

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	24 June 2021
Classification:	Public
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.
Report of:	Phil Triggs <i>Tri-Borough Director of Treasury and Pensions</i> ptriggs@westminster.gov.uk 020 7641 4136

1. Executive Summary

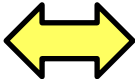
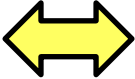



- 1.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The top five risks are highlighted in the report below.
- 1.2 The cashflow forecast for the next three years has been updated, with actuals to 31 March 2021 for the pension fund bank account and cash held at custody (Northern Trust). The bank position continues to be stable.

2. Recommendations

- 2.1 The Committee is asked to note the risk registers for the Pension Fund.
- 2.2 The Committee is asked to note the cashflow position for the pension fund bank account and cash held at custody, the rolling 12-month forecast and the three-year forecast.

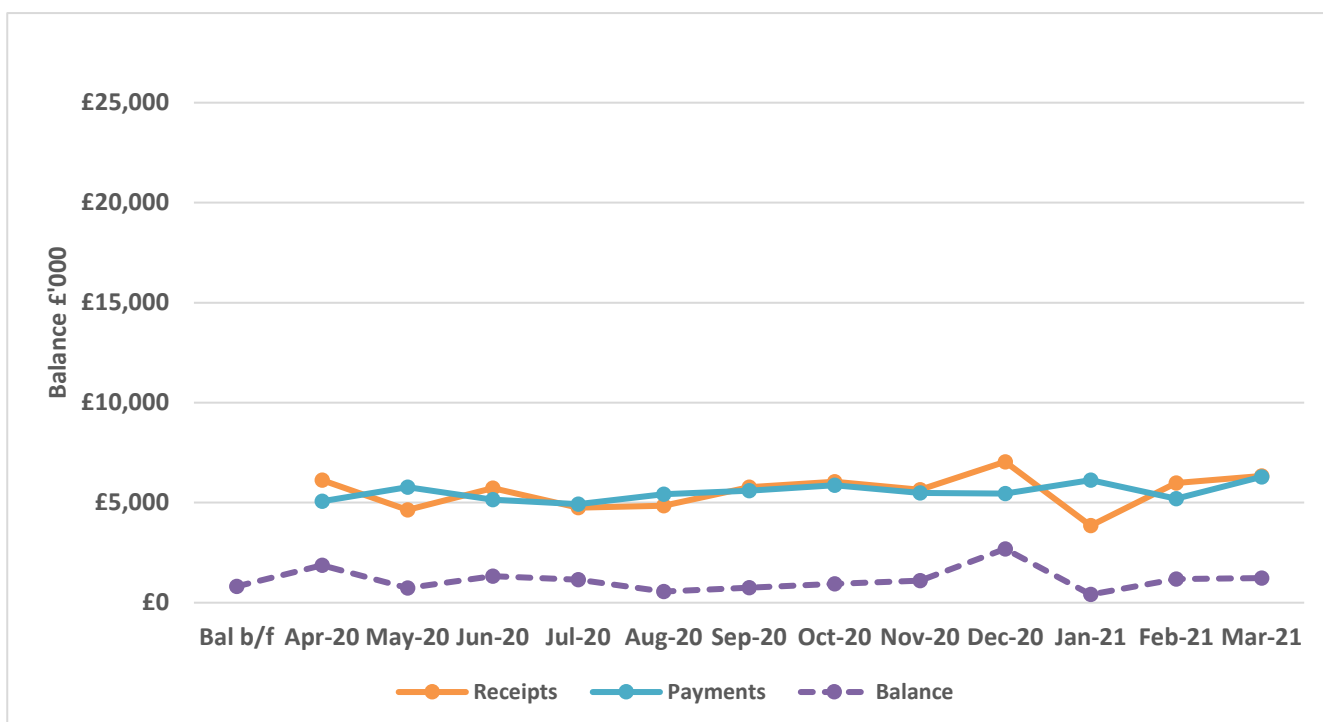
3. Risk Register Monitoring

- 3.1 The risk register is divided into two sections: investment and pensions administration. The risk groups have been updated to reflect the CIPFA guidance on risk categories. The current top five risks to the Pension Fund are highlighted in the table below:

CIPFA Risk Group	Risk Rank	Risk Description	Movement
Asset and Investment Risk	1 st /40	Future developments re the COVID-19 pandemic cause economic uncertainty across the global investment markets.	
Asset and Investment Risk	2 nd /40	Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty. Increased risk to global economic stability.	
Administrative and Communicative Risk	1 st /24	Failure to successfully transition the pensions administration service to Hampshire County Council from Surrey County Council by 1 December 2021, following termination of the Surrey contract. Alongside this, the administration software is to be moved from Aquila Heywood Altair to Civica.	
Administrative and Communicative Risk	2 nd /24	Pension administrators do not maintain 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.	
Asset and Investment Risk	3 rd /40	Investment managers fail to achieve benchmark/outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.7m. Following COVID-19, there was some concern around Fund Managers outperforming their benchmarks.	

4. Cashflow Monitoring and Forecasted Cashflows

- 4.1 The balance on the pension fund Lloyds bank account at 31 March 2021 was £1.224m. The Lloyds bank account is the Fund's main account for day-to-day transactions which includes receiving member contributions and transacting out pension payments to scheme members. Payments from the bank account will continue to exceed receipts on a monthly basis. During the year, withdrawals from cash at custody are expected to take place to maintain a positive cash balance.
- 4.2 The table below shows changes in the bank balance from 1 April 2020 to 31 March 2021.



- 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 to maintain necessary liquidity. The Fund received a deficit recovery receipt of £12.45m from Westminster City Council during March 2021: this was paid over to the custodian, Northern Trust, to safeguard on the Fund's behalf.
- 4.4 The Pension Fund held £59.107m in cash with the global custodian, Northern Trust, as at 31 March 2021. Fund manager distributions, deficit recovery receipts, proceeds from the sale of assets and purchases of assets, take place within the Fund's custody account at Northern Trust. The income distributions are largely from the Baillie Gifford Global Alpha and CQS Multi Asset Credit mandates. The following table shows the cash inflows and outflows within cash at custody for the three-month period from 1 January 2021 to 31 March 2021.

Cash at Custody	Jan-21	Feb-21	Mar-21
	£000	£000	£000

	Actual	Actual	Actual
Balance b/f	7,855	59,177	51,250
Distributions	0	623	387
Deficit Recovery	0	0	12,000
Sale of assets	59,062	0	250
Interest	0	0	35
Cash withdraw	0	(2,000)	(1,000)
Foreign Exchange Gains/Losses	(32)	(17)	14
Purchase of Assets	(7,708)	(6,506)	(3,680)
Management fees	0	(26)	(150)
Balance c/f	59,177	51,250	59,107

- 4.5 The Fund sold its holdings within the Hermes Property Fund (£59.062m) during January 2021, with funds to be transitioned into the renewable energy infrastructure funds as they draw down. During the quarter, capital calls totalling £17.894m took place within the infrastructure funds. In addition to this, the Fund withdrew £3m from custody cash over the quarter, to maintain a positive cash balance within the pension fund bank account.
- 4.6 The total cash balance, including the pension fund Lloyds bank account and cash at custody, is shown below for the period from 1 January 2021 to 31 March 2021. The total cash balance as at 31 March 2021 was £60.331m.

Cash at custody and Lloyds Bank account	Jan-21	Feb-21	Mar-21
	£000	£000	£000
	Actual	Actual	Actual
Balance b/f	10,544	59,586	52,432
Cash outflows	(13,872)	(11,756)	(10,121)
Cash inflows	62,914	4,602	18,020
(Withdraw)/Deposit from custody to bank account	0	(2,000)	11,000
Withdraw/(Deposit) from bank account to custody	0	2,000	(11,000)
Balance c/f	59,586	52,432	60,331

- 4.7 During February and March 2021, £2m and £1m respectively was withdrawn from cash at custody to maintain a positive cash balance within the Lloyds bank account. At the end of March, the Council paid its outstanding deficit recovery contributions for 2020/21 into the pension fund bank account.
- 4.8 Following this, a £12m payment was made from the Lloyds bank account to the custodian in respect of this deficit recovery. This process ensures the proper safeguarding of cash assets and appropriate cash flow management of the bank account.

- 4.9 The following table illustrates the expected rolling cashflow for the 12-month period from 1 April 2021 to 31 March 2022 for the pension fund Lloyds bank account. Forecast 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 2021 - March 2022:

	<i>Apr-21</i>	<i>May-21</i>	<i>Jun-21</i>	<i>Jul-21</i>	<i>Aug-21</i>	<i>Sep-21</i>	<i>Oct-21</i>	<i>Nov-21</i>	<i>Dec-21</i>	<i>Jan-22</i>	<i>Feb-22</i>	<i>Mar-22</i>	Forecasted Rolling Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	
Balance b/f	1,224	745	265	786	307	828	348	869	390	910	1,431	952	£000s
Contributions	2,889	2,889	2,889	2,889	2,889	2,889	2,889	2,889	2,889	2,889	2,889	2,889	34,673
Misc. Receipts ¹	373	373	373	373	373	373	373	373	373	373	373	373	4,481
Pensions	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(42,905)
HMRC Tax Payments	(620)	(620)	(620)	(620)	(620)	(620)	(620)	(620)	(620)	(620)	(620)	(620)	(7,440)
Misc. Payments ²	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(15,432)
Expenses	(161)	(161)	(161)	(161)	(161)	(161)	(161)	(161)	(161)	(161)	(161)	(161)	(1,928)
Net cash in/(out) in month	(2,379)	(2,379)	(2,379)	(2,379)	(2,379)	(2,379)	(2,379)	(2,379)	(2,379)	(2,379)	(2,379)	(2,379)	(28,551)
Withdrawal/(deposit) from custody cash	1,000	1,000	2,000	1,000	2,000	1,000	2,000	1,000	2,000	2,000	1,000	(68,000)	(52,000)
Special Contributions*	900	900	900	900	900	900	900	900	900	900	900	70,130	80,030
Balance c/f	745	265	786	307	828	348	869	390	910	1,431	952	703	

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

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

*Deficit recovery contributions

- 4.10 Actual cashflows within the pension fund Lloyds bank account against the forecast for the quarter ending 31 March 2021 are shown below. There may be monthly variances between the actual and forecast 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 January to March 2021:

	Jan-21			Feb-21			Mar-21		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var
Balance b/f	1,455	2,689	(1,234)	1,194	409	785	932	1,182	(249)
Contributions	2,776	2,668	108	2,776	2,913	(136)	2,776	3,160	(384)
Misc. Receipts ¹	793	325	468	793	208	585	793	861	(68)
Pensions	(3,470)	(3,501)	31	(3,470)	(3,509)	38	(3,470)	(3,525)	54
HMRC Tax Payments	(585)	(599)	14	(585)	(597)	12	(585)	(619)	34
Misc. Payments ²	(1,406)	(1,999)	593	(1,406)	(1,043)	(363)	(1,406)	(1,459)	53
Expenses	(178)	(32)	(145)	(178)	(57)	(121)	(178)	(690)	512
Net cash in/(out) in month	(2,070)	(3,138)	1,069	(2,070)	(2,086)	16	(2,070)	(2,271)	202
Withdrawal/(deposit) from custody cash	1,000	0	1,000	1,000	2,000	(1,000)	(12,000)	(11,000)	(1,000)
Special Contributions*	808	858	(50)	808	858	(50)	13,838	13,314	525
Balance c/f	1,194	409	785	932	1,182	(249)	701	1,224	(523)

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

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

*Deficit recovery contributions

Variances during the quarter to 31 March 2021:

- Lower number of transfer values in during January and February than forecasted. Conversely, higher value transfer ins and death/retirement benefits than anticipated took place during January.
- Higher than expected contributions during March 2021, due to employers paying contributions in advance of the statutory deadline for 31 March year end.

- 4.11 The three-year cashflow forecast for 2021/22 to 2023/24 for the pension fund Lloyds bank account 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 2021/22 to 2023/24:

	2021/22	2022/23	2023/24
	£000	£000	£000
	F'cast	F'cast	F'cast
Balance b/f	1,224	693	560
Contributions	34,663	35,357	36,064
Misc. Receipts ¹	4,481	4,570	4,662
Pensions	(42,905)	(43,763)	(44,638)
HMRC Tax	(7,440)	(7,589)	(7,741)
Misc. Payments ²	(15,432)	(15,740)	(16,055)
Expenses	(1,928)	(1,967)	(2,006)
Net cash in/(out) in year	(28,561)	(29,133)	(29,715)
Withdrawal/(deposit) from custody cash	(52,000)	29,000	30,000
Special Contributions*	80,030	0	0
Balance c/f	693	560	845

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

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

*Deficit recovery contributions

- 4.12 The final Council deficit recovery receipt expected during 2021/22 totals £80m. 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:

Billie Emery pensionfund@westminster.gov.uk

BACKGROUND PAPERS: None

APPENDICES:

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