



City of Westminster

# Pension Board

<b>Date:</b>	<b>30 November 2023</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>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 2023 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.

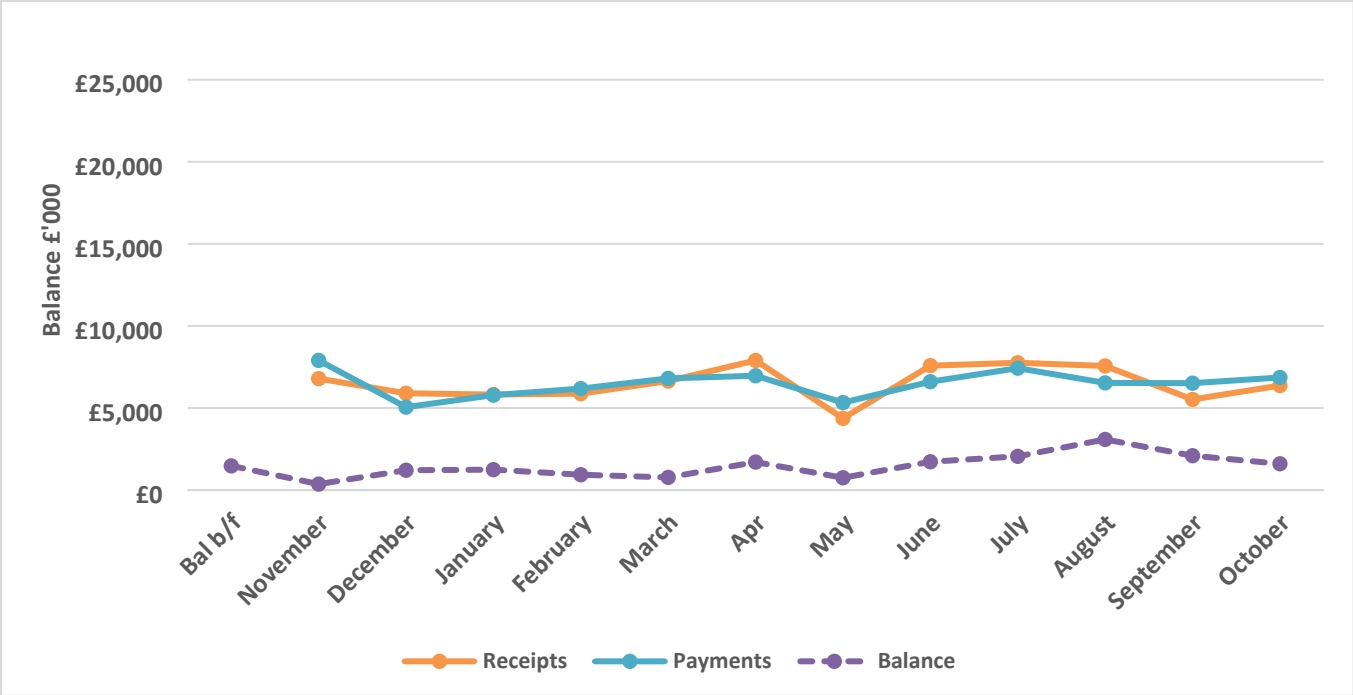
### 3. Risk Register Monitoring

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 November 2023, 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 remain high in the UK and globally due to labour shortages, supply chain issues, and the ongoing Russia-Ukraine conflict, as well as the conflict in the middle East. CPI inflation was 4.6% as at October 2023, down from the peak of 11.1% in October 2022.	
Asset and Investment Risk	2 <sup>nd</sup> /42	Significant volatility and negative sentiment in global investment markets following disruptive geopolitical and economic uncertainty, including the conflict between Russia and Ukraine, and Israel and Gaza. Increased risk to global economic stability, with the collapse of a number of banks since March 2023. 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.	
Asset and Investment Risk	3 <sup>rd</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 £1.8m. The Fund returned 7.5% net of fees in the year to 30 September 2023, underperforming the benchmark by 2.7% net of fees.	
Regulatory and Compliance Risk	4 <sup>th</sup> /42	The Department for Levelling Up, Housing and Communities' (DLUHC's) 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 is now expected to be the financial year 2024/25, with the regulations now delayed. Therefore, the first reports will be required by December 2025.	
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 as at 31 October 2023 was £1.6m. 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 shows changes in the bank balance from 1 November 2022 to 31 October 2023.



- 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 £5.0m from cash at custody to maintain a positive cash balance.
- 4.4 The Pension Fund held £46.4m in cash with Northern Trust as at 31 October 2023. Fund manager distributions and proceeds/withdrawals 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 2023 to 31 October 2023.

<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>19,349</b>	<b>17,187</b>	<b>40,537</b>
Distributions	699	6,411	902
Sale of assets	116	17,058	20,531
Interest	134	1,445	1,774
Cash withdraw	(3,000)	0	(2,000)
Foreign Exchange Gains/Losses	6	69	2
Purchase of Assets	(1)	(1,426)	(15,357)
Miscellaneous	(0)	0	0
Management fees	(116)	(207)	12
<b>Balance c/f</b>	<b>17,187</b>	<b>40,537</b>	<b>46,401</b>

4.5 During the quarter, equalisations took place within the Quinbrook renewable infrastructure fund, as well as further capital calls within the Macquarie, Quinbrook and Pantheon infrastructure funds. The Fund also received distributions of £8m from asset managers over the quarter to 31 October 2023.

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 2023 to 31 October 2023. The total cash balance as at 31 October 2023 was £48m.

<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>21,406</b>	<b>20,275</b>	<b>42,633</b>
Cash outflows	(6,649)	(8,148)	(22,217)
Cash inflows	5,518	30,506	27,590
(Withdraw)/Deposit from custody to bank account	(3,000)	0	(2,000)
Withdraw/(Deposit) from bank account to custody	3,000	0	2,000
<b>Balance c/f</b>	<b>20,275</b>	<b>42,633</b>	<b>48,006</b>

4.7 The following table illustrates the rolling cashflow for the 12-month period from 1 April 2023 to 31 March 2024 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.

**Current Account Cashflows for period April 2023 - March 2024:**

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24	Feb-24	Mar-24	Rolling 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>	<b>774</b>	<b>1,707</b>	<b>751</b>	<b>1,726</b>	<b>2,056</b>	<b>3,087</b>	<b>2,095</b>	<b>1,603</b>	<b>1,021</b>	<b>1,439</b>	<b>1,857</b>	<b>1,275</b>	<b>£000s</b>
Contributions	6,298	993	3,970	3,810	3,795	4,050	3,849	3,759	3,759	3,759	3,759	3,759	45,563
Various Receipts <sup>1</sup>	601	380	611	948	767	1,473	519	872	872	872	872	872	9,661
Pensions	(3,813)	(3,923)	(3,913)	(3,977)	(3,964)	(3,956)	(3,992)	(3,767)	(3,767)	(3,767)	(3,767)	(3,767)	(46,374)
HMRC Tax Payments	(744)	(795)	(916)	(890)	(853)	(1,192)	(927)	(681)	(681)	(681)	(681)	(681)	(9,720)
Transfers out, lump sums, death grants, refunds & misc. payments	(2,164)	(455)	(1,744)	(2,552)	(1,530)	(1,349)	(1,764)	(1,572)	(1,572)	(1,572)	(1,572)	(1,572)	(19,419)
Expenses	(245)	(157)	(32)	(9)	(185)	(18)	(176)	(194)	(194)	(194)	(194)	(194)	(1,793)
<b>Net cash in/(out) in month</b>	<b>(67)</b>	<b>(3,956)</b>	<b>(2,024)</b>	<b>(2,670)</b>	<b>(1,969)</b>	<b>(991)</b>	<b>(2,492)</b>	<b>(1,582)</b>	<b>(1,582)</b>	<b>(1,582)</b>	<b>(1,582)</b>	<b>(1,582)</b>	<b>(22,081)</b>
Withdrawal/(deposit) from custody	1,000	3,000	3,000	3,000	3,000	0	2,000	1,000	2,000	2,000	1,000	2,000	23,000
<b>Balance c/f</b>	<b>1,707</b>	<b>751</b>	<b>1,726</b>	<b>2,056</b>	<b>3,087</b>	<b>2,095</b>	<b>1,603</b>	<b>1,021</b>	<b>1,439</b>	<b>1,857</b>	<b>1,275</b>	<b>1,693</b>	

- 4.8 The three-year cashflow forecast for 2023/24 to 2025/26 for the Pension Fund's Lloyds bank account is shown below. The 2023/24 forecasted cashflows are linked to the rolling cashflow. The following years forecasts' are calculated using the previous year's cashflows which are then inflated, with pensions payable linked to CPI-inflation.

**Three Year Cashflow Forecast for 2023/24 to 2025/26**

	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
	<b>F'cast</b>	<b>F'cast</b>	<b>F'cast</b>
<b>Balance b/f</b>	<b>774</b>	<b>1,692</b>	<b>989</b>
Contributions	45,563	46,475	47,404
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	9,661	9,854	10,051
Pensions	(46,374)	(49,481)	(50,471)
HMRC Tax	(9,720)	(9,915)	(10,113)
Transfers out, lump sums, death grants, refunds & misc. payments	(19,419)	(19,807)	(20,203)
Expenses	(1,793)	(1,829)	(1,865)
<b>Net cash in/(out) in year</b>	<b>(22,082)</b>	<b>(24,703)</b>	<b>(25,197)</b>
Withdrawal/(deposit) from custody cash	23,000	24,000	25,000
Deficit Recovery Contributions	0	0	0
<b>Balance c/f</b>	<b>1,692</b>	<b>989</b>	<b>792</b>

**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.

**ACRONYMS:**

CIPFA: Chartered Institute of Public Finance and Accountancy

CPI: Consumer Prices Index