REPORT TITLE: Cashflow Monitoring

Meeting:	Pension Committee
Date:	29 February 2024
Item Type:	For information
Purpose of Report:	To provide the Committee with analysis on the future projections of the Funds cashflows under a range of different scenarios. The analysis and projections will assist the Committee its current and potential future cashflow position and is part of the Committees management of risk in this area.
Recommendations or Actions Sought:	That the Committee notes the current Cashflow Monitoring report and request that officers and advisors continue to monitor the cash flow position and report periodically to Committee and that the cash flow modelling exercise should be repeated as part of the 2025 actuarial valuation.
Background Documents:	The Pensions Committee last received a Cashflow monitoring update at its meeting on the 8 December 2022. The report and related minutes can be found on the following link. Agenda for Pension Committee on Thursday 8 December 2022, 10.00 am (gloucestershire.gov.uk)
Appendices:	Appendix 1 – Cashflow Monitoring Report
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Introduction

As part of the 2022 valuation process, one of the key considerations for the Fund was the expected cash flows. The impact of expected cash flows can have material implications on the investment strategy and the contribution strategies of the Fund.

In December 2022, Committee received a cashflow report that provided the following conclusions:

- In the absence of investment income, the Fund is likely to be cashflow negative by 2032 allowing for an expected pension increase of 10% in April 2023 and inflation thereafter that is in line with the valuation assumption;

- The cashflow position of the Fund is sensitive to future levels of inflation. If higher inflation continues to persist into 2023 and 2024, the Fund may become cashflow negative in the next couple of years;

- In the longer-term, the most significant risk to the Fund (in respect of its cashflow position) is a stagflation scenario, where inflation remains elevated for a longer period of time. Under this scenario, the Fund is cashflow negative in the next couple of years, with the gap increasing to a material level in the longer-term.

It was recommended that officers and advisors continue to monitor the cash flow position and report periodically to Committee any concerns especially if we enter a stagflation scenario and that the cash flow modelling should be undertaken again no later than 2025/26 in conjunction with the next actuarial valuation.

Results of 2023/24 modelling

Due to the higher than expected levels of inflation that has persisted and is above the inflation assumptions in the 2022 valuation the cashflow monitoring exercise has been repeated to consider the impact and risk on the Funds cashflows.

Attached at appendix 1 is the detailed report from the Funds actuary, Hymans Robertson on the Funds cashflow position. The objective of this report is to project the expected cash flows of the Fund over a 20 year time horizon and to understand the sensitivity of the net cash flow position of the Fund to a number of scenarios

From the analysis and projections set out in the attached report, the following conclusions can be drawn:

- In the absence of investment income, the Fund is likely to be cashflow negative by 2035 after recognising the pension increase of 10.1% in April 2023, the expected pension increase of 6.7% in April 2024 and inflation thereafter in line with consensus forecasts on future inflation. This is later than previously anticipated (as a result of higher inflation driving higher salary growth and subsequent contribution income);

- The cashflow position of the Fund is sensitive to future levels of inflation. The recessionary scenario represents a “hard landing” and associated new period of low inflation. This scenario brings a similar timescale to cashflow negativity in comparison to the baseline;

- In the longer-term, the most significant risk to the Fund (in respect of its cashflow position) is a high inflation scenario, where inflation remains elevated for a longer period. Under this scenario, the Fund remains cashflow positive over the 20-year projection period due to increased contribution income as a result salary growth remaining higher than inflation). This highlights the importance of reviewing the cashflow position on a regular basis in an uncertain inflationary environment;

- A reduction in contribution rates at the 2025 valuation will reduce the contribution income received by the Fund in the long-term. This will bring forward the point of cashflow negativity (by 4 – 5 years);

- Salary growth impacts contribution income in the shorter term, with a smaller impact on benefit payments in the longer term. Therefore, higher salary growth will improve the cashflow position due to increased contribution income, and vice versa.

The cash flow projections are based on a specific set of deterministic assumptions, which are unlikely to be borne out exactly. It is recommended that officers and advisors continue to monitor the cash flow position and that the cash flow modelling should be undertaken again as part of the 2025 actuarial valuation exercise.