



City of Westminster

# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>10 March 2022</b>
<b>Classification:</b>	<b>Public</b>
<b>Title:</b>	<b>Fund Financial Management</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Policy Context:</b>	<b>Effective control over council activities</b>
<b>Financial Summary:</b>	<b>There are no immediate financial implications arising from this report.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b> <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

## 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 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 top five risks 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 twelve-month forecast and the three-year forecast.

### 3. Risk Register Monitoring

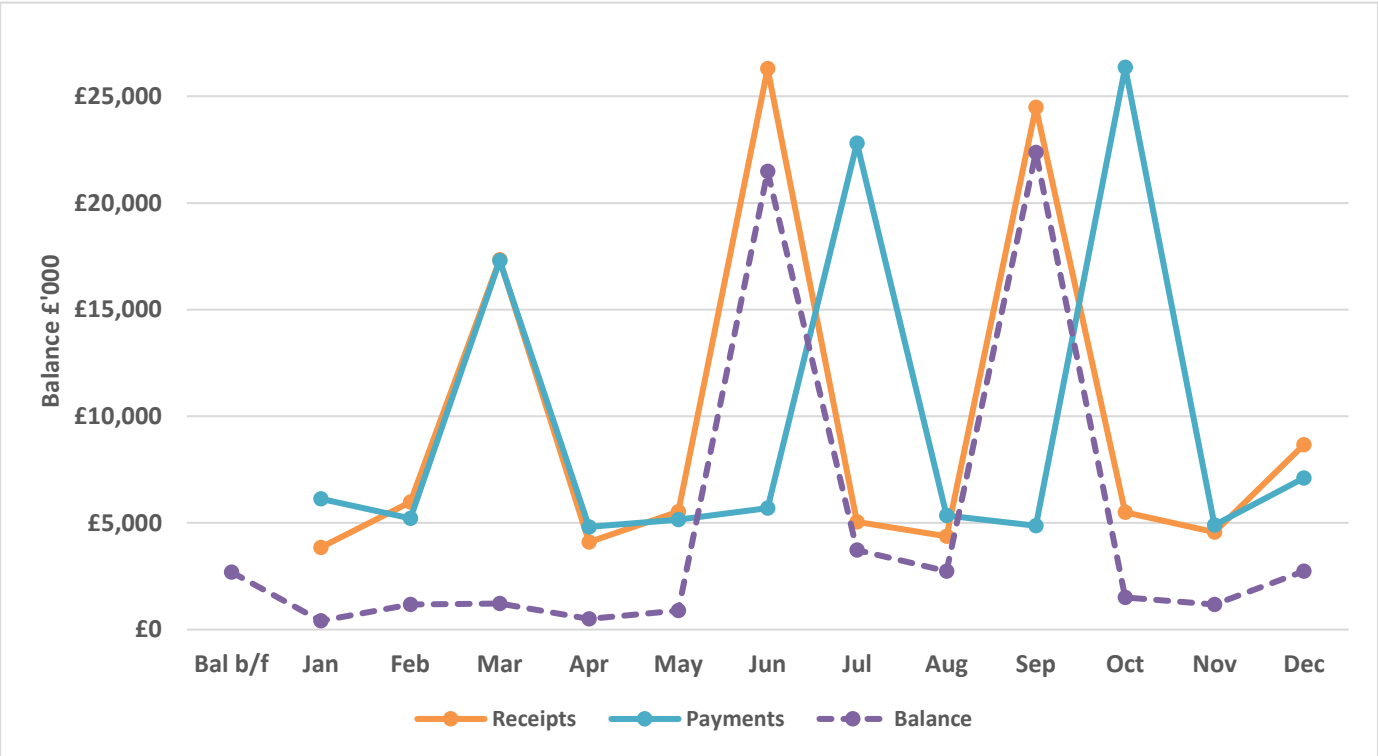
3.1 The risk register is divided into two sections: investment and pensions administration. The risk groups have been updated to reflect the CIPFA guidance on risk categories. The current top five risks to the Pension Fund, as updated in February 2022, are highlighted in the table below:

CIPFA Risk Group	Risk Rank	Risk Description	Trending
Asset and Investment Risk	1 <sup>st</sup> /40	Significant volatility and negative sentiment in global investment markets following disruptive geopolitical and economic uncertainty. On 24 February 2022, Russia invaded Ukraine, a severe escalation in the conflict which had been ongoing since 2014. Subsequently, numerous global powers have implemented sanctions against major Russian banks and financial institutions, including freezing of overseas assets and removing access to SWIFT international payments.	
Liability Risk	2 <sup>nd</sup> /40	UK price inflation is significantly more than anticipated in the current actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 2.7%. CPI was 5.5% as at 31 January 2021. Hymans Robertson was appointed as the new Fund actuary from 1 October 2021. The funding level is expected to remain consistent with previous actuary. Actuarial assumptions will be discussed with the actuary from the commencement of the next triennial valuation on 31 March 2022.	
Asset and Investment Risk	3 <sup>rd</sup> /40	Increased scrutiny on environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in September 2019: how this will affect the Pension Fund going forward is currently unknown. Taskforce climate change financial disclosure (TCFD) regulations will impact on LGPS schemes, but these are currently not released, albeit expected to be published early in 2022 and to take effect from 2023.	
Asset and Investment Risk	4 <sup>th</sup> /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 £1.95m. Following COVID-19, there was some concern around fund managers achieving their benchmarks.	
Liability Risk	5 <sup>th</sup> /40	Scheme members live longer than expected leading to higher than expected liabilities. This risk is trending down as life expectancy does not increase at the rates expected.	

**4. Cashflow Monitoring and Forecasted Cashflows**

4.1 The balance on the pension fund’s Lloyds bank account at 31 December 2021 was £2.742m. 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 an annual basis. During the year, withdrawals from cash at custody are expected to take place to maintain a positive cash balance.

4.2 The graph below shows changes in the bank balance from 1 January 2021 to 31 December 2021.



4.3 Payments and receipts have remained stable over the last twelve months. Officers will continue to keep the cash balance under review and take appropriate action where necessary to maintain necessary liquidity. During the year the Fund has received deficit recovery receipts from the Council, which have subsequently been paid over to the custodian for safeguarding.

4.4 The Pension Fund held £62.595m in cash with the global custodian, Northern Trust, as at 31 December 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 equity 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 October 2021 to 31 December 2021.

<b>Cash at Custody</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
<b>Balance b/f</b>	<b>19,551</b>	<b>32,446</b>	<b>25,324</b>
Distributions	0	0	1,193
Deficit Recovery	20,000	0	0
Sale of assets	0	0	40,052
Interest	(0)	(0)	(0)
Cash withdraw	(1,000)	0	(4,000)
Foreign Exchange Gains/Losses	19	(23)	26
Purchase of Assets	(5,974)	(6,950)	0
Miscellaneous	1	0	0
Management fees	(151)	(149)	0
<b>Balance c/f</b>	<b>32,446</b>	<b>25,324</b>	<b>62,595</b>

4.5 During the quarter, capital calls totalling £12.9m relating to the Pantheon Global Infrastructure fund and Quinbrook Renewables Impact mandate took place. In addition to this £20m was paid over to Northern Trust in October 2021, relating to a deficit recovery receipt, to safeguard on the Funds behalf. A £1.2m distribution was received during December 2021, relating to the London CIV (Baillie Gifford) Global Equity Mandate. During December 2021, the Fund sold its circa £80m holding in Longview Global Equities, the first redemption tranche of £40m is shown within the table above.

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 October 2021 to 31 December 2021. The total cash balance as at 31 December 2021 was £65.338m.

<b>Cash at custody &amp; Bank account</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
	<b>Actual</b>	<b>Actual</b>	<b>Actual</b>
<b>Balance b/f</b>	<b>41,916</b>	<b>33,948</b>	<b>26,496</b>
Cash outflows	(12,422)	(11,970)	(7,101)
Cash inflows	4,454	4,518	45,943
(Withdraw)/Deposit from custody to bank account	19,000	0	(4,000)
Withdraw/(Deposit) from bank account to custody	(19,000)	0	4,000
<b>Balance c/f</b>	<b>33,948</b>	<b>26,496</b>	<b>65,338</b>

4.7 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:**

	Apr-21	May-21	Jun-21	Jul-21	Aug-21	Sep-21	Oct-21	Nov-21	Dec-21	Jan-22	Feb-22	Mar-22	Forecasted Rolling Total  £000s
	£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	
<b>Balance b/f</b>	<b>1,224</b>	<b>506</b>	<b>886</b>	<b>21,480</b>	<b>3,726</b>	<b>2,744</b>	<b>22,365</b>	<b>1,502</b>	<b>1,172</b>	<b>2,742</b>	<b>2,805</b>	<b>2,567</b>	
Contributions	3,077	2,896	3,296	3,221	3,191	3,021	3,145	3,291	3,331	3,231	3,231	3,231	38,163
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	215	807	188	899	377	658	509	426	540	373	373	373	5,738
Pensions	(3,490)	(3,500)	(3,525)	(3,507)	(3,521)	(3,566)	(3,542)	(3,466)	(3,593)	(3,575)	(3,575)	(3,575)	(42,436)
HMRC Tax Payments	(604)	(603)	(615)	(629)	(615)	(613)	(665)	(608)	(615)	(620)	(620)	(620)	(7,426)
Transfers out, lump sums, death grants, refunds & misc. payments	(660)	(898)	(1,410)	(518)	(1,205)	(676)	(2,091)	(502)	(2,466)	(1,286)	(1,286)	(1,286)	(14,283)
Expenses	(57)	(133)	(140)	(22)	(8)	(5)	(18)	(271)	(426)	(161)	(161)	(161)	(1,562)
<b>Net cash in/(out) in month</b>	<b>(1,518)</b>	<b>(1,432)</b>	<b>(2,206)</b>	<b>(555)</b>	<b>(1,782)</b>	<b>(1,180)</b>	<b>(2,662)</b>	<b>(1,130)</b>	<b>(3,230)</b>	<b>(2,038)</b>	<b>(2,038)</b>	<b>(2,038)</b>	<b>(21,806)</b>
Withdrawal/(deposit) from custody cash	0	1,000	2,000	(18,000)	0	0	(19,000)	0	4,000	(16,000)	1,000	(12,000)	(57,000)
Deficit Recovery Contributions	800	812	20,800	800	800	20,800	800	800	800	18,100	800	13,900	80,012
<b>Balance c/f</b>	<b>506</b>	<b>886</b>	<b>21,480</b>	<b>3,726</b>	<b>2,744</b>	<b>22,365</b>	<b>1,502</b>	<b>1,172</b>	<b>2,742</b>	<b>2,805</b>	<b>2,567</b>	<b>2,429</b>	

- 4.8 The three-year cashflow forecast for 2021/22 to 2023/24 for the pension fund's Lloyds bank account is shown below. Forecasted cashflows are calculated using the previous year's cashflows which are then inflated by 2%, with pensions payable linked to CPI-inflation which is assumed to increase by 3.1% in 2022/23 and 2023/24. 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
<b>Balance b/f</b>	<b>1,224</b>	<b>803</b>	<b>391</b>
Contributions	38,773	39,549	40,340
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	4,481	4,570	4,662
Pensions	(42,905)	(44,235)	(45,606)
HMRC Tax	(7,440)	(7,589)	(7,741)
Transfers out, lump sums, death grants, refunds & misc. payments	(15,432)	(15,740)	(16,055)
Expenses	(1,928)	(1,967)	(2,006)
<b>Net cash in/(out) in year</b>	<b>(24,451)</b>	<b>(25,412)</b>	<b>(26,406)</b>
Withdrawal/(deposit) from custody cash	(56,000)	25,000	27,000
Deficit Recovery Contributions	80,030	0	0
<b>Balance c/f</b>	<b>803</b>	<b>391</b>	<b>985</b>

- 4.9 The final Council deficit recovery receipts expected during 2021/22 total £80m. It is anticipated that the Fund will have a future cashflow requirement of circa £25m p.a., to be funded from cash held with the custodian, income distributions and liquidation of Fund assets.

**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 2022