

MEETING: PENSIONS COMMITTEE
DATE: 16th MARCH 2026
TITLE: CASH FLOW MODELLING PROJECTIONS REPORT
PURPOSE: To present the Cash Flow Modelling Projections report.
AUTHOR: DELYTH JONES-THOMAS, INVESTMENT MANAGER

1. INTRODUCTION

The purpose of this report is to present the Cash Flow Modelling report following the recent valuation. The report can be seen in Appendix 1.

The objective of the report was to project the expected cashflows of the Fund over a 20 year time horizon and to understand the sensitivity of the net cashflow position of the Fund to a number of inflation scenarios.

2. WHAT ARE THE CASH FLOWS OF THE FUND

The Fund’s primary sources of income are:

- Contributions from employers in the Fund
- Contributions from employee members in the Fund
- Income streams generated from the Fund’s investments

The Fund’s outflows are the benefits payable to the members and their dependants. These include:

- Retirement lump sums paid to active and deferred members on retirement
- Retirement pensions paid to pensioners and their dependants
- Death in service benefits and ill health benefits.

3. CURRENT POSITION

The chart below shows the absolute value of contribution income and benefit (bars) and the net cashflow position over the last 3 years:



The cashflow position has remained positive in recent years for the Fund.

However, the magnitude of benefits in payment by the Fund is continuing to increase on an annual basis. With contribution income expected to reduce because of contribution rate reductions at the 2025 valuation, the Fund’s cashflow position may change significantly in a short period of time.

4. CASHFLOW NEGATIVE

Historically, the benefits have been paid out of the contribution income with any excess being invested. This is how the Fund’s asset value has built up over time (along with investment returns). Over time a pension fund will mature and the level of benefit payments will start to exceed contribution income. At this point, a pension fund is considered “cashflow negative” and within this report, a range of different inflation scenarios have been prepared to inform decision making

Being cashflow negative itself is not unexpected for a pension fund. The assets that have been accrued are for the purpose of paying benefits – using them for that purpose is exactly as intended. However, if the transition to being cashflow negative is not monitored and managed effectively, it can pose a liquidity risk and the Fund may become a forced seller of assets.

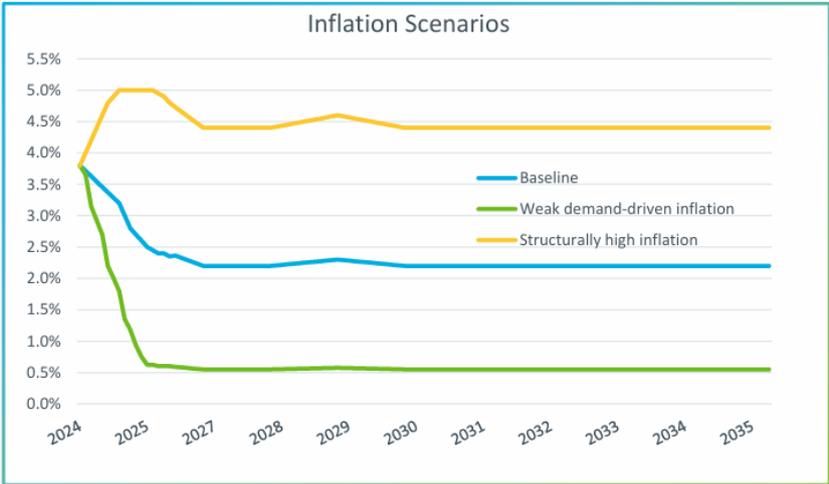
5. SCENARIO ANALYSIS

The following scenario’s were modelled for the fund:

Scenario 1: this baseline scenario represents consensus forecasts for headline CPI inflation to trend towards, albeit slightly above, the Bank of England’s target over the medium-term.

Scenario 2: the weak demand-driven inflation scenario represents deficient demand as the government embarks on fiscal consolidation. This could be achieved through tax increases and spending cuts, leading to a period of weak growth and weak demand-driven inflation (i.e. lower inflation than the baseline scenario).

Scenario 3: this represents a structurally high inflation scenario where persistent labour shortages and subsequent wage increases, alongside supply-side disruption owing to geopolitical risks (including trade tariffs) and climate-induced disruptions lead to a period of structurally higher inflation (i.e. higher inflation than the baseline scenario).



6. ANALYSIS OF RESULTS

The conclusion from the analysis is as follows:

- Under the baseline scenario, benefit outflow is estimated to exceed contribution income from 2027 onwards. The shortfall from contributions would require income from assets of no more than approximately a 0.6% yield.
- Under the weak demand- driven inflation, assuming future pay increase remain at 2.8% pa, a weak-demand driven inflation scenario would improve the Fund's cashflow position in future years compared to the baseline scenario due to salary increases exceeding inflation. A small gap between contribution income and benefit outgo would remain (requiring an income yield of up to approximately 0.2%), before turning cashflow positive again by 2045.
- Under the structurally high inflation scenario, this scenario has higher inflation persisting in the short-term, worsening the Fund's short-term cashflow position. In the long-term, the Fund's cashflow position materially worsens and an income yield of up to approximately 1.2% would be required (assuming future pay increases remain at 2.8% pa).

7. NEXT STEPS

The Fund will share the results with WPP IM Co and will monitor the following:

- the impact of reductions in contributions rates and membership changes on the cashflow position.
- any factors (e.g unexpected inflation) that may affect the cashflow position
- how the investment strategy should evolve to meet changing cashflow needs
- whether a formal cashflow and rebalancing policy is required

8. RECOMMENDATION

The Committee is asked to note the contents and approve the report.