



City of Westminster

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	27 October 2022
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 Tri-Borough Director of Treasury and Pensions 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 30 September 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 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

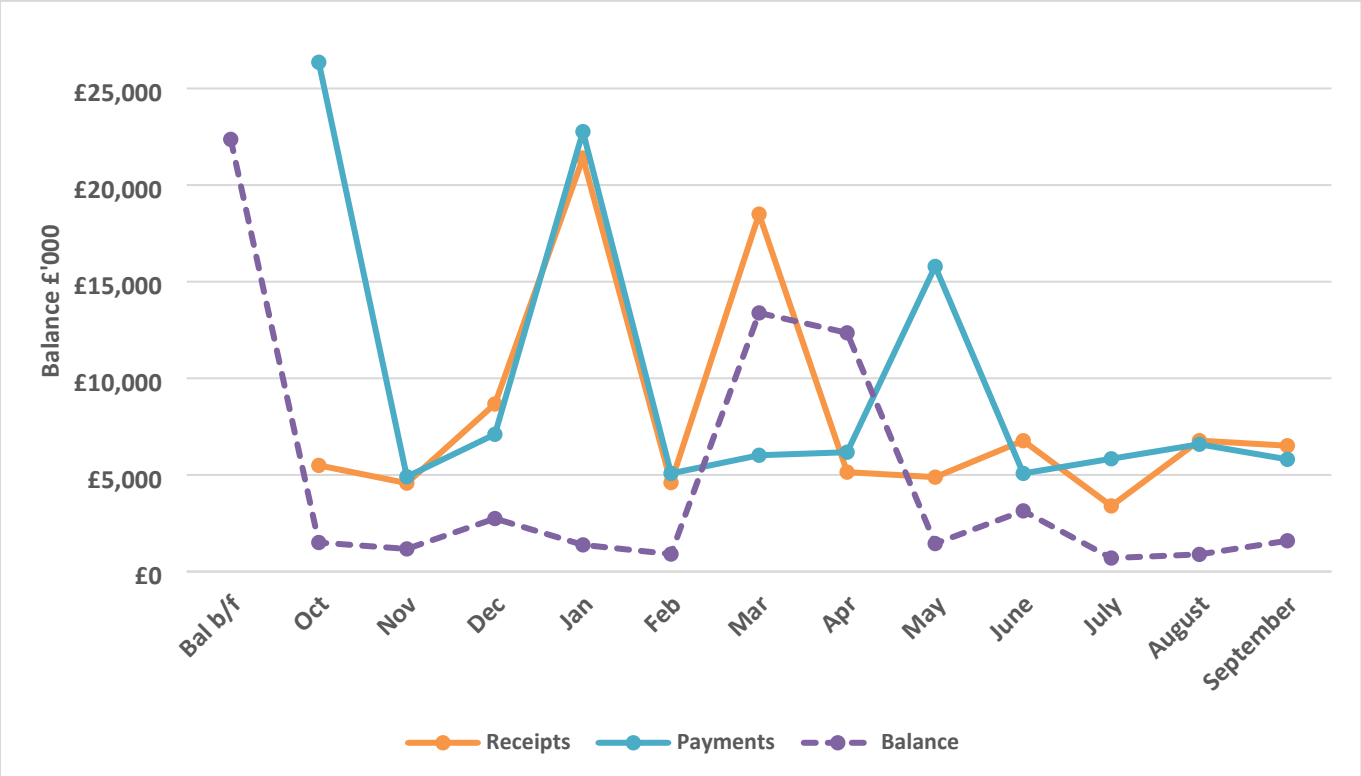
3.1 The risk register is divided into two sections: investment and pensions administration. The risk groups have been updated to reflect the CIPFA guidance on risk categories. The current top five risks to the Pension Fund, as updated in September 2022, are highlighted in the table below:

CIPFA Risk Group	Risk Rank	Risk Description	Trending
Liability Risk	1 st /40	Price inflation is significantly more than anticipated in the actuarial assumptions. Inflation continues to rise in the UK and globally due to labour shortages, supply chain issues, and high energy prices. CPI was 9.9% in the year to August 2022. The government's energy relief package for domestic households is expected to have a significant downward pressure on CPI.	
Asset and Investment Risk	2 nd /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 £1.86m. The Fund returned -4.83% net of fees in the year to 31 August 2022, slightly outperforming the benchmark by 0.33% net of fees. Much of this underperformance can be attributed to the equity and fixed income mandates.	
Asset and Investment Risk	3 rd /40	Increased risk to global economic stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with volatility in oil and commodity prices, as well as the weakening of the pound. Leading to tightened financial conditions, reduced risk appetite and raised credit risks. Geo-political risk as a result of events and political uncertainty.	
Asset and Investment Risk	4 th /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. TCFD regulations impact on LGPS schemes currently unknown but expected to come into force during 2023.	
Administrative and Communicative Risk	1 st /16	The increase in online hacking poses a continual risk to members personal data, as well as potential disruption issues for members accessing the online pension portal. In these instances, Hampshire Pension Services would need to take the portal offline to ensure the system and data is secure.	NEW

4. Cashflow Monitoring and Forecasted Cashflows

4.1 The balance on the Pension Fund’s Lloyds bank account at 30 September 2022 was £1.6m. 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 October 2021 to 30 September 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. The Council made a final deficit recovery payment to the Pension Fund during March 2022. During the quarter, the Fund withdrew £6m from cash at custody to maintain a positive cash balance.

- 4.4 The Pension Fund held £4.1m in cash with the global custodian, Northern Trust, as at 30 September 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 following table shows the cash inflows and outflows within cash at custody for the three-month period from 1 July 2022 to 30 September 2022.

Cash at Custody	July	Aug	Sep
	£000	£000	£000
	Actual	Actual	Actual
Balance b/f	16,351	4,295	7,598
Distributions	881	142	2,734
Deficit Recovery	0	0	0
Sale of assets	0	35,000	0
Interest	209	7	10
Cash withdraw	(2,000)	(2,000)	(2,000)
Foreign Exchange Gains/Losses	177	14	96
Purchase of Assets	(11,156)	(29,860)	(4,330)
Miscellaneous	11	(0)	0
Management fees	(178)	0	23
Balance c/f	4,295	7,598	4,131

- 4.5 Over the quarter, capital calls relating to the Pantheon Global Infrastructure fund, Quinbrook Renewables Impact mandate, Macquarie Renewable Infrastructure fund, Man Group Community Housing Fund and CVC Credit Private Debt fund took place. During August 2022, sales of £25m and £10m took place within the Insight Buy and Maintain Bond fund and NT Ultra Short Bond fund respectively, to fund these capital calls.
- 4.6 Following the expected increase in the cashflow deficit, Officers have switched the majority of funds from accumulating to distributing share classes. Therefore, going forward, we can expect the level of distributions to increase.

- 4.7 The total cash balance, including the Pension Fund Lloyds bank account and cash at custody, is shown below for the period from 1 July 2022 to 30 September 2022. The total cash balance as at 30 September 2022 was £5.7m.

Cash at custody & Bank account	Jul	Aug	Sep
	£000	£000	£000
	Actual	Actual	Actual
Balance b/f	19,491	4,994	8,486
Cash outflows	(16,983)	(36,433)	(10,113)
Cash inflows	2,486	39,925	7,352
(Withdraw)/Deposit from custody to bank account	(2,000)	(2,000)	(2,000)
Withdraw/(Deposit) from bank account to custody	2,000	2,000	2,000
Balance c/f	4,994	8,486	5,725

4.8 The following table illustrates the expected cashflow for the 12-month period from 1 April 2022 to 31 March 2023 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%. Pension payments are linked to CPI-inflation.

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	Actual	Actual	Actual	Actual	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	
Balance b/f	13,383	12,353	1,448	3,140	699	888	1,594	854	1,115	1,375	1,636	1,396	£000s
Contributions	4,647	3,285	5,755	840	3,318	3,735	3,274	3,274	3,274	3,274	3,274	3,274	41,226
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	497	1,600	1,015	556	1,458	777	520	520	520	520	520	520	9,020
Pensions	(3,587)	(3,641)	(3,613)	(3,647)	(3,627)	(3,656)	(3,637)	(3,637)	(3,637)	(3,637)	(3,637)	(3,637)	(43,592)
HMRC Tax Payments	(615)	(675)	(666)	(653)	(672)	(674)	(634)	(634)	(634)	(634)	(634)	(634)	(7,761)
Transfers out, lump sums, death grants, refunds & misc. payments	(1,966)	(1,337)	(647)	(1,484)	(2,138)	(1,453)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)	(15,594)
Expenses	(6)	(137)	(152)	(52)	(150)	(23)	(167)	(167)	(167)	(167)	(167)	(167)	(1,525)
Net cash in/(out) in month	(1,030)	(905)	1,692	(4,441)	(1,811)	(1,294)	(1,739)	(1,739)	(1,739)	(1,739)	(1,739)	(1,739)	(18,226)
Withdrawal/(deposit) from custody cash	0	(10,000)	0	2,000	2,000	2,000	1,000	2,000	2,000	2,000	1,500	2,000	6,500
Deficit Recovery Contributions	0	0	0	0	0	0	0	0	0	0	0	0	0
Balance c/f	12,353	1,448	3,140	699	888	1,594	854	1,115	1,375	1,636	1,396	1,657	

- 4.9 The three-year cashflow forecast for 2022/23 to 2024/25 for the Pension Fund's Lloyds bank account is shown below. Forecast 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
Balance b/f	13,383	542	761
Contributions	39,291	40,077	40,878
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	6,236	6,361	6,488
Pensions	(43,642)	(48,006)	(50,406)
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)
Net cash in/(out) in year	(20,873)	(24,781)	(26,717)
Withdrawal/(deposit) from custody cash	8,000	25,000	27,000
Deficit Recovery Contributions	32	0	0
Balance c/f	542	761	1,044

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 September 2022