



City of Westminster

# Pension Board

**Date:** 28 July 2022

**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 May 2022 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 Board is asked to note the top five risks for the Pension Fund.
- 2.2 The Board 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

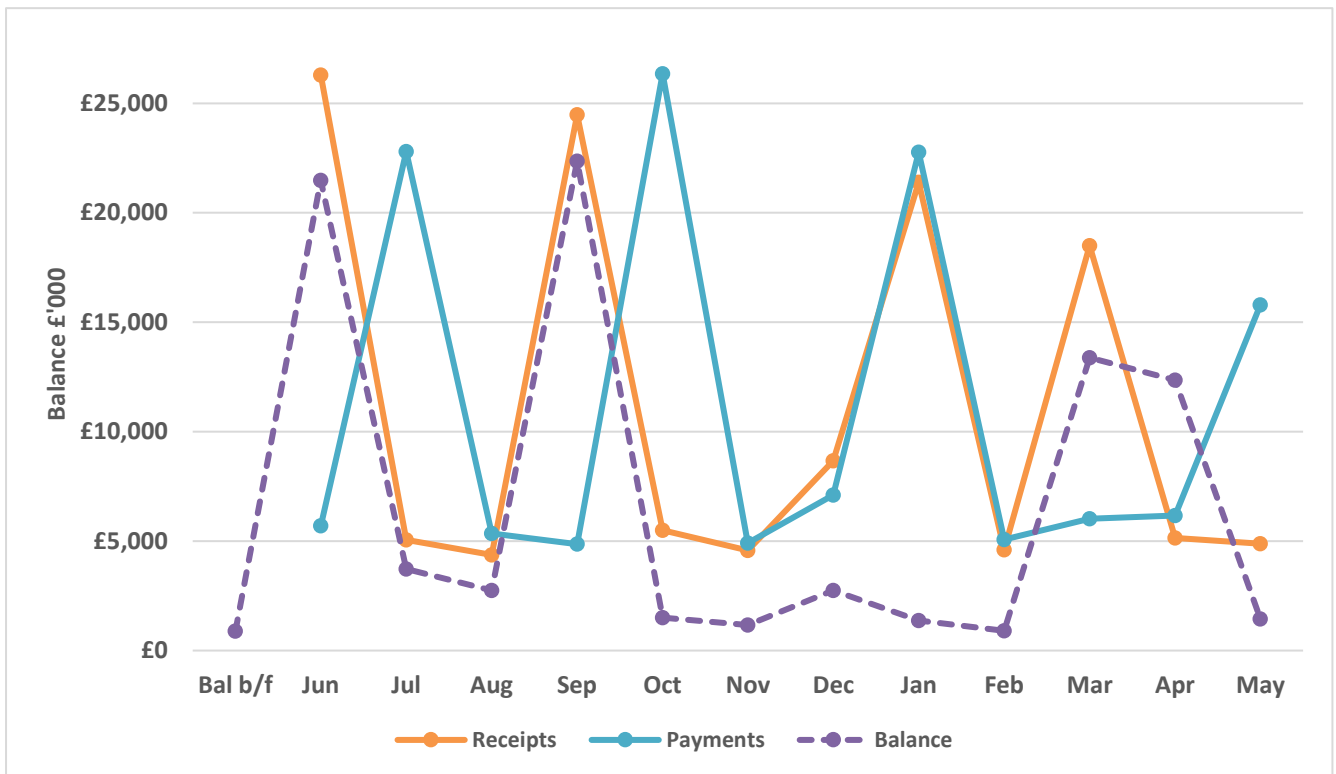
3.1 The risk register is divided into two sections: investment and pensions administration. The risk groups have been updated to reflect the CIPFA guidance on risk categories. The current top five risks to the Pension Fund, as updated in June 2022, are highlighted in the table below:

CIPFA Risk Group	Risk Rank	Risk Description	Trending
Liability Risk	1 <sup>st</sup> /40	Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 2.7%. Inflation continues to rise in the UK and globally due to labour shortages, supply chain issues, and high energy prices. CPI rose to 9.1% as at 31 May 2022, its highest rate in 40 years.	
Asset and Investment Risk	2 <sup>nd</sup> /40	Significant volatility and negative sentiment in global investment markets following disruptive geopolitical and economic uncertainty. On 24 February 2022, Russia invaded Ukraine marking an escalation in the conflict which has been ongoing since 2014.	
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 £1.9m. The Fund returned 3.6% gross of fees in the year to 31 March 2022, underperforming the benchmark by -3.5% gross of fees. Much of this underperformance can be attributed to the Baillie Gifford global equity mandate.	
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 is no longer increasing at the rates expected anticipated some years ago.	

### 4. Cashflow Monitoring and Forecasted Cashflows

4.1 The balance on the Pension Fund's Lloyds bank account at 31 May 2022 was £1.5m. 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 June 2021 to 31 May 2022.



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. During March 2022, the Council made a final deficit recovery payment of £13.3m to the Pension Fund, £10m of which was paid over to the custodian during May 2022.

4.4 The Pension Fund held £16.8m in cash with the global custodian, Northern Trust, as at 31 May 2022. 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, CQS multi asset credit and infrastructure mandates. The following table shows the cash inflows and outflows within cash at custody for the three-month period from 1 March 2022 to 31 May 2022.

<b>Cash at Custody</b>	<b>Mar 22</b>	<b>Apr 22</b>	<b>May 22</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>42,280</b>	<b>15,644</b>	<b>15,768</b>
Distributions	3,567	0	0
Deficit Recovery	0	0	10,000
Sale of assets	763	15	4,458
Interest	5	7	6
Cash withdraw	0	0	0
Foreign Exchange Gains/Losses	0	102	243
Purchase of Assets	(30,971)	0	(13,639)
Miscellaneous	0	0	0
Management fees	0	0	0
<b>Balance c/f</b>	<b>15,644</b>	<b>15,768</b>	<b>16,836</b>

- 4.5 During the quarter, capital calls totalling £15m relating to the Pantheon Global Infrastructure fund, Quinbrook Renewables Impact mandate and Macquarie Renewable Infrastructure fund took place. As per the Pension Fund Committee meeting on 16 December 2021, during the quarter £22m was paid over to the Abridged long lease fund and £7.5m was invested in the Man Group Affordable Housing fund. Alongside this, an equalisation payment of £4.5m within the Man Group fund was received during May 2022.
- 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 March 2022 to 31 May 2022. The total cash balance as at 31 May 2022 was £18.3m.

<b>Cash at Custody &amp; Bank account</b>	<b>Mar 22</b>	<b>Apr 22</b>	<b>May 22</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>43,184</b>	<b>29,027</b>	<b>28,120</b>
Cash outflows	(36,988)	(6,073)	(19,428)
Cash inflows	22,831	5,166	9,592
(Withdraw)/Deposit from custody to bank account	0	0	10,000
Withdraw/(Deposit) from bank account to custody	0	0	(10,000)
<b>Balance c/f</b>	<b>29,027</b>	<b>28,120</b>	<b>18,284</b>

- 4.7 The following table illustrates the expected rolling cashflow for the 12-month period from 1 April 2022 to 31 March 2023 for the pension fund's 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%. Pension benefits are linked to prior year September CPI, which was 3.1% at 30 September 2021.

**Current Account Cashflows Actuals and Forecast for period April 2022 - March 2023:**

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22	Jan-23	Feb-23	Mar-23	Total	
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000		
	Actual	Actual	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast		
<b>Balance b/f</b>	<b>13,383</b>	<b>12,353</b>	<b>1,448</b>	<b>708</b>	<b>969</b>	<b>1,229</b>	<b>1,490</b>	<b>750</b>	<b>1,011</b>	<b>1,271</b>	<b>1,532</b>	<b>1,292</b>	<b>£000s</b>	
Contributions	4,647	3,285	3,274	3,274	3,274	3,274	3,274	3,274	3,274	3,274	3,274	3,274	40,675	
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	497	1,600	520	520	520	520	520	520	520	520	520	520	7,293	
Pensions	(3,587)	(3,641)	(3,637)	(3,637)	(3,637)	(3,637)	(3,637)	(3,637)	(3,637)	(3,637)	(3,637)	(3,637)	(43,596)	
HMRC Tax Payments	(615)	(675)	(634)	(634)	(634)	(634)	(634)	(634)	(634)	(634)	(634)	(634)	(7,634)	
Transfers out, lump sums, death grants, refunds & misc. payments	(1,966)	(1,337)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)	(14,251)	
Expenses	(6)	(137)	(167)	(167)	(167)	(167)	(167)	(167)	(167)	(167)	(167)	(167)	(1,817)	
<b>Net cash in/(out) in month</b>	<b>(1,030)</b>	<b>(905)</b>	<b>(1,739)</b>	<b>(1,739)</b>	<b>(1,739)</b>	<b>(1,739)</b>	<b>(1,739)</b>	<b>(1,739)</b>	<b>(1,739)</b>	<b>(1,739)</b>	<b>(1,739)</b>	<b>(1,739)</b>	<b>(19,330)</b>	
Withdrawal/(deposit) from custody cash	0	(10,000)	1,000	2,000	2,000	2,000	1,000	2,000	2,000	2,000	1,500	2,000	7,500	
Deficit Recovery Contributions	0	0	0	0	0	0	0	0	0	0	0	0	0	
<b>Balance c/f</b>	<b>12,353</b>	<b>1,448</b>	<b>708</b>	<b>969</b>	<b>1,229</b>	<b>1,490</b>	<b>750</b>	<b>1,011</b>	<b>1,271</b>	<b>1,532</b>	<b>1,292</b>	<b>1,553</b>		

- 4.8 The three-year cashflow forecast for 2022/23 to 2024/25 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.

**Three Year Cashflow Forecast for 2022/23 to 2024/25:**

	2022/23	2023/24	2024/25
	£000	£000	£000
	F'cast	F'cast	F'cast
<b>Balance b/f</b>	<b>13,383</b>	<b>542</b>	<b>1,154</b>
Contributions	39,291	40,077	40,878
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	6,236	6,361	6,488
Pensions	(43,642)	(47,613)	(49,518)
HMRC Tax	(7,614)	(7,766)	(7,921)
Transfers out, lump sums, death grants, refunds & misc. payments	(13,136)	(13,399)	(13,667)
Expenses	(2,008)	(2,048)	(2,089)
<b>Net cash in/(out) in year</b>	<b>(20,873)</b>	<b>(24,388)</b>	<b>(25,829)</b>
Withdrawal/(deposit) from custody cash	8,000	25,000	25,000
Deficit Recovery Contributions	32	0	0
<b>Balance c/f</b>	<b>542</b>	<b>1,154</b>	<b>325</b>

- 4.9 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:** None