

LONDON BOROUGH OF CAMDEN	WARD: All
REPORT TITLE: Fund Maturity	
REPORT OF: Executive Director Corporate Services	
FOR SUBMISSION TO: Pension Committee	DATE: 3 March 2020
SUMMARY OF REPORT: This report presents the results of an exercise to estimate the Fund's maturity (the balance between benefits paid and contributions received). When payments exceed receipts the Fund is considered to be mature.	
<p>Local Government Act 1972 – Access to Information No documents required to be listed were used in the preparation of this report.</p> <p>Contact Officer: Nigel Mascarenhas Treasury and Financial Services Finance and Procurement Corporate Services Dennis Geffen Annexe Camley Street N1C 4DG</p> <p>Telephone: 0207 974 1904 Email: nigel.mascarenhas@camden.gov.uk</p>	
RECOMMENDATIONS: The Committee is requested to note the contents of this report.	
Signed by Director of Finance Agreed	
Date 20.02.2020	

1. INTRODUCTION

- 1.1 The Fund's actuary, Hymans Robertson, periodically undertakes analysis of the receipts and payments in the Fund to identify maturity. Maturity is reached when contributions from employers and employees are less than expenditure on benefits paid out to members of the Fund (including expenses paid out). When the Fund is cash flow negative it will then become dependent on the Fund's assets and investment returns to finance benefit expenditure (as contributions will no longer cover benefit spend in any one year).
- 1.2 The Committee has received reports from the Actuary which modelled assumed cash flows based on data held from triennial valuations. The last report was reported to Committee in November 2016 following the last triennial valuation.
- 1.3 The November 2016 report showed that the Fund was expected to be slightly cash flow negative in the earlier years with cash flow varying between outflows up to £12m in the period up to 2025. After this time the gap became increasingly larger between contributions and benefits paid and showed how the Fund was predicted to become mature and increase its maturity. After 2034 net cash outflow increased significantly (c£40-50m) as payments from deficit repayment contributions stopped after the 17.5 year recovery period.

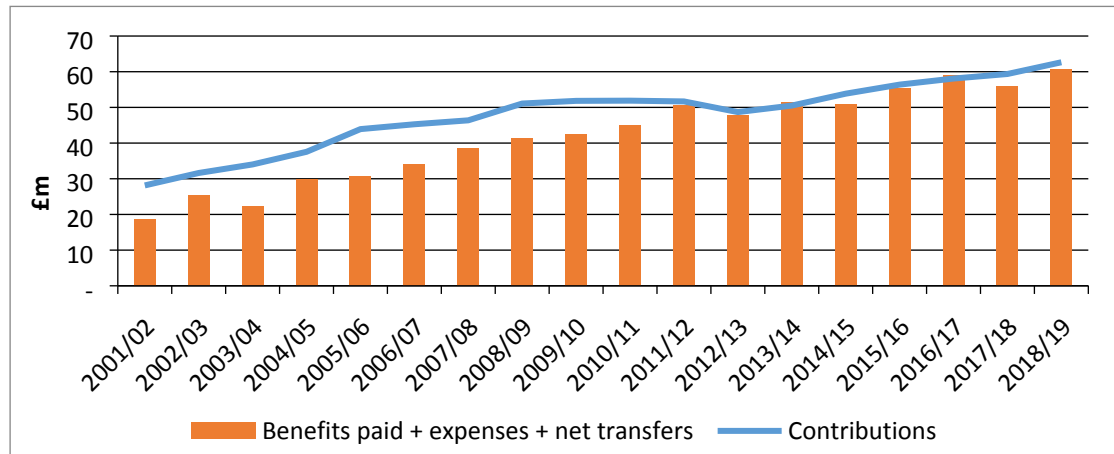
2. HYMANS FINDINGS

- 2.1 The modelling this time takes account of the 2019 valuation liability data and so gives the very latest information on cash flow and maturity. The actuary's report is included in **Appendix A**. Barry Dodds from Hymans Robertson will be attending Committee to present the findings and field questions.
- 2.2 Chart 2 in Appendix A shows that the Fund is not yet cash flow negative (or mature) and will remain broadly cash flow neutral until 2028. This is good news as it means the Fund does not have to redeem investments to fund benefit expenditure. After 2034 the results show that the deficit contributions cease (and this is shown for consistency with the November 2016 report – i.e. in 14 years' time) and so the cash flow gap increases and is significant thereafter between contributions received and benefits paid.
- 2.3 Chart 3 in Appendix A compares the results from last time's analysis (in 2016) with the results reported now. This shows an improved cash flow position up until 2034 as the orange bars now (2019 analysis) are much lower than the green bars from the last exercise (in 2016).
- 2.4 Even after 2034 when deficit repayment contributions are expected to cease, the latest cash flow analysis shows net cash flow outgoings at lower levels this time (in 2019) compared to 2016. Hymans attribute this to higher payroll figures than assumed in 2016 resulting in higher contributions (both employers and employees).
- 2.5 Cash flows in the Hymans report do not consider investment income which is available to fund the net cash out flows. Investment income was

£23m in 2018/19. Therefore in the short term income from investments will cover net cash out flows.

- 2.6 The actual cash flow experience of the Fund is shown in Table 1 below. This shows how the Fund has moved from being significantly cash flow positive (big gaps between the contribution line and the expenses bars) to a cash flow neutral position (the bars close to the line). The Hymans analysis in Appendix A shows that this will move to small cash out flows in the near future.

TABLE 1 ACTUAL PENSION FUND CASH FLOW



- 2.7 The cumulative impact of successive reductions in Council funding has been significant. Since 2010, the Council's like-for-like funding has reduced by 54%. As a result, over the last eight years the Council, as the main employer in the Fund, has been forced to make an unprecedented £169m of savings, which has meant that it has had to reduce its workforce by 23% (1,140 full time equivalents). The Council is projecting a significant budget deficit of between £35m and £40m by 2021/22
- 2.8 The reducing staff base from the savings programme has a marked effect on the maturity of the Fund. Due to volatility of cash flows on a monthly basis it is difficult to ascertain an exact point when the Fund becomes cash flow negative. Currently the Fund is broadly cash flow neutral with individual events such as transfer values in and out determining the monthly inflow or outflow.
- 2.9 The Fund should be prepared to fund benefit expenditure from investment income in the short and medium term. Fund Maturity will be kept under review annually as part of the administration report and re-examined formally again following the next triennial valuation in 2022.
- 2.10 Fund Maturity is important as when a Fund becomes cash flow negative it then must rely on its assets to fund benefits. In this scenario the investment strategy must factor in reducing assets and mandates must be structured so that assets can be withdrawn to fund benefits as and when required. The Fund has three mandates which are not liquid. The first is the Partners global property mandate which is structured as a commitment for capital calls and must be adhered to. The second is the private equity allocation with HarbourVest. Finally the Fund has a commitment to Infrastructure with the CIV's sub-fund managed by

StepStone. These mandates amount to 15% of the total assets under management and therefore their illiquidity is not considered to be an issue in the medium term.

**3. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR
CORPORATE SERVICES**

- 3.1 The finance comments of the Executive Director Corporate Services are contained within the report.

4. COMMENTS OF THE BOROUGH SOLICITOR

- 4.1 The Pension Committee has responsibility for establishing a strategy for the disposition of the pension investment portfolio. In doing so it has a duty to monitor the performance of the Fund and to take proper advice about the suitability and variety of investments. It must consider such advice in taking any steps in relation to its investments and investment strategy. As stated in the Finance comments above the maturity of the Fund will be an important consideration for the investment strategy of the Fund.

5. APPENDICES

APPENDIX A – Fund Maturity