



City of Westminster

# Pension Board

<b>Date:</b>	<b>18 November 2021</b>
<b>Classification:</b>	<b>General Release</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 30 September 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 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

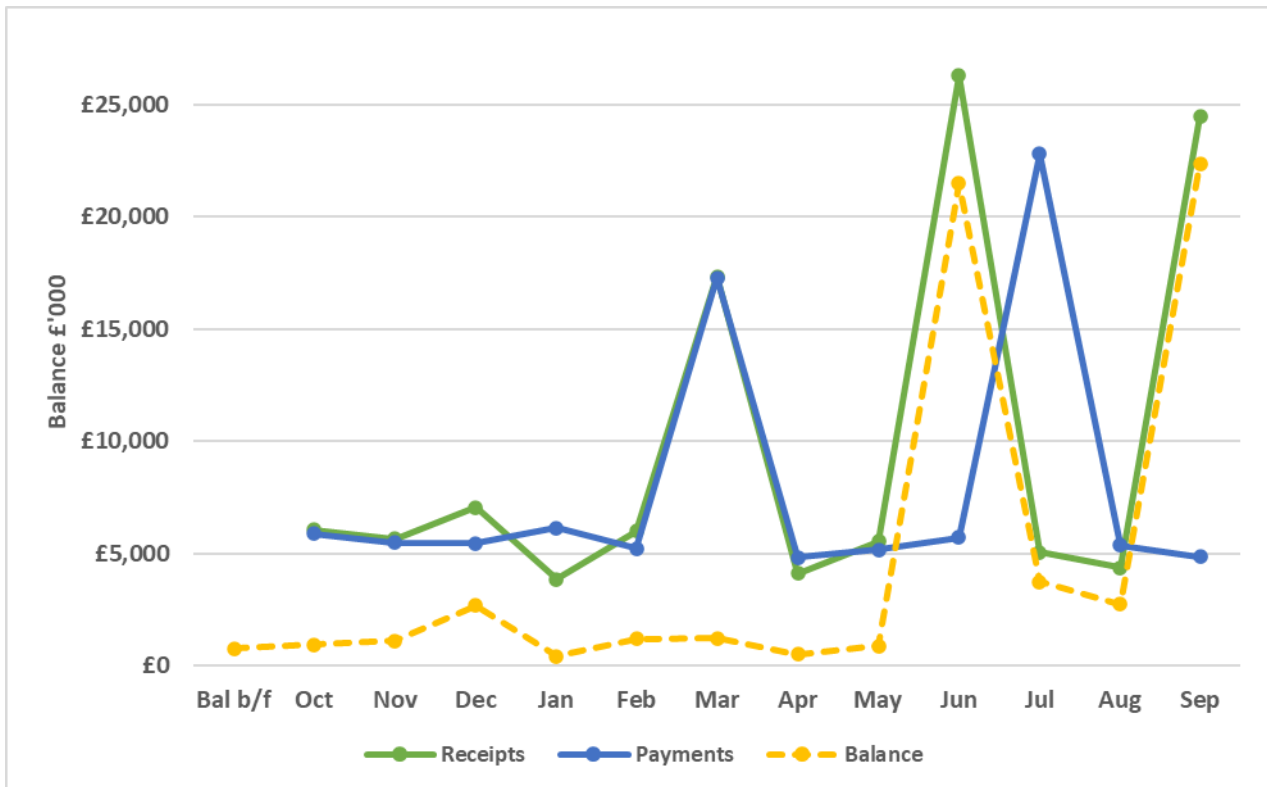
3.1 The risk register is divided into two sections: investment and pensions administration. The risk groups have been updated to reflect the CIPFA guidance on risk categories. The current top five risks to the Pension Fund, as updated in September 2021, are highlighted in the table below:

CIPFA Risk Group	Risk Rank	Risk Description	Trending
Administrative and Communicative Risk	1 <sup>st</sup> /17	Failure to successfully transition the pensions administration service to Hampshire County Council by 8 November 2021, following termination of the Surrey contract. Alongside this, the administration software is to be moved from Heywood's Altair to Civica.	
Administrative and Communicative Risk	2 <sup>nd</sup> /17	Administrators do not have sufficient staff or skills to manage the service, leading to poor performance and complaints. Surrey's contract is due to end in November 2021. However, cooperation is needed during transition.	
Asset and Investment Risk	1 <sup>st</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. Following COVID-19 there was some concern around fund managers outperforming their benchmarks within risk parameters.	
Regulatory and Compliance Risk	2 <sup>nd</sup> /40	Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation. The Pension Fund is changing pension administration providers, a transition of data will take place during late 2021.	
Liability Risk	3 <sup>rd</sup> /40	Scheme members live longer than expected, leading to higher than expected liabilities.	

### 4. Cashflow Monitoring and Forecasted Cashflows

4.1 The balance on the pension fund Lloyds bank account at 30 September 2021 was £22.365m. 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 2020 to 30 September 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. The Fund received a deficit recovery receipt of £20m from Westminster City Council during June and September 2021, these were subsequently paid over to the Custodian for safeguarding.

4.4 The Pension Fund held £19.551m in cash with the global custodian, Northern Trust, as at 30 September 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 July 2021 to 30 September 2021.

<b>Cash at Custody</b>	<b>Jul-21</b>	<b>Aug-21</b>	<b>Sep-21</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>59,424</b>	<b>77,444</b>	<b>27,525</b>
Distributions	0	70	397
Deficit Recovery	18,000	0	0
Sale of assets	0	0	0
Interest	0	15	0
Cash withdraw	0	0	0
Foreign Exchange Gains/Losses	20	(4)	49
Purchase of Assets	0	(50,000)	(8,324)
Management fees	0	0	(95)
<b>Balance c/f</b>	<b>77,444</b>	<b>27,525</b>	<b>19,551</b>

- 4.5 During the quarter, the Fund paid £50m into the Northern Trust Sterling Conservation Ultra Short ESG Bond fund and a capital call totalling £8.3m took place within the Pantheon Infrastructure fund. In addition to this £18m was paid over to Northern Trust, relating to a deficit recovery receipt, to safeguard on the Funds behalf.
- 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 July 2021 to 30 September 2021. The total cash balance as at 30 September 2021 was £41.916m.

<b>Cash at custody &amp; Bank account</b>	<b>Jul-21</b>	<b>Aug-21</b>	<b>Sep-21</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>80,905</b>	<b>81,169</b>	<b>30,269</b>
Cash outflows	(4,654)	(55,354)	(13,278)
Cash inflows	4,919	4,453	24,925
(Withdraw)/Deposit from custody to bank account	18,000	0	0
Withdraw/(Deposit) from bank account to custody	(18,000)	0	0
<b>Balance c/f</b>	<b>81,169</b>	<b>30,269</b>	<b>41,916</b>

- 4.7 During July 2021, £18m was paid over to the custodian relating to the Council's June 2021 deficit recovery. At the end of September, the Council paid £20m in deficit recovery contributions into the pension fund bank account.

4.8 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	Rolling 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		
<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>1,127</b>	<b>889</b>	<b>952</b>	<b>1,714</b>	<b>1,476</b>	<b>£000s</b>	
Contributions	3,077	2,896	3,296	3,221	3,191	3,021	3,231	3,231	3,231	3,231	3,231	3,231	38,089	
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	215	807	188	898	377	658	373	373	373	373	373	373	5,382	
Pensions	(3,490)	(3,500)	(3,525)	(3,507)	(3,521)	(3,566)	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(42,561)	
HMRC Tax Payments	(604)	(603)	(615)	(629)	(615)	(613)	(620)	(620)	(620)	(620)	(620)	(620)	(7,398)	
Transfers out, lump sums, death grants, refunds & misc. payments	(660)	(898)	(1,410)	(517)	(1,205)	(676)	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(13,080)	
Expenses	(57)	(133)	(140)	(22)	(8)	(5)	(161)	(161)	(161)	(161)	(161)	(161)	(1,329)	
<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>(2,038)</b>	<b>(2,038)</b>	<b>(2,038)</b>	<b>(2,038)</b>	<b>(2,038)</b>	<b>(2,038)</b>	<b>(20,897)</b>	
Withdrawal/(deposit) from custody cash	0	1,000	2,000	(18,000)	0	0	(20,000)	1,000	(16,000)	2,000	1,000	(12,000)	(59,000)	
Deficit Recovery Contributions	800	812	20,800	800	800	20,800	800	800	18,100	800	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>1,127</b>	<b>889</b>	<b>952</b>	<b>1,714</b>	<b>1,476</b>	<b>1,339</b>		

- 4.9 The three-year cashflow forecast for 2021/22 to 2023/24 for the pension fund Lloyds bank account is shown below. Forecasted cashflows are calculated using the previous year's cashflows which are then inflated by 2%. 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>862</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)	(43,763)	(44,638)
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>(24,940)</b>	<b>(25,439)</b>
Withdrawal/(deposit) from custody cash	(56,000)	25,000	25,000
Deficit Recovery Contributions	80,030	0	0
<b>Balance c/f</b>	<b>803</b>	<b>862</b>	<b>423</b>

- 4.10 The final Council deficit recovery receipts expected during 2021/22 total £80m. It is anticipated that from 2022/23 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