



City of Westminster

Pension Board

Date:	1 February 2023
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.
Report of:	Phil Triggs Tri-Borough Director of Treasury and Pensions p.triggs@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 December 2022 for the Pension Fund bank account and cash held at custody (Northern Trust). The bank/cashflow 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

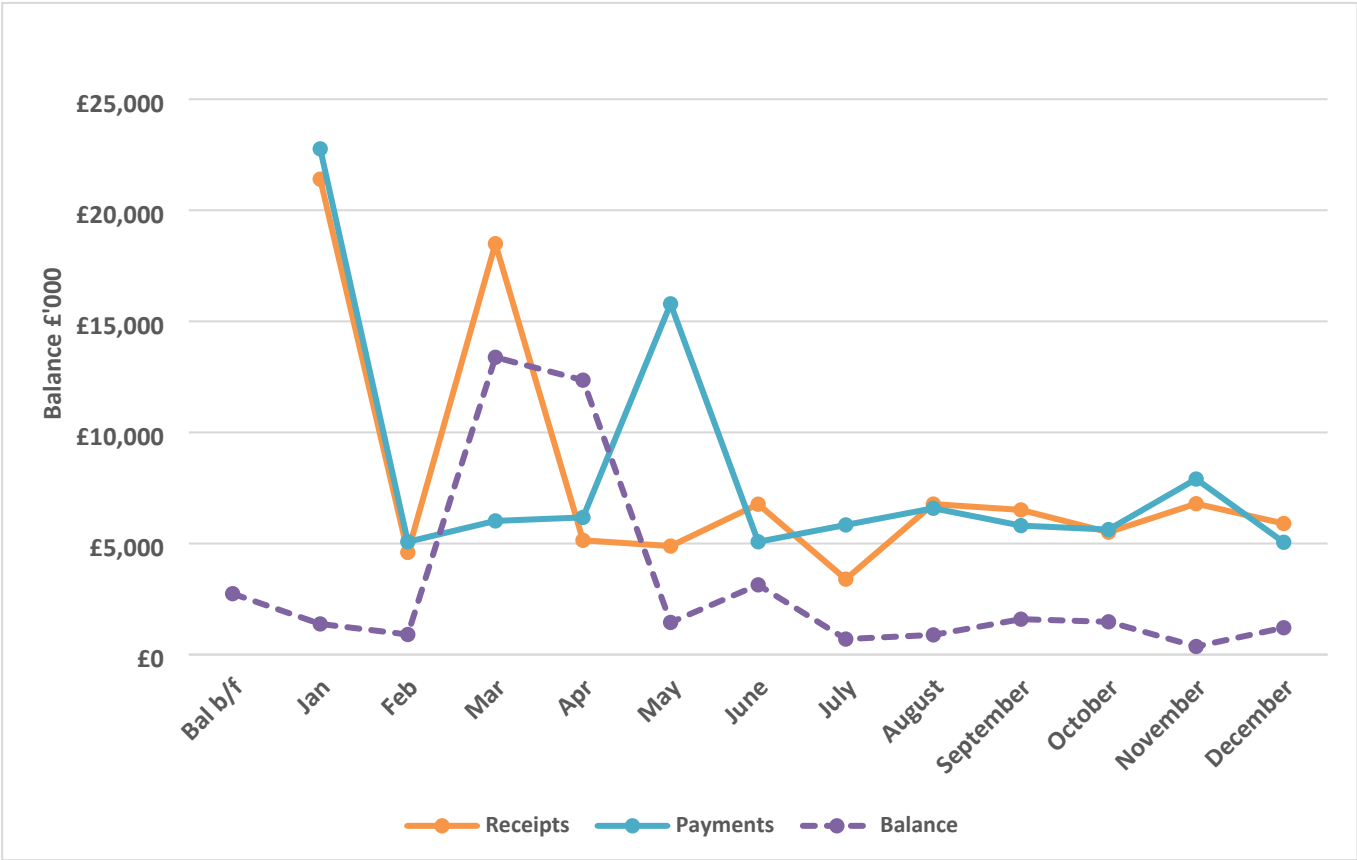
3.1 The risk register is divided into two sections: investment and pensions administration. The risk groups have been updated to reflect the CIPFA guidance on risk categories. The current top five risks to the Pension Fund, as updated in January 2023, are highlighted in the table below:

CIPFA Risk Group	Risk Rank	Risk Description	Trending
Liability Risk	1 st /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 as a result of the Russia-Ukraine conflict. CPI inflation was 10.5% as at December 2022, down from the peak of 11.1% in 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 to March 2023.	
Asset and Investment Risk	2 nd /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 £1.78m. The Fund returned -8.68% net of fees in the year to 30 November 2022, underperforming the benchmark by -3.65% net of fees. Much of this underperformance can be attributed to the equity and fixed income mandates.	
Asset and Investment Risk	3 rd /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. The City of Westminster Pension Fund can report that as at January 2023, the value of investments to Russia or Ukraine within the Pension Fund's asset classes is valued at zero.	
Regulatory and Compliance Risk	4 th /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.	
Liability Risk	5 th /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 December 2022 was £1.209m. This account is the Fund’s main account for day-to-day transactions, including member contributions and pension payments. 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 2022 to 31 December 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 quarter, the Fund withdrew £6.5m from cash at custody to maintain a positive cash balance.

4.4 The Pension Fund held £8.4m in cash with Northern Trust as at 31 December 2022. Fund manager distributions, 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 October 2022 to 31 December 2022.

Cash at Custody	Oct	Nov	Dec
	£000	£000	£000
	Actual	Actual	Actual
Balance b/f	4,103	9,152	5,549
Distributions	4,352	0	2,136
Sale of assets	5,000	5,000	67,669
Interest	463	7	12
Cash withdraw	(2,000)	(3,000)	(1,500)
Foreign Exchange Gains/Losses	42	(16)	(23)
Purchase of Assets	(2,818)	(5,604)	(65,386)
Miscellaneous	0	0	0
Management fees	10	10	(65)
Balance c/f	9,152	5,549	8,392

- 4.5 Over the quarter, capital calls relating to the Pantheon Global Infrastructure fund, Quinbrook Renewables Impact mandate, Macquarie Renewable Infrastructure fund, Man Group Affordable Housing and CVC Credit Private Debt fund took place. Alongside this, the Baillie Gifford Paris Aligned transition took place during December 2022, with circa £42m of the Global Alpha Equity Fund being rebalanced.
- 4.6 During the quarter, sales of £35m took place within the Insight Buy and Maintain Bond fund, London CIV Absolute Return fund and NT Ultra Short Bond fund, to fund these capital calls.
- 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 October 2022 to 31 December 2022. The total cash balance as at 31 December 2022 was £9.6m.

Cash at custody & Bank account	Oct	Nov	Dec
	£000	£000	£000
	Actual	Actual	Actual
Balance b/f	5,697	10,628	5,914
Cash outflows	(8,394)	(13,513)	(70,506)
Cash inflows	13,325	8,799	74,193
(Withdraw)/Deposit from custody to bank account	(2,000)	(3,000)	(1,500)
Withdraw/(Deposit) from bank account to custody	2,000	3,000	1,500
Balance c/f	10,628	5,914	9,601

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 estimated using an average of the previous quarters cashflows.

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	Actual	Actual	F'cast	F'cast	F'cast	
Balance b/f	13,383	12,353	1,448	3,140	699	888	1,594	1,475	365	1,209	912	614	£000s
Contributions	4,647	3,285	5,755	840	3,318	3,735	3,181	3,542	3,751	3,491	3,491	3,491	42,528
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	497	1,600	1,015	556	1,458	777	320	250	649	406	406	406	8,339
Pensions	(3,587)	(3,641)	(3,613)	(3,647)	(3,627)	(3,656)	(3,663)	(3,649)	(3,649)	(3,654)	(3,654)	(3,654)	(43,695)
HMRC Tax Payments	(615)	(675)	(666)	(653)	(672)	(674)	(666)	(648)	(654)	(656)	(656)	(656)	(7,890)
Transfers out, lump sums, death grants, refunds & misc. payments	(1,966)	(1,337)	(647)	(1,484)	(2,138)	(1,453)	(854)	(3,396)	(702)	(1,651)	(1,651)	(1,651)	(18,930)
Expenses	(6)	(137)	(152)	(52)	(150)	(23)	(444)	(209)	(50)	(235)	(235)	(235)	(1,928)
Net cash in/(out) in month	(1,030)	(905)	1,692	(4,441)	(1,811)	(1,294)	(2,128)	(4,110)	(656)	(2,298)	(2,298)	(2,298)	(21,576)
Withdrawal/(deposit) from custody cash	0	(10,000)	0	2,000	2,000	2,000	2,000	3,000	1,500	2,000	2,000	2,000	8,500
Deficit Recovery Contributions	0	0	0	0	0	0	9	0	0	0	0	0	9
Balance c/f	12,353	1,448	3,140	699	888	1,594	1,475	365	1,209	912	614	316	

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, with pensions payable linked to CPI-inflation. Please note this will not match the rolling cashflow forecast.

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	1,456	595
Contributions	40,447	42,469	44,592
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	6,419	6,740	7,077
Pensions	(43,642)	(48,050)	(50,452)
HMRC Tax	(7,838)	(8,230)	(8,641)
Transfers out, lump sums, death grants, refunds & misc. payments	(13,278)	(14,619)	(15,350)
Expenses	(2,067)	(2,171)	(2,279)
Net cash in/(out) in year	(19,959)	(23,861)	(25,053)
Withdrawal/(deposit) from custody cash	8,000	23,000	25,000
Deficit Recovery Contributions	32	0	0
Balance c/f	1,456	595	542

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