



City of Westminster

# Pension Board

<b>Date:</b>	<b>11 November 2024</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:p.triggs@westminster.gov.uk">p.triggs@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 June 2024 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 Westminster Pension Fund bank account and cash held at custody, the rolling twelve-month forecast and the three-year forecast.

### 3. Risk Register Monitoring

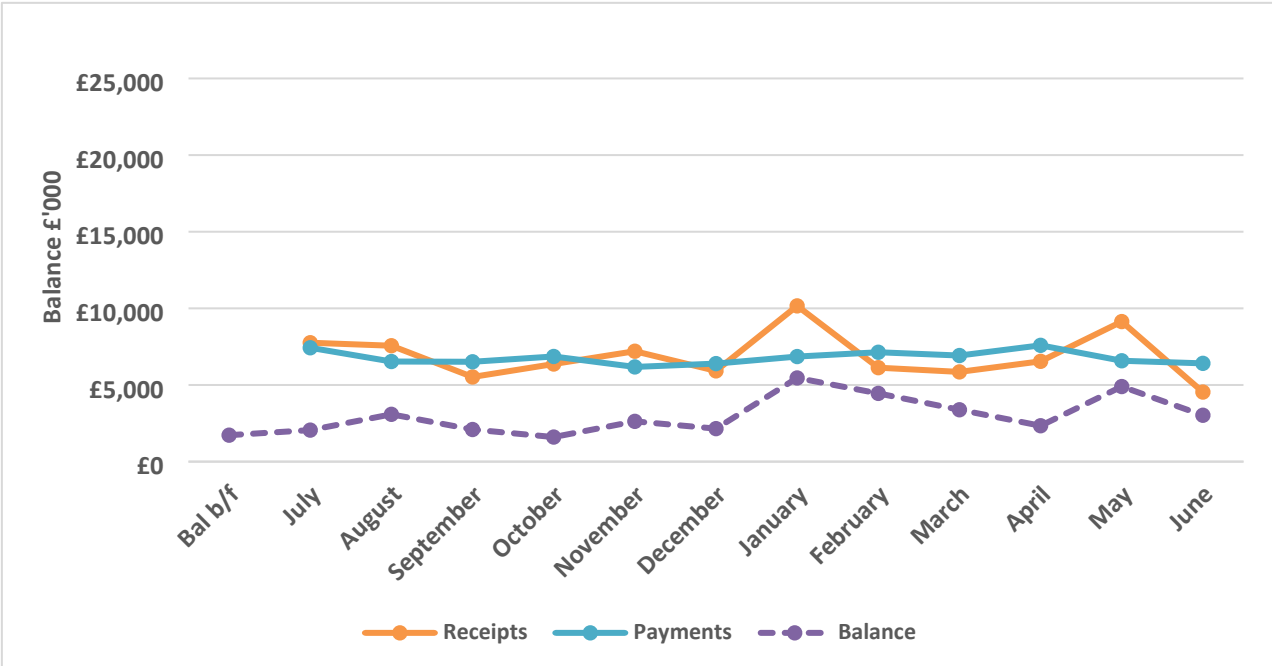
3.1 The risk register is divided into two sections: investment and pensions administration. The risk groups have been updated to reflect the CIPFA guidance on risk categories. The current top five risks to the Pension Fund, as updated in September 2024, are highlighted in the table below:

CIPFA Risk Group	Risk Rank	Risk Description	Trending	Impacted Asset Class
Asset and Investment Risk	1 <sup>st</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. 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.		Global Equities
Asset and Investment Risk	2 <sup>nd</sup> /42	Investment managers fail to achieve benchmark/ outperform targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £2.3m. The Fund returned 12.06% net of fees in the year to 30 June 2024, underperforming the benchmark by 2.6% net of fees.		All asset classes
Regulatory and Compliance Risk	3 <sup>rd</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 2025/26, with the regulations now delayed. Therefore, the first reports will be required by December 2026.		All asset classes
Liability Risk	4 <sup>th</sup> /42	Price inflation is significantly more than anticipated in the actuarial assumptions. CPI inflation was 1.7% as at September 2024, down from August. Inflation has now fallen below the BOE target of 2%. The BOE made their first interest rate cut during the summer with the base rate at 5%.		Bonds, multi asset credit, private debt and long lease property
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.		N/A

**4. Cashflow Monitoring and Forecasted Cashflows**

4.1 The balance on the Pension Fund’s Lloyds bank account as at 30 June 2024 was £3m. 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 July 2023 to 30 June 2024.



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 £4.0m from cash at custody to maintain a positive cash balance.

4.4 The Pension Fund held £38.8m in cash with Northern Trust as at 30 June 2024. 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 April 2024 to 30 June 2024.

<b>Cash at Custody</b>	<b>Apr</b>	<b>May</b>	<b>Jun</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>39,447</b>	<b>34,680</b>	<b>28,610</b>
Distributions	2,419	1	4,002
Sale of assets	92	421	27,325
Interest	158	154	143
Cash withdraw	(2,000)	0	(2,000)
Foreign Exchange Gains/Losses	3	19	(36)
Purchase of Assets	(4,956)	(6,297)	(19,228)
Miscellaneous	0	0	0
Management fees	(483)	(368)	(64)
<b>Balance c/f</b>	<b>34,680</b>	<b>28,610</b>	<b>38,752</b>

- 4.5 During the quarter, capital recalls took place within the London CIV UK Housing fund and CVC Credit Private Debt fund, as well as further capital calls within the CVC Credit, London CIV UK Housing, Man Group Community Housing and Quinbrook Renewables funds. The Fund received distributions of £6.4m from asset managers over the quarter to 30 June 2024.
- 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 April 2024 to 30 June 2024. The total cash balance as at 30 June 2024 was £41.8m.

<b>Cash at Custody &amp; Bank account</b>	<b>Apr</b>	<b>May</b>	<b>Jun</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>42,831</b>	<b>37,020</b>	<b>33,507</b>
Cash outflows	(12,544)	(12,877)	(25,740)
Cash inflows	6,733	9,364	34,010
<b>Balance c/f</b>	<b>37,020</b>	<b>33,507</b>	<b>41,777</b>

4.7 The following table illustrates the expected cashflow for the 12-month period from 1 April 2024 to 31 March 2025 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 for period April 2024 - March 2025:**

	Apr-24	May-24	Jun-24	Jul-24	Aug-24	Sep-24	Oct-24	Nov-24	Dec-24	Jan-25	Feb-25	Mar-25	Rolling Total
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
	Actual	Actual	Actual	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	
<b>Balance b/f</b>	<b>3,384</b>	<b>2,341</b>	<b>4,898</b>	<b>3,025</b>	<b>1,446</b>	<b>1,866</b>	<b>1,287</b>	<b>1,707</b>	<b>1,128</b>	<b>1,548</b>	<b>969</b>	<b>1,389</b>	<b>£000s</b>
Contributions	4,086	7,353	1,199	4,158	4,158	4,158	4,158	4,158	4,158	4,158	4,158	4,158	50,060
Various Receipts <sup>1</sup>	459	1,784	1,341	1,225	1,225	1,225	1,225	1,225	1,225	1,225	1,225	1,225	14,612
Pensions	(4,119)	(4,182)	(4,167)	(4,231)	(4,231)	(4,231)	(4,231)	(4,231)	(4,231)	(4,231)	(4,231)	(4,231)	(50,545)
HMRC Tax Payments	(851)	(978)	(982)	(917)	(917)	(917)	(917)	(917)	(917)	(917)	(917)	(917)	(11,064)
Transfers out, lump sums, death grants, refunds & misc. payments	(2,174)	(1,360)	(1,188)	(1,662)	(1,662)	(1,662)	(1,662)	(1,662)	(1,662)	(1,662)	(1,662)	(1,662)	(19,680)
Expenses	(442)	(60)	(75)	(153)	(153)	(153)	(153)	(153)	(153)	(153)	(153)	(153)	(1,957)
<b>Net cash in/(out) in month</b>	<b>(3,043)</b>	<b>2,557</b>	<b>(3,872)</b>	<b>(1,580)</b>	<b>(1,580)</b>	<b>(1,580)</b>	<b>(1,580)</b>	<b>(1,580)</b>	<b>(1,580)</b>	<b>(1,580)</b>	<b>(1,580)</b>	<b>(1,580)</b>	<b>(18,574)</b>
Withdrawal/(deposit) from custody	2,000	0	2,000	0	2,000	1,000	2,000	1,000	2,000	1,000	2,000	2,000	17,000
<b>Balance c/f</b>	<b>2,341</b>	<b>4,898</b>	<b>3,025</b>	<b>1,446</b>	<b>1,866</b>	<b>1,287</b>	<b>1,707</b>	<b>1,128</b>	<b>1,548</b>	<b>969</b>	<b>1,389</b>	<b>1,810</b>	

- 4.8 The three-year cashflow forecast for 2024/25 to 2026/27 for the Pension Fund's Lloyds bank account is shown below. The 2024/25 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 2024/25 to 2026/27**

	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</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>3,384</b>	<b>1,810</b>	<b>1,865</b>
Contributions	50,060	51,061	52,082
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	14,612	14,904	15,202
Pensions	(50,545)	(51,556)	(52,587)
HMRC Tax	(11,064)	(11,755)	(11,990)
Transfers out, lump sums, death grants, refunds & misc. payments	(19,680)	(19,603)	(19,995)
Expenses	(1,957)	(1,996)	(2,036)
<b>Net cash in/(out) in year</b>	<b>(18,574)</b>	<b>(18,945)</b>	<b>(19,324)</b>
Withdrawal/(deposit) from custody cash	17,000	19,000	20,000
Deficit Recovery Contributions	0	0	0
<b>Balance c/f</b>	<b>1,810</b>	<b>1,865</b>	<b>2,541</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

DLUHC: Department for Levelling Up, Housing and Communities

LGPS: Local Government Pension Scheme

TCFD: Taskforce on Climate-Related Financial Disclosures

BOE: Bank of England

London CIV/LCIV: London Collective Investment Vehicle

VAT: Value-Added Tax