



PENSIONS COMMITTEE

19 March 2024

Subject Heading:

CASH MANAGEMENT POLICY REVIEW

CLT Lead:

Kathy Freeman

Report Author and contact details:

Debbie Ford
Pension Fund Manager (Finance)
01708432569

Policy context:

Debbie.ford@havering.gov.uk
To maintain a cash flow policy for internally managed pension fund cash so the Fund can meet its ongoing benefit payments

Financial summary:

To establish and manage minimum and maximum working cash balances

The subject matter of this report deals with the following Council Objectives

Communities making Havering	[X]
Places making Havering	[X]
Opportunities making Havering	[X]
Connections making Havering	[X]

SUMMARY

The attached report at Appendix A presents a proposed Cashflow Policy, establishing an acceptable working cash balance to be held by the Fund.

RECOMMENDATIONS

The Committee:

1. Consider and agree the updated Cashflow Policy (**Appendix A**).
2. Agree that this policy be reviewed every three years, recognising the additional information provided by the valuation process, including the impact on contribution rates.
3. Agree that in the event that the Fund's cash outflow profile was to materially change, for example if the Fund's benefit payments increased by more than 20%, then this policy be reviewed.

REPORT DETAIL

1. Background

1. The Fund should maintain ready access to an appropriate level of cash. The aim of the cashflow policy is to ensure that the level of cash held is proportionate to the Fund's needs.
2. Cash balances are deemed to those managed internally, held by the Authority on behalf of the Fund and combined with the cash held on the funds behalf with the Custodian (Northern Trust).
3. Cash flow management is an essential part of the administration of the pension scheme as the Fund's has an objective to meet its ongoing benefit payments and ongoing commitments to meet calls for cash in relation to private markets investments and currency management settlements.
4. The Fund receives income from employee and employer contributions, investment income and this needs to be managed against payments to cover benefits and expenses.
5. The Fund provides benefits for employees, which include retirement pensions, death grants and other lump sum payments.
6. These benefit payments can be split between predictable payments, such as monthly pension payroll or unpredictable payments such as transfer value payments, retirement lump sums or death benefits.

7. Whilst the Fund is aware of its commitments to fund capital calls, the timing of these and currency settlement amounts make the management of cash for these less predictable.
8. The Cash Management Policy was last agreed by the Pensions Committee on the 17 September 2019.
9. This policy has now been reviewed by the Fund's Investment Advisor (Hymans) using cash flow data provided by the Fund, with the detailed analysis set out in **Appendix A**.
10. The proposed cashflow policy is set out in the attached **Appendix A** (Appendix 1) and a summary of the proposals are set out below:
 - A target working cash balance of £8m (previously £6m) to be set, with an operational range of £5m to £13m (previous range between £3m and £8m).
 - This cash balance of £8m provides a buffer to cover one month of predictable outgoings (£3.5m) and three months of unpredictable outgoings (£1.5m) plus, an allowance for currency settlements (£3m).
 - The cash balance will be replenished by monthly contributions and by income received from the UK property and private market investment arrangements.
 - The working cash balance will be reviewed on a monthly basis immediately following receipt of contributions, and permitted to vary between £5m and £13m. In the event that cash levels fall out of these limits then officers should take the following actions:
 - If cash falls below the lower limit of £5m, assets will be disinvested from the most overweight liquid allocation to increase the working cash balance back to £8m.
 - In the event that cash levels rise above the upper limit of £13m, cash will be invested in the most underweight liquid allocation to reduce the working cash balance back to £13m. Officers may consult the Fund's Investment adviser for the most appropriate investment for the excess cash.
 - The cash balance may be retained above the upper limit at the discretion of the Section 151 officer.
 - Where the Fund has undrawn capital commitments amounting to £60m and £24.9m of those are expected to be called over the next 12 months, the Fund may retain additional cash to meet such commitments. These amounts will be considered as being additional to the working cash balance set out above.

IMPLICATIONS AND RISKS

Financial implications and risks:

Developing and maintaining a cash flow management policy will offer some degree of certainty that the Fund can meet its ongoing payments.

It is therefore desirable that;

- The cash balance maintained is not so large as to reduce the potential for future investment returns
- The cash balance maintained is not so small so as to create the risk that the balance will be easily exhausted, and thus disinvestments will be required either frequently or at short notice
- Assets are realised in the most efficient manner possible.

The responsibility for rebalancing actions is to be officers – this should be in line with the delegation duties as set out in the Councils constitution.

Legal implications and risks:

None arise from this report.

Human Resources implications and risks:

None arise from this report.

Equalities implications and risks:

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have due regard to:

- i. the need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- ii. the need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- iii. foster good relations between those who have protected characteristics and those who do not.

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Note: 'Protected characteristics' are: age, sex, race, disability, sexual orientation, marriage and civil partnerships, religion or belief, pregnancy and maternity and gender reassignment/identity.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants

An EqEIA is not considered necessary regarding this matter as the protected groups are not directly or indirectly affected.

BACKGROUND PAPERS

None