



City of Westminster

Pension Board

Date: 31 March 2021

Classification: General Release

Title: Fund Financial Management

Wards Affected: All

Policy Context: Effective control over council activities

Financial Summary: There are no immediate financial implications arising from this report.

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1. Executive Summary

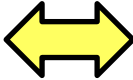
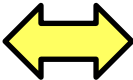


- 1.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The top five risks are highlighted in the report below.
- 1.2 The cashflow forecast for the next three years has been updated with actuals to 31 December 2020. The bank position continues to be stable.

2. Recommendations

- 2.1 The Pension Board is asked to note the risk registers for the Pension Fund.
- 2.2 The Pension Board is asked to note the cashflow position, the rolling 12-month forecast and the three-year forecast.

3. Risk Register Monitoring

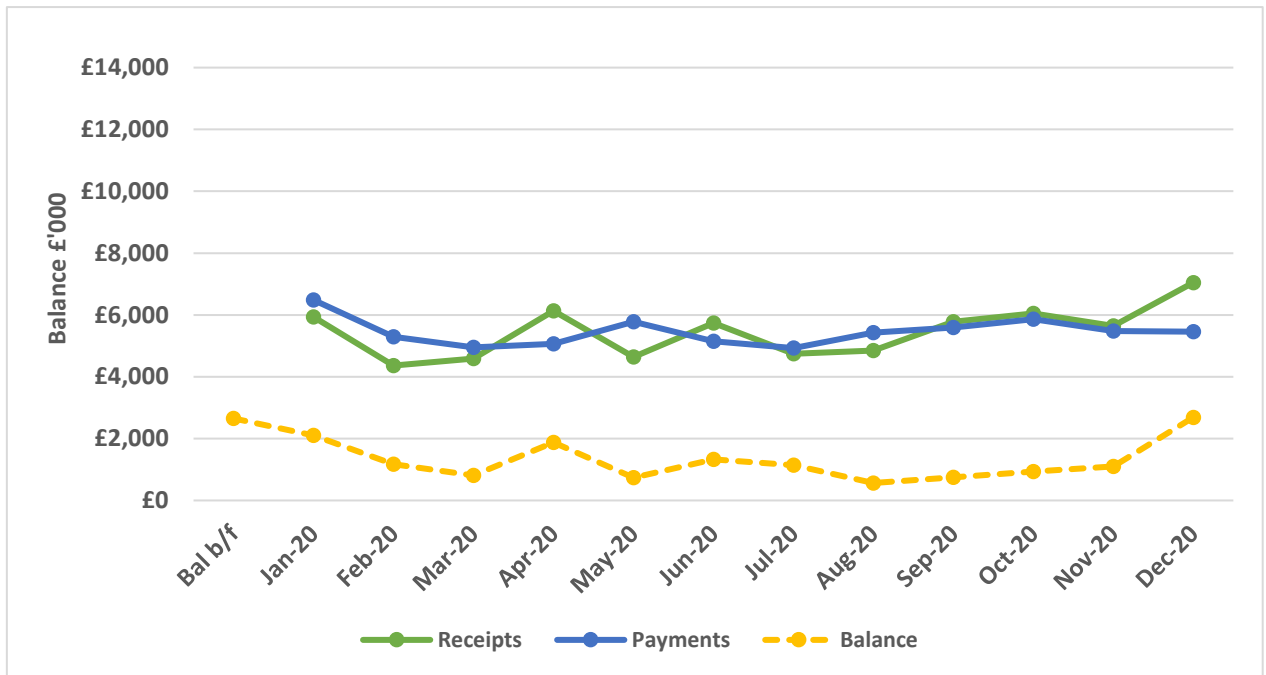
3.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The current top five risks to the Pension Fund are highlighted in the table below:

Risk Group	Risk Rank	Risk Description	Movement
Investment	1 st /41	Future developments re the COVID-19 pandemic cause economic uncertainty across the global investment markets. Valuations of illiquid assets such as property and infrastructure are increasingly difficult to determine.	
Investment	2 nd /41	Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty. Increased risk to global economic stability.	
Investment	3 rd /41	Volatility caused by uncertainty with regard to import/import markets following the withdrawal of the UK from the European Union and the economic after effects.	
Administration	1 st /24	Failure to successfully transition the pensions administration service to Hampshire County Council by 1 December 2021, following termination of the Surrey contract. Alongside this, the administration software is to be moved from Aquila Heywood's Altair to Civica with discussions current on this termination.	NEW
Administration	2 nd /24	Pension administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints. There is a concern regarding the high level of senior management departures.	

4. Cashflow Monitoring and Forecasted Cashflows

4.1 The balance on the pension fund bank account as at 31 December 2020 was £2.689m. Payments from the bank account will continue to exceed receipts on a monthly basis. During the year, cash withdrawals from Fund Managers are expected to take place to maintain a positive cash balance.

4.2 The table below shows changes in the bank balance from 1 January 2020 to 31 December 2020.



4.3 Payments and receipts have remained stable over the last 12 months. Officers will continue to keep the cash balance under review and take appropriate action where necessary. The Fund is anticipating a deficit recovery receipt of £13m from the Council during March 2021. The Pension Fund held £7.8m in cash with the global custodian as at 31 December 2020.

- 4.4 The following table illustrates the expected rolling cashflow for the 12-month period from 1 April 2020 to 31 March 2021. Actuals have been used for the period to 31 December 2020 with a forecast used for the remainder of the year. Forecasted cashflows are calculated using the previous year's actual cashflows, which are then divided equally over the 12 months and then inflated by 2%.

Current Account Cashflows Actuals and Forecast for period April 2020 - 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	Forecasted Rolling Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	F'cast	F'cast	F'cast	
Balance b/f	807	1,875	740	1,325	1,143	565	752	936	1,098	2,689	2,428	2,166	£000s
Contributions	2,690	2,699	2,842	2,722	2,941	2,805	3,065	2,732	3,698	2,776	2,776	2,776	34,522
Misc. Receipts ¹	492	117	84	215	97	168	178	1,106	541	793	793	793	5,378
Pensions	(3,445)	(3,466)	(3,491)	(3,478)	(3,545)	(3,520)	(3,536)	(3,550)	(3,498)	(3,470)	(3,470)	(3,470)	(41,940)
HMRC Tax Payments	(630)	(604)	(611)	(586)	(635)	(625)	(598)	(601)	(588)	(585)	(585)	(585)	(7,234)
Misc. Payments ²	(984)	(1,534)	(1,008)	(817)	(1,117)	(1,190)	(1,536)	(1,293)	(1,149)	(1,406)	(1,406)	(1,406)	(14,846)
Expenses	(6)	(175)	(39)	(47)	(126)	(259)	(196)	(40)	(222)	(178)	(178)	(178)	(1,645)
Net cash in/(out) in month	(1,884)	(2,963)	(2,223)	(1,991)	(2,386)	(2,621)	(2,624)	(1,646)	(1,218)	(2,070)	(2,070)	(2,070)	(25,765)
Withdrawal/deposit with Fund Managers	2,000	1,000	2,000	1,000	1,000	2,000	2,000	1,000	2,000	1,000	1,000	(12,000)	4,000
Special Contributions*	951	828	808	808	808	808	808	808	808	808	808	13,838	22,893
Balance c/f	1,875	740	1,325	1,143	565	752	936	1,098	2,689	2,428	2,166	1,935	

¹ Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges

² Includes Transfers out, Lump Sums, Death Grants, Refunds

*Deficit recovery contributions

- 4.5 Actual cashflows against the forecast for the quarter ending 31 December 2020 is shown below. There may be monthly variances between the actual and forecasted amounts due to timing differences, e.g., transfer values in and out, payment of lump sums, retirement benefits and death grants.

Cashflows Actuals Compared to Forecast for October to December 2020:

	Oct-20			Nov-20			Dec-20		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var
Balance b/f	239	752	(513)	978	936	42	716	1,098	(382)
Contributions	2,776	3,065	(289)	2,776	2,732	44	2,776	3,698	(922)
Misc. Receipts ¹	793	178	615	793	1,106	(313)	793	541	252
Pensions	(3,470)	(3,536)	66	(3,470)	(3,550)	80	(3,470)	(3,498)	28
HMRC Tax Payments	(585)	(598)	13	(585)	(601)	16	(585)	(588)	3
Misc. Payments ²	(1,406)	(1,536)	130	(1,406)	(1,293)	(113)	(1,406)	(1,149)	(257)
Expenses	(178)	(196)	19	(178)	(40)	(137)	(178)	(222)	44
Net cash in/(out) in month	(2,070)	(2,624)	554	(2,070)	(1,646)	(424)	(2,070)	(1,218)	(852)
Withdrawal/deposit with Fund Managers	2,000	2,000	0	1,000	1,000	0	2,000	2,000	0
Special Contributions*	808	808	0	808	808	0	808	808	0
Balance c/f	978	936	42	716	1,098	(382)	1,455	2,689	(1,234)

¹ Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges

² Includes Transfers out, Lump Sums, Death Grants, Refunds

*Deficit recovery contributions

Variations during the quarter to 31 December 2020:

- Lower number of transfer values in during October and December than forecasted. Conversely, higher value transfer ins than anticipated took place during November.
- Higher than expected contributions in December 2020 due to increased pensionable pay, relating to the 2.75% pay award and employee step-ups backdated to 1 April.

- 4.6 The three-year cashflow forecast for 2020/21 to 2022/23 is shown below. Forecasted cashflows are calculated using the previous year's cashflows which are then inflated by 2%. Please note this will not match the rolling cashflow.

Three Year Cashflow Forecast for 2020/21 to 2022/23

	2020/21	2021/22	2022/23
	£000	£000	£000
	F'cast	F'cast	F'cast
Balance b/f	807	701	1,398
Contributions	33,314	33,980	34,660
Misc. Receipts ¹	9,519	9,709	9,903
Pensions	(41,644)	(42,477)	(43,326)
HMRC Tax	(7,020)	(7,160)	(7,303)
Misc. Payments ²	(16,870)	(17,208)	(17,552)
Expenses	(2,135)	(2,178)	(2,222)
Net cash in/(out) in year	(24,837)	(25,333)	(25,840)
Withdrawal/(deposit) with Fund Managers	2,000	(54,000)	25,000
Special Contributions*	22,730	80,031	32
Balance c/f	701	1,398	590

¹ Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges

² Includes Transfers out, Lump Sums, Death Grants, Refunds

*Deficit recovery contributions

- 4.7 The deficit recovery receipt expected during 2020/21 totals £22.7m. A final deficit recovery payment of £80m is expected to be received during 2021/22. It is anticipated the Fund will liquidate fund assets during 2022/23 to finance the shortfall in cashflow.

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

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BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Tri-Borough Risk Management Scoring Matrix
Appendix 2 – Pension Fund Risk Register Review at February 2021