.2. Haringey Council is the designated statutory Administering Authority for the Haringey Local Government Pension Scheme (LGPS). Administering Authorities are responsible for operating the scheme in accordance with the LGPS regulations, which includes the investment of Pension Fund assets and paying pension benefits.
- 1.3. This report aims to ensure that the Pension Fund has an appropriate strategy in place to fulfil its obligation of paying member pension benefits.

2. Cabinet Member Introduction

- 2.1. Not applicable

3. Recommendations

The Pensions Committee and Board is recommended to:

- 3.1. To note Hymans Robertson's Cashflow Projections paper, appended as Confidential Appendix 1 to this report, and the advice contained therein.
- 3.2. To note Mercer's Income Considerations paper, appended as Confidential Appendix 1 to this report, and the advice contained therein.
- 3.3. To approve a change to the income distribution policy for the applicable global listed equities strategies managed by Legal and General Investment Management within the investment portfolio.
- 3.4. To delegate the authority to the Head of Pensions & Treasury to implement the above changes (if approved), after consultation with the Chair of the Pensions Committee and Board.

4. Reason for Decision

- 4.1. The Pension Fund is currently considered to be “cashflow negative”. This means that the amount paid out in pension benefits exceeds the total contributions received from employers and employees who are currently paying into the scheme.
- 4.2. If the cashflow negative position is not monitored and managed effectively, it can pose a liquidity risk, potentially making it challenging for the Pension Fund to fulfil its obligation of paying member pension benefits.

5. Other options considered

- 5.1. All the options under consideration have been outlined in both Confidential Appendix 1 and Confidential Appendix 2.
- 5.2. To meet its short-term cashflow needs, the Pension Fund can, under delegated authority to the Head of Pensions and Treasury, receive income from current assets in the investment portfolio or selling liquid assets such as equities and fixed income.

6. Background information

- 6.1. The Pensions Committee and Board (PCB) has previously agreed to a review of its cashflow requirements as part of the investment strategy review. This has been included as part of the PCB’s Forward Plan.
- 6.2. The Pension Fund receives income from contributions made by employers and current employees and uses it to pay out pension benefits to retired members.
- 6.3. Employer contribution rates are set by the Fund Actuary every three years as part of the actuarial valuation process. Employee contribution rates are set by Central Government. Following the outcome of the actuarial valuation exercise as at 31 March 2022, the Pension Fund’s contributions were slightly reduced across the employer base.
- 6.4. LGPS pension benefits are uplifted annually based on the Consumer Price Inflation (CPI) report in September prior to the start of the new financial year in April. For the financial year 2023/24, pensions benefits were uplifted by 10.1%.
- 6.5. Sustained higher levels of inflation and reductions in contribution rates can increase the Pension Fund’s cashflow requirements and pose a risk to its ability to effectively meet benefit payments when they fall due.
- 6.6. The Fund Actuary, Hymans Robertson has prepared a Cashflow Projections paper which considers different future projections of the Fund’s cashflows under a range of different scenarios. The analysis and projections will help the Fund better understand its current and potential future cashflow position which is a key part of its management of risk. This paper has been included as Confidential Appendix 1 to this paper.
- 6.7. The Pension Fund’s investment consultants, Mercer, have prepared an Income Considerations paper. This paper summarises the current income distribution policy arrangements as well as considering several options for increasing the Pension Fund’s income in the future. This paper has been included as Confidential Appendix 2 to this paper.

- 6.8. On the basis of the considerations included in both the fund actuary paper and the investment consultation paper, the Pension Fund can change the distribution policy on some of its current investments. This change would increase the income received by the Pension Fund from its investments, thereby reducing the cashflow requirement in the short-term.
- 6.9. However, in the long-term, the Pension Fund will need to consider its strategic asset allocation to ensure it remains appropriate given the Pension Fund's expected future cashflows.

7. Contribution to Strategic Outcomes

- 7.1. Not applicable

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities) Finance and Procurement

- 8.1. There are no direct financial implications arising from this report. However, establishing a good control environment may result in future cost reductions for administering the scheme.

Head of Legal and Governance (Monitoring Officer)

- 8.2. The Head of Legal and Governance (Monitoring Officer) has been consulted on the content of this report.
- 8.3. The Council as administering authority for the Haringey Pension Fund must periodically review the suitability of its investment portfolio to ensure that returns, risk and volatility are appropriately managed and are consistent with its overall investment strategy.
- 8.4. All monies must be invested in accordance with the Investment Strategy Statement (as required by Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016) and members of the PCB should keep this duty in mind when considering this report and take proper advice on the matter which is the subject of the recommendation.

Equalities

- 8.5. There are no equalities issues arising from this report.

9. Use of Appendices

- 9.1. Confidential Appendix 1: Cashflow Projections
- 9.2. Confidential Appendix 2: Income Considerations

10. Local Government (Access to Information) Act 1985

- 10.1. Not applicable.