Pension Fund Committee
5 June 2020
Item 9

CASH FLOW FORECAST FOR 2020-21

Introduction

1. This report provides the Committee with a cash flow forecast for 2020-21.

Recommendation

2. Committee are asked to note the contents of this report and consider whether any further information or action is required.

2020-21 Overview

3. Appendix A shows the monthly cash flow forecast for the Fund for the year to 31 March 2021. The position is summarised in the table below which compares the estimates for 2020-21 with actuals from 2019-20.

Table 1- Cash Flow Year on Year Comparison

Cash flow year on year comparison	**2019-20 Actuals**	**2020-21 Estimate**
	£m	**£m**
Contributions	169.4	192.3
Less Benefit Payments	(191.8)	(199.4)
Net Transfers In/Out	(4.6)	-
Net benefits monthly cash flow	**(27.0)**	**(7.1)**
Net investment cash flow	40.3	29.9
Net total monthly cash flow	**13.3**	**22.8**

4. In line with previous years, the forecast shows a shortfall between income from contributions and the amount paid out in pension benefits. This is forecast at £7.1m for 2020-21 compared to £27.0m in 2019-20. The main reasons for the change are explained further in this report.

5. Whilst investment income is forecast to fall due to the impact of Covid-19 on the property and equity markets, it still contributes to a net positive cash flow for the year of £22.8m (£13.3m in 2019-20).

6. The forecast has not taken into account any impact from transfers in or out of the Fund. These vary significantly each year in line with movements of members into and out of the Fund, and the transfer value of their benefits. Overall, the impact of transfers in and out over the year is unlikely to have a material impact on the overall cash flow position.

7. The forecast is based on the best information available to date and will be reviewed and updated throughout the year. The most important components of

the Fund's cash flow and the assumptions made to underpin estimates are explained further below.

Employer and employee contribution income

8. The forecast includes employee contributions based on the rates set out in the regulations and actual employee contribution trends.

9. New employer contribution rates from 1 April 2020 set following the 2019 valuation are factored in. Overall, the impact is a small increase primary rates for some employers but secondary rates (or deficit contributions) have decreased.

10. Some employers have furloughed staff, and whilst pension contributions are due on furloughed pay, it will take some time to see the impact on contribution inflows. At present the majority of employers are continuing to pay contribution payments on time despite the current economic situation with Covid-19 and Officers are monitoring any payment breaches closely.

11. Committee will note the overall increase in contributions forecast for 2020-21. This is primarily due to the timing of secondary rate contributions from the four local Councils.

12. At the 2016 valuation all four councils elected to pay their secondary contribution payments, totalling £87m, as one off lump sums in year one following the valuation. Following the 2019 valuation, the Councils have taken different approaches to the timing of secondary contribution payments.

    - Warrington and Halton Councils are paying secondary contributions due for the three year period (£5.7m and £3.3m respectively) upfront in May 2020.
    - Cheshire West & Chester and Cheshire East Councils are paying their annual secondary contributions (£4.7m and £13.9m respectively) in each year due.

13. The overall impact of the Councils' secondary rate payment choices (which the Councils are at liberty to make in agreement with the Fund) has increased this element of contribution income for 2020-21 by £27.6m but will reduce contributions receipts in the following two years.

Benefit payments

14. Benefit payments are expected to increase in line with the trend of recent years as the number of pensioners continues to grow and pensions already in payment increase in line with inflation (CPI).

Future investment income

15. The Fund's annual investment income is forecast to be reduced in the light of the impact of the Covid-19 pandemic.

16. The largest element of investment income comes from directly owned properties through net rental and lease payments. Covid-19 has already had a significant impact on levels of rental income as the retail sector has shut down with many companies unable or unwilling to pay rent. It is likely that there will be a long term reduction in rental income as some retail tenants will simply not re-open after lockdown. The virus may also impact on office accommodation as companies permanently change their working practices and reduce their office footprint. Overall net income from the Fund's property portfolio is forecast to fall by £7.6m (approx. 33%) in 2020-21.

17. A reduction in dividends from equities is also forecast as companies reduce their payments to shareholders to prioritise other creditors. Many governments are asking companies in receipt of Covid-19 financial assistance from the state to reduce or remove all dividend payments in the near future.

18. Cash from private equity holdings is expected to be cash generative for the Fund in 2020-21. In December 2019 the Committee agreed a £100m top up of existing holdings; the funding for this will come from cash balances the Fund holds from previously agreed redemptions from Absolute Return managers.

19. The table below table shows a comparison of investment income received in 2019-20 compared to forecast income expected to be received in 2020-21.

Table 2- Investment Income

Investment Income Type	2019/20 Actual	2020/21 Forecast	Variance
	£m	£m	£m
Net rent	20.7	13.1	(7.6)
Equity dividends and net private equity income	11.4	8.6	(2.8)
Other investment income	8.2	8.2	0
Total	**40.3**	**29.9**	**(10.6)**

Conclusion

20. This initial cash flow forecast for 2020-21 suggests that despite a predicted steep decline in investment income, the Fund will remain in a net positive cash flow position. The main reasons for this are the increase in employer contributions, a significant proportion of which is due to the phasing of secondary contributions from the main employers.

21. Assuming estimates made are robust, this cash flow analysis confirms that the Fund does not need to make any unplanned changes to its investment strategy to generate more income.

22. For 2020-21 sufficient cash balances will be retained to cover any unforeseen shortfall. In the longer term, the Fund is still expecting its monthly cash flow (after current investment income) to become negative as benefit payments increase year on year and is planning to accommodate this by investing in Infrastructure assets which will generate stable and reliable income for the Fund.

Cash Flow Forecast 01 April 2020 - 31 March 2021

	Apr-20 £	May-20 £	Jun-20 £	Jul-20 £	Aug-20 £	Sep-20 £	Oct-20 £	Nov-20 £	Dec-20 £	Jan-21 £	Feb-21 £	Mar-21 £	Total £
Contributions received	14,840,530	14,840,530	14,840,530	14,840,530	14,840,530	14,840,530	14,840,530	14,840,530	14,840,530	14,840,530	14,840,530	14,840,530	178,086,361
Fixed deficit contributions*		9,493,000				4,703,000							14,196,000
Less benefit payments	-15,463,213	-16,980,986	-15,177,573	-15,683,935	-17,354,145	-17,087,153	-17,743,827	-16,514,767	-16,877,494	-16,771,311	-16,558,158	-17,140,306	-199,352,867
Monthly net cash flow from dealing with members	-622,683	7,352,544	-337,043	-843,405	-2,513,615	2,456,377	-2,903,296	-1,674,237	-2,036,964	-1,930,781	-1,717,628	-2,299,776	-7,070,507
Net investment cash flow	1,010,140	-1,471,793	-1,696	4,929,179	2,678,333	33,883	9,775,881	31,381	129,575	1,907,024	5,858,856	4,984,808	29,865,569
Net monthly cash flow	**387,456**	**5,880,751**	**-338,739**	**4,085,775**	**164,718**	**2,490,261**	**6,872,584**	**-1,642,857**	**-1,907,389**	**-23,756**	**4,141,227**	**2,685,032**	**22,795,063**

* The significant fixed deficit contributions of the 4 Councils and Cheshire Fire have been separated out from the main forecast contributions received