



City of Westminster

# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>6 December 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>Tri-Borough Director of Treasury and Pensions</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 October 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

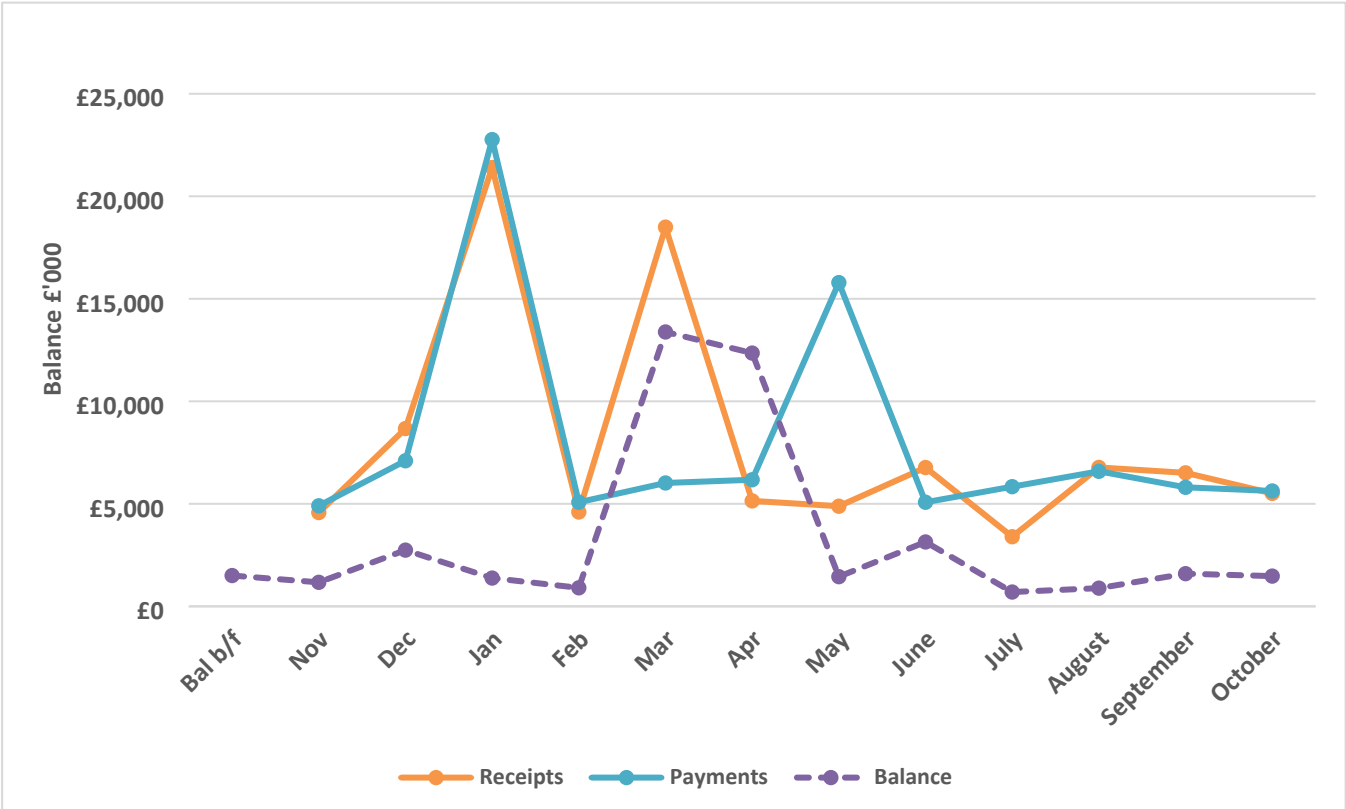
3.1 The risk register is divided into two sections: investment and pensions administration. The risk groups have been updated to reflect the CIPFA guidance on risk categories. The current top five risks to the Pension Fund, as updated in November 2022, are highlighted in the table below:

CIPFA Risk Group	Risk Rank	Risk Description	Trending
Liability Risk	1 <sup>st</sup> /42	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 11.1% in the year to October 2022. The government's energy relief package for domestic households is expected to have a downward pressure on CPI, however this package will now only last for 6 months.	
Asset and Investment Risk	2 <sup>nd</sup> /42	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 £1.69m. The Fund returned -11.54% net of fees in the year to 30 September 2022, underperforming the benchmark by -3.79% net of fees. Much of this underperformance can be attributed to the equity and fixed income mandates.	
Asset and Investment Risk	3 <sup>rd</sup> /42	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.	
Regulatory and Compliance Risk	4 <sup>th</sup> /42	The Department for Levelling Up, Housing and Communities (DLUHC) has proposed new regulations for Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate Related Financial Disclosures (TCFD). The first reporting year will be the financial year 2023/24, with the regulations expected to be in force by April 2023 and the first reports required by December 2024. Officers have commenced preparatory work.	<b>NEW</b>
Liability Risk	5 <sup>th</sup> /42	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others. Current economic conditions will cause strain on smaller employers.	

**4. Cashflow Monitoring and Forecasted Cashflows**

4.1 The balance on the Pension Fund’s Lloyds bank account at 31 October 2022 was £1.4m. 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 November 2021 to 31 October 2022.



4.3 Payments and receipts have remained stable over the last 12 months. Officers continue to keep the cash balance under review and take action to maintain necessary liquidity. During the year, the Fund has received deficit recovery receipts from the Council, which 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 £9.2m in cash with Northern Trust as at 31 October 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 August 2022 to 31 October 2022.

<b>Cash at Custody</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</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>4,296</b>	<b>7,599</b>	<b>4,102</b>
Distributions	142	2,704	4,352
Deficit Recovery	0	0	0
Sale of assets	35,000	0	5,000
Interest	7	10	463
Cash withdraw	(2,000)	(2,000)	(2,000)
Foreign Exchange Gains/Losses	14	96	42
Purchase of Assets	(29,860)	(4,330)	(2,818)
Miscellaneous	(0)	0	0
Management fees	0	23	10
<b>Balance c/f</b>	<b>7,599</b>	<b>4,102</b>	<b>9,151</b>

- 4.5 Over the quarter, capital calls relating to the Pantheon Global Infrastructure fund, Quinbrook Renewables Impact mandate, Macquarie Renewable Infrastructure fund and CVC Credit Private Debt fund took place. During August 2022, sales of £35m took place within the Insight Buy and Maintain Bond fund and NT Ultra Short Bond fund, to fund these capital calls. In addition, £5m was sold from the London CIV Absolute Return fund during October 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 August 2022 to 31 October 2022. The total cash balance as at 31 October 2022 was £10.6m.

<b>Cash at custody &amp; Bank account</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</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>4,994</b>	<b>8,486</b>	<b>5,696</b>
Cash outflows	(36,433)	(10,016)	(8,435)
Cash inflows	39,925	7,226	13,367
(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
<b>Balance c/f</b>	<b>8,486</b>	<b>5,696</b>	<b>10,628</b>

- 4.7 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 estimated using the previous year's actual cashflows, which are inflated and then divided equally over the 12 months. 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	Actual	F'cast	F'cast	F'cast	F'cast	F'cast	
<b>Balance b/f</b>	13,383	12,353	1,448	3,140	699	888	1,594	1,475	1,736	1,997	1,257	1,518	<b>£000s</b>
Contributions	4,647	3,285	5,755	840	3,318	3,735	3,181	3,274	3,274	3,274	3,274	3,274	41,132
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	497	1,600	1,015	556	1,458	777	320	520	520	520	520	520	8,820
Pensions	(3,587)	(3,641)	(3,613)	(3,647)	(3,627)	(3,656)	3,663	(3,637)	(3,637)	(3,637)	(3,637)	(3,637)	(43,619)
HMRC Tax Payments	(615)	(675)	(666)	(653)	(672)	(674)	(666)	(634)	(634)	(634)	(634)	(634)	(7,792)
Transfers out, lump sums, death grants, refunds & misc. payments	(1,966)	(1,337)	(647)	(1,484)	(2,138)	(1,453)	(854)	(1,095)	(1,095)	(1,095)	(1,095)	(1,095)	(15,354)
Expenses	(6)	(137)	(152)	(52)	(150)	(23)	(444)	(167)	(167)	(167)	(167)	(167)	(1,802)
<b>Net cash in/(out) in month</b>	<b>(1,030)</b>	<b>(905)</b>	<b>1,692</b>	<b>(4,441)</b>	<b>(1,811)</b>	<b>(1,294)</b>	<b>(2,128)</b>	<b>(1,739)</b>	<b>(1,739)</b>	<b>(1,739)</b>	<b>(1,739)</b>	<b>(1,739)</b>	<b>(18,614)</b>
Withdrawal/(deposit) from custody cash	0	(10,000)	0	2,000	2,000	2,000	2,000	2,000	2,000	1,000	2,000	2,000	7,000
Deficit Recovery Contributions	0	0	0	0	0	0	9	0	0	0	0	0	9
<b>Balance c/f</b>	<b>12,353</b>	<b>1,448</b>	<b>3,140</b>	<b>699</b>	<b>888</b>	<b>1,594</b>	<b>1,475</b>	<b>1,736</b>	<b>1,997</b>	<b>1,257</b>	<b>1,518</b>	<b>1,778</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. Forecast cashflows are calculated using the previous year's cashflows which are then inflated, 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>761</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)	(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)
<b>Net cash in/(out) in year</b>	<b>(20,873)</b>	<b>(24,781)</b>	<b>(26,717)</b>
Withdrawal/(deposit) from custody cash	8,000	25,000	27,000
Deficit Recovery Contributions	32	0	0
<b>Balance c/f</b>	<b>542</b>	<b>761</b>	<b>1,044</b>

**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](mailto:pensionfund@westminster.gov.uk)

**BACKGROUND PAPERS:** None

**APPENDICES:**

Appendix 1: Tri-Borough Risk Management Scoring Matrix

Appendix 2: Pension Fund Risk Register Review at November 2022