



City of Westminster

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	16 November 2015
Classification:	Public
Title:	Cash Flow Monitoring and Strategy
Wards Affected:	All
Policy Context:	Effective control over Council Activities
Financial Summary:	There are no immediate financial implications arising from this report.
Report of:	Steven Mair <i>City Treasurer</i> smair@westminster.gov.uk 020 7641 2904

1. Executive Summary

- 1.1 This report presents an updated cash flow forecast for the fund which highlights the timescales for cash shortfalls and proposes a policy to address this position.

2. Recommendation

- 2.1 The Committee is asked to note the cashflow position of the Fund.
- 2.2 The Committee is asked to approve the strategy for managing the cash flow position using investment income and structured disinvestment.
- 2.3 The Committee is asked to approve the disinvestment of £20 million from Legal & General in December 2015.

3. Cashflow Monitoring

- 3.1 At the September 2015 meeting, Committee members were presented with the Fund's cashflow position for the financial year, to demonstrate the draw on the Fund's assets required to pay liabilities as they become due.

- 3.2 The revised actual cash-flow for the period April to October 2015 and the forecast up to March 2020 is shown in Appendix 1.
- 3.3 The forecast shows that it is expected the Fund will be overdrawn in January 2015 without additional monies.
- 3.4 The forecast includes the repayment of early employer contributions from City of Westminster of £13.45 million in December 2015.
- 3.5 In order to address the immediate cash flow requirements a one-off disinvestment of £20 million from Legal and General has been planned.

4. Cash Flow Strategy

- 4.1 The cash flow forecast at Appendix 1 indicates that there is a monthly cash deficit of between £1.5 and £2.0 million each month on average.
- 4.2 In order to minimise the market risk around large one-off disinvestments it is proposed to establish a more structured approach to disinvestment which will also incorporate any income generated to increase tax efficiency and improve transaction costs.
- 4.3 From April 2016 a monthly programme of cash transfers from the Fund Managers to the Fund bank account of around £2.0 million (£24 million per annum) will be introduced. This will be comprised of the following elements:
 - i. £1.0 million from Legal & General (£12 million per annum)
 - ii. £0.5 million from Majedie (£6 million per annum)
 - iii. £0.4 million from Insight (£4.8 million per annum)
 - iv. £0.3 million per quarter from Hermes (£1.2 million per annum)
- 4.4 Given the size of the portfolio and the scale of the organisation, Legal & General have confirmed that they would have no problem delivering £1.0 million cash around the beginning of each month when they can minimise costs from the significant cash flows they will be managing. This will be delivered via a standing order which will run from April 2016 until further notice.
- 4.5 Similarly as the holder of one of the large equity portfolios Majedie have agreed to the establishment of a monthly standing order of £0.5 million per month.
- 4.6 Due to the nature of the portfolio of assets held by Insight Investments, there is a monthly source of income from fixed interest bonds and government gilts and this has been estimated at around £0.4 million per month. This amount will be variable between months but should achieve the expected amount on average over the year. This will be monitored by officers.

- 4.7 Finally the Funds Property Manager, Hermes, provides quarterly cash dispersals of £0.3 million which previously has been reinvested in the Fund. This cash will now be brought directly into the Funds bank account to reduce the amounts required from other sources and avoid unnecessary administration around reinvestment.
- 4.8 The approach outlined above has been developed to draw cash from across the investment strategy i.e. equity, bonds and property to reduce the impact on the overall asset allocation. However, this will require further monitoring and if the cash amounts are insufficient or additional rebalancing is required this will be brought to the Committee's attention at the earliest opportunity. The cash-flow forecast will remain part of the regular agenda papers to allow the Committee to review this position.

5. Managing Deficit payments

- 5.1 The officers of the Fund are reviewing the approach to deficit repayments and the City of Westminster Council will be considering the affordability of pension contributions as part of the Council's 2016/17 Budget consultation.
- 5.2 As part of the 2016 Triennial Valuation the Fund Actuary will be assessing the liability profile and investment strategy to determine the required employer contribution rates for three years from 2017/18. The degree to which the rates changes from its current amount will impact upon the Fund cash flows. In addition, reductions in the workforce and hence payroll value mean that the total amount of contributions received each month has declined significantly in recent years and this is expected to continue given the expected Local Government Finance Settlement.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Neil Sellstrom nsellstrom@westminster.gov.uk or 020 7641 1152

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Cashflow Monitoring