



City of Westminster

# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>23 June 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><i>Tri-Borough Director of Treasury and Pensions</i></b> <a href="mailto:pdriggs@westminster.gov.uk">pdriggs@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 March 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

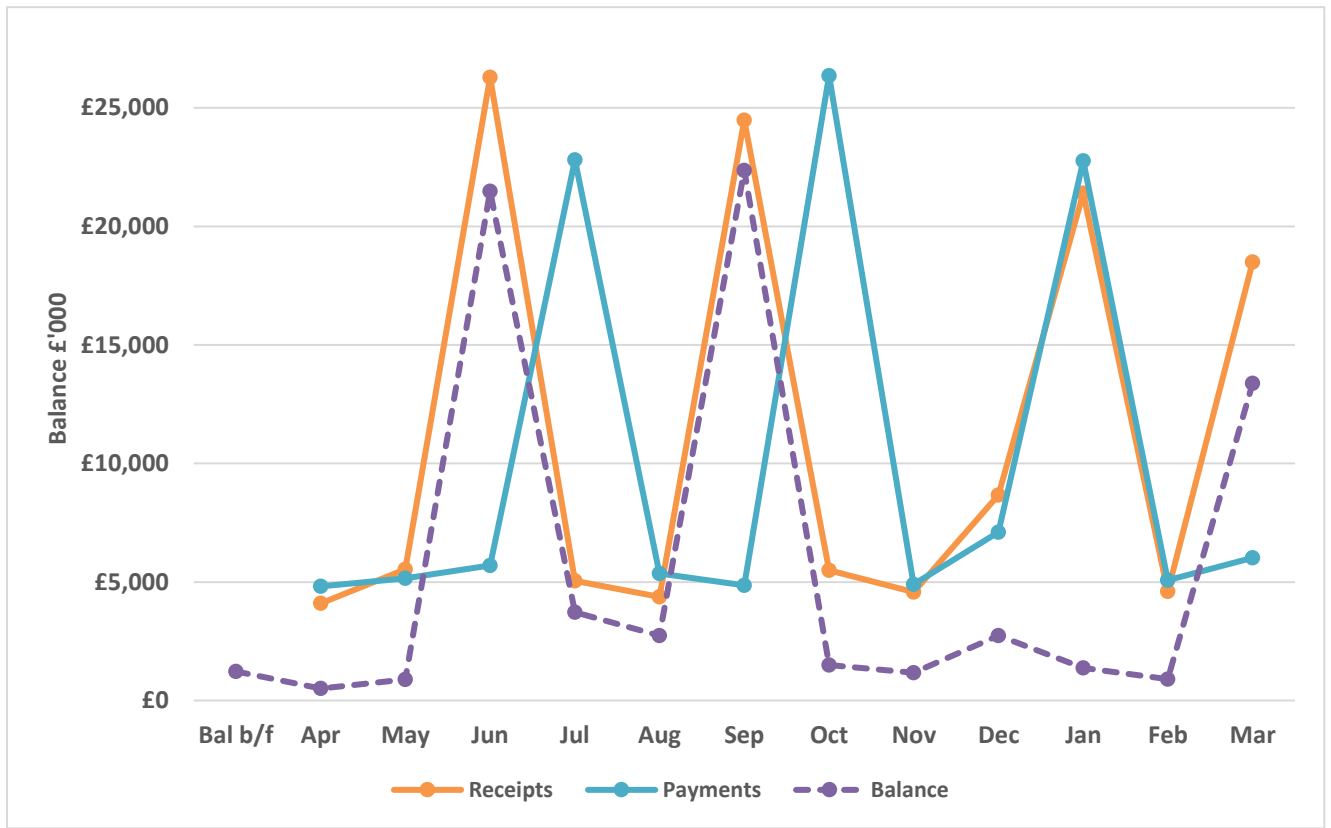
3.1 The risk register is divided into two sections: investment and pensions administration. The risk groups have been updated to reflect the CIPFA guidance on risk categories. The current top five risks to the Pension Fund, as updated in June 2022, are highlighted in the table below:

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 was 9.0% as at 30 April 2022.	
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 March 2022 was £13.4m. 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 April 2021 to 31 March 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 January 2022, the Council paid a £17.3m deficit recovery receipt to the Pension Fund, which was paid over to the custodian during February 2022. In addition to this, the Council made a final deficit recovery payment of £13.3m to the Pension Fund during March 2022.

4.4 The Pension Fund held £15.6m in cash with the global custodian, Northern Trust, as at 31 March 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 January 2022 to 31 March 2022.

<b>Cash at Custody</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</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>62,595</b>	<b>102,813</b>	<b>42,280</b>
Distributions	4,752	0	3,567
Deficit Recovery	0	18,000	0
Sale of assets	37,753	0	763
Interest	(48)	(894)	5
Cash withdraw	(2,000)	0	0
Foreign Exchange Gains/Losses	(18)	31	0
Purchase of Assets	(2,092)	(75,950)	(30,971)
Miscellaneous	2,000	0	0
Management fees	(129)	(1,720)	0
<b>Balance c/f</b>	<b>102,813</b>	<b>42,280</b>	<b>15,644</b>

4.5 During the quarter, capital calls totalling £7.4m 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 a £50m investment with the London CIV Absolute Return fund was placed, £22m was paid over to the Abridn long lease fund and £29.5m was invested in the Man Group Affordable Housing fund. During December 2021, the Fund sold its circa £80m holding in Longview Global Equities, the second redemption tranche of £27.8m is shown within the table above.

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 January 2022 to 31 March 2022. The total cash balance as at 31 March 2022 was £29m.

<b>Cash at custody &amp; Bank account</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</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>65,338</b>	<b>104,193</b>	<b>43,184</b>
Cash outflows	(5,003)	(82,716)	(36,988)
Cash inflows	63,858	3,707	22,831
(Withdraw)/Deposit from custody to bank account	(2,000)	18,000	0
Withdraw/(Deposit) from bank account to custody	(18,000)	0	0
<b>Balance c/f</b>	<b>104,193</b>	<b>43,184</b>	<b>29,027</b>

4.7 The following table illustrates the actual cashflow for the 12-month period from 1 April 2021 to 31 March 2022 for the pension fund Lloyds bank account.

**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	Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	Actual	
<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>1,502</b>	<b>1,172</b>	<b>2,742</b>	<b>1,380</b>	<b>904</b>	<b>£000s</b>
Contributions	3,077	2,896	3,296	3,221	3,191	3,021	3,145	3,291	3,331	3,050	3,092	3,909	38,521
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	215	807	188	901	377	658	509	426	540	252	710	532	6,114
Pensions	(3,490)	(3,500)	(3,525)	(3,507)	(3,521)	(3,566)	(3,542)	(3,466)	(3,593)	(3,532)	(3,571)	(3,518)	(42,330)
HMRC Tax Payments	(604)	(603)	(615)	(629)	(615)	(613)	(665)	(608)	(615)	(634)	(624)	(640)	(7,465)
Transfers out, lump sums, death grants, refunds & misc. payments	(660)	(898)	(1,410)	(518)	(1,205)	(676)	(2,091)	(502)	(2,466)	(598)	(844)	(1,012)	(12,879)
Expenses	(57)	(133)	(140)	(23)	(8)	(5)	(18)	(271)	(426)	(1)	(39)	(847)	(1,969)
<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>(2,662)</b>	<b>(1,130)</b>	<b>(3,230)</b>	<b>(1,463)</b>	<b>(1,275)</b>	<b>(1,576)</b>	<b>(20,008)</b>
Withdrawal/(deposit) from custody cash	0	1,000	2,000	(18,000)	0	0	(19,000)	0	4,000	(18,000)	0	0	(48,000)
Deficit Recovery Contributions	800	812	20,800	800	800	20,800	800	800	800	18,100	800	14,055	80,167
<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>1,502</b>	<b>1,172</b>	<b>2,742</b>	<b>1,380</b>	<b>904</b>	<b>13,383</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 which is assumed to increase by 3.1%.

**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>772</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)	(44,995)	(46,390)
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>(21,770)</b>	<b>(22,701)</b>
Withdrawal/(deposit) from custody cash	8,000	22,000	22,000
Deficit Recovery Contributions	32	0	0
<b>Balance c/f</b>	<b>542</b>	<b>772</b>	<b>71</b>

- 4.9 It is anticipated that the Fund will have a future cashflow requirement of circa £22m 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:**

Appendix 1 – Tri-Borough Risk Management Scoring Matrix  
Appendix 2 – Pension Fund Risk Register Review at June 2022