

Bath & North East Somerset Council		
MEETING:	AVON PENSION FUND INVESTMENT PANEL	
MEETING DATE:	25 November 2022	AGENDA ITEM NUMBER
TITLE:	Cashflow and Liquidity Analysis	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Exempt Appendix 1 – Mercer paper		

1 THE ISSUE

- 1.1 Each valuation a revised cashflow profile is generated for the Fund. This profile shows the net cashflow of contributions paid in less benefits paid. It is determined by the benefits structure, membership data and actuarial assumptions.
- 1.2 The Fund must have sufficient liquid assets to meet the pension payments as they fall due. Contributions into the Fund largely offset the pension payments and any shortfall is met by income or asset sales. As the membership of the Fund matures a shortfall will emerge, but as Avon is an open scheme the membership profile is maturing very slowly. Similarly a larger increase in pension increases versus salary increases (which determine the amounts of contributions received) could lead to a shortfall emerging over time.
- 1.3 Mercer have analysed the cashflow profile of the Fund using the 2022 valuation data. Their report in Exempt Appendix 1 sets out their conclusions and implications for the asset allocation. This analysis will be used in the strategic investment review due in 1Q23.

2 RECOMMENDATION

The Panel notes

- 2.1 The implications of the Cashflow analysis for the Strategic Investment Review.

3 FINANCIAL IMPLICATIONS

3.1 The budget has a provision for the Strategic review.

4 CASHFLOW/LIQUIDITY ANALYSIS

4.1 Mercer have analysed the cashflows generated by the 2022 valuation or the stream of pension payments that need to be paid out by the Fund over time. However when considering cashflow implications for the investment strategy, the focus can be on a shorter time frame of c. 10-15 years to be consistent with the time horizon of the investment and funding strategies.

4.2 The implications of the analysis will be included in the strategic investment review and will influence the overall allocation to private market and property assets given that these assets are not liquid and invested (in the main) in closed-ended funds.

4.3 Mercers report in Exempt Appendix 1 will be discussed at the meeting.

5 RISK MANAGEMENT

5.1 The Avon Pension Fund Committee is the formal decision-making body for the Fund. As such it has responsibility to ensure adequate risk management processes are in place. It discharges this responsibility by ensuring the Fund has an appropriate investment strategy and investment management structure in place that is regularly monitored. The Investment Panel further strengthens the governance of investment matters and contributes to reduced risk in these areas.

6 CLIMATE CHANGE

6.1 The Fund is implementing a digital strategy across all its operations and communications with stakeholders to reduce its internal carbon footprint. The Fund acknowledges the financial risk to its assets from climate change and is addressing this through its strategic asset allocation to Paris Aligned equities and renewable energy opportunities. The strategy is monitored and reviewed by the Committee.

7 EQUALITIES

7.1 A proportionate equalities impact assessment has been carried out using corporate guidelines and no significant issues have been identified.

8 OTHER OPTIONS CONSIDERED

8.1 None.

9 CONSULTATION

9.1 The Head of Pensions has reviewed this paper for publication.

Contact person	Liz Woodyard, Group Manager, Funding, Investment & Risk; 01225 395357
Background papers	Mercer papers
Please contact the report author if you need to access this report in an alternative format	