



City of Westminster

# **Annual Report and Accounts Superannuation Fund**

*Draft*

**31 March 2012**

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## **SCHEME MANAGEMENT AND ADVISORS (as at 31 March 2012)**

Administering Authority	The City of Westminster
Superannuation Committee	Cllr Suhail Rahuja (Chair) Cllr. Anthony Devenish Cllr. Margaret Doyle Cllr. Cyril Nemeth Cllr. Ian Rowley Cllr. Patricia McAllister
Officers:	Barbara Moorhouse (Chief Operating Officer) Jonathan Hunt (Director of Corporate Finance and Investment)
Permitted Observers:	Lord Mayor Leader of the Council Leader of the Opposition Union Representative
Advisers:	Deloitte Total Reward and Benefits Ltd.
Actuaries	Aon Hewitt Associates Ltd.
AVC Providers	AEGON (Scottish Equitable) Equitable Life
Auditors	Audit Commission
Custodians	Bank of New York Mellon SA/NV
Investment Managers	Hermes Insight Investment Management Legal & General Majedie Asset Management Newton Investment Management Limited West End of London Property Unit Trust State Street Global Advisors International State Street Global advisors UK
Legal Advisors	Eversheds LLP
Scheme Administrator	City of Westminster

## **INTRODUCTION – UNDERSTANDING THE FUND**

The City of Westminster Superannuation Fund (the Fund) is an occupational public sector pension set up under the Superannuation Act 1972. The Act requires the Council to maintain a Pension Fund for its own employees and employees admitted to the Fund under an admission agreement.

The Fund's objectives are to provide a pool of assets sufficient to meet the long-term pension and other benefits liabilities (as prescribed by the Local Government Pension Scheme Regulations) for its members. The investment objectives are to ensure the Pension Fund has sufficient assets to pay pensions and other benefits by maximising investment returns over the long term within acceptable risk tolerances. Investment returns are defined as the overall rates of return (capital growth and income combined). This is set out in the Statement of Investment Principles.

The Council operates a multi-employer funded final salary scheme where the retirement benefits are determined independently from the investments of the scheme (a Defined Benefit Scheme). Employers and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

### **At a glance**

- The core benefits of the scheme are:
  - A tax free lump sum of three times the annual pension;
  - A guaranteed pension based on final pay and the length of service;
  - A pension for spouses or children;
  - Pension increases in line with inflation.
- As at 31 March 2012, the Westminster Superannuation Fund:
  - Consisted of 36 scheduled and 7 admitted employers
  - Had net assets valued at £704.5 million
  - Had a total of 19,466 members (including undecided joiners and those with frozen refunds) of which 3,527 were active.
  - Made payments to 5,177 pensioners and dependants every month.
  - Had 5,935 members with rights to deferred benefits.

### **Contribution policy**

The employers participating in the Fund pay different rates of contributions depending on their history, their staff profile and any deficit recovery period agreed with the Fund.

Employer contribution rates were reviewed as part of the triennial actuarial valuation of the fund, the latest having been carried out as at 31 March 2010. This showed the Fund was 74% funded. The deficit of 26% is to be recovered by additional employer contributions over a range of different recovery periods depending on employer of up to 30 years.

### **Investment Management**

As of 31 March 2012, the investment portfolio was managed by eight external managers. The managers have discretion to buy and sell investments within the constraints set by the

Superannuation Committee and specified in their investment management agreements. The following is a list of the Fund's investment managers as at 31 March 2012:

- Hermes
- Insight Investment Management
- Legal and General
- Majedie Asset Management
- Newton Investment Management Limited
- West End of London Property Unit Trust
- State Street Global Advisors UK
- State Street Global Advisors International

### Value of Assets under Management

The value of assets under management (AUM) as at 31 March 2012 is shown below.

Asset Class	31 March 2012		31 March 2011	
	£m	%	£m	%
UK Equity	271.7	38.6	280.1	40.3
Global & Overseas Equity	248.3	35.3	255.3	36.7
Fixed Interest Gilts	36.0	5.1	32.7	4.7
Sterling Non-Gilts	112.7	16.0	105.7	15.2
Property	34.8	5.0	21.2	3.1
<b>Sub-Total</b>	<b>703.5</b>	<b>100</b>	<b>695.0</b>	<b>100</b>
Cash	1.0		12.6	
<b>Total AUM</b>	<b>704.5</b>		<b>707.6</b>	

The Westminster in-house account balance as at 31 March 2011 was a transitory holding awaiting investment

## INVESTMENT POLICY AND PERFORMANCE

### Investment Principles

The Council is the designated statutory body responsible for administering the Fund. The Council has delegated certain investment powers to a Superannuation Committee. The Superannuation Committee is responsible for all aspects of the investment and other management of the Fund as set out in the Statement of Investment Principals in accordance with Section 35 of the Pensions Act 1995, as amended by the Pensions Act 2001 and subsequent regulations.

The main priority of the Council and the Superannuation Committee, when considering the investment policy is to maximise the likelihood that the promises made regarding members' pensions and other benefits will be fulfilled. To support this, investments are spread across a number of asset types, including equities, bonds, property and cash. Spreading the investments in this way reduces the risk of a sharp fall in one particular market having a substantial impact on the whole fund.

## Strategy

The investment objective is to ensure that the Fund's investments maximise the likelihood that benefits will be paid to members as they fall due and to ensure the continued long-term financial support from the sponsoring employer.

The Fund's strategic allocation during the year to 31 March 2012 comprised approximately 20% in assets more closely reflecting the nature of the liabilities and 80% in return seeking assets, split between UK and International equities and property. Additionally the Fund has in place a currency hedging policy for the non-sterling equity investments set at 50% (passive fund) and 75% (active fund). The Fund's investment strategy is under review.

The Superannuation Committee, having regard to funding levels, cash needs and risk tolerances, determines the overall Fund asset mix. As at 31 March 2012, the Fund's benchmark investment asset allocation was as follows:

Asset Class	Benchmark Allocation* (%)
<i>UK Equity</i>	38.6
<i>Global &amp; Overseas Equity</i>	35.3
<b>Sub-total: Equities</b>	<b>73.9</b>
<i>Fixed Interest Gilts</i>	5.1
<i>Sterling Non-Gilts</i>	16.0
<b>Sub-total: Bonds</b>	<b>21.1</b>
<i>Property</i>	5.0
<b>Total</b>	<b>100.0</b>

The Superannuation Committee is currently reviewing the suitability of the Fund's benchmarks and its investment asset allocation strategy.

The Fund's Policy on risk dictates that the Fund Managers are required to implement risk management measures and to operate in such a way that the possibility of undershooting the performance target is kept within acceptable limits. Each fund manager is set certain risk boundaries depending upon their strategy, asset class and the markets they operate in having due regard to the overall fund risk. Fund Managers are required to report quarterly and to seek approval for any positions that go beyond the agreed risks parameters set for their strategies.

## General

All investments have been managed during the year to 31 March 2012 by the following investment managers:

**Equity:** Majedie Asset Management (UK), State Street Global Advisors<sup>1</sup> MPF (UK and Overseas), Newton Investment Management (Global)

**Bonds:** Insight Investment Management Limited

**Property:** Former Schroders (West End of London Property Unit Trust<sup>2</sup>, Legal & General Managed Funds Property Unit Trust<sup>3</sup>), Hermes Fund Managers Limited

**Cash:** Westminster In-house account

Note: Also denoted by: <sup>1</sup>SSgA <sup>2</sup>WELPUT <sup>3</sup>LGIM in the rest of this report.

WELPUT and LGIM are grouped and classed under Former Schroders for legacy reasons (see 2010/11 Annual Report).

## Investment Report – 12 months to 31 March 2012

### Markets Summary

Fixed-income markets were the star asset class over the year after concerns over economic prospects led central banks in a number of major economies to enact quantitative easing measures. Equity markets were predictably volatile with a market of two halves, generally leading to a slight rise for the year as a whole. Given this backdrop, the Fund performed satisfactorily with an overall return some 20 basis points ahead of its benchmark (Source: Deloitte).

The year began with markets fixated on the drama unfolding in Portugal and particularly Greece, the latter a belated reaction to an earlier discovery that government debt was much higher than previously declared. Investors reacted by raising Greece's cost of capital and eventually forcing the government to seek a bail-out from the so-called 'troika' of the European Union, European Central Bank (ECB) and International Monetary Fund. As part of the conditions for this bail-out, the private sector was asked to write-off a large proportion of their Greek debt holdings without compensation. During the third quarter of 2011, the FTSE All-Share Index fell by 13.5%, its worst quarter in nine years.

Economic news, which had been largely disappointing the consensus, offered a reprieve from the earlier market volatility towards the end of 2011. And as the New Year began, equity markets took heart from a US economy that remained relatively robust throughout. This was supported by widely expected liquidity measures from the Federal Reserve (Fed), Bank of England (BOE) and the ECB. Such an expectation had been boosted by earlier quantitative easing from both the Fed and BOE as well as the ECB's bond buying and subsequent refinancing operation that provided liquidity to the banking sector as it attempted to counteract contagion from Greece's woes. The result was that both major equity and bond markets ended the fiscal year on a high note, despite heightening contagion concerns over the position of Spain and Italy within the eurozone and global economic growth forecasts continuing to be downgraded.

### Markets Returns

	1 year	3 years (p.a.)
<b>UK Equities</b>		
FTSE All Share	1.4%	18.4%
<b>Global Equities</b>		
FTSE AW World (sterling investor)	-0.2%	17.1%
<b>UK Bonds</b>		
FTA All Stocks Gilts	14.5%	6.6%
FTA > 15 year Gilts	22.6%	9.4%
FTA > 15 year Index-linked Gilts	23.9%	13.1%
iBoxx All Stocks Non-Gilt (sterling)	7.3%	10.8%
LIBOR 3 Months	1.0%	0.9%
<b>Global Bonds</b>		
Salomon WGBI All Maturities	5.5%	2.5%
<b>Other</b>		
IPD All Properties (Total Return)	7.3%	10.2%

Source: M&G, Deloitte. All figures rounded

## Fund Returns

The table below summarises the investment performance of the total Fund and individual managers for the one and three year periods to 31 March 2012.

Manager	Last Year			Last 3 Years <sup>1</sup>			Since inception <sup>1</sup>		
	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)	Fund (%)	B'mark (%)	Relative (%)
Majedie	6.3	1.4	4.9	20.6	18.8	1.8	8.6	4.1	4.5
SSgA UK	1.5	1.4	0.1	19.1	18.9	0.2	3.2	3.0	0.2
SSgA Int'l	0.4	0.6	-0.2	n/a	n/a		1.1	1.2	-0.1
Newton	-4.4	-0.7	-3.7	13.3	16.2	-2.9	2.7	2.8	-0.1
Insight – Non-Gilts	8.5	7.3	1.2	13.3	10.8	2.5	5.2	4.9	0.3
Insight - Passive	10.2	10.3	-0.1	5.3	5.2	0.1	8.0	8.2	-0.2
Former Schroders <sup>2</sup>	7.7	6.4	1.3	n/a	n/a		8.6	6.9	1.7
Hermes <sup>2</sup>	7.6	5.6	2	n/a	n/a		3.9	6.9	-3
<b>Total Fund</b>	<b>2.9</b>	<b>2.7</b>	<b>0.2</b>	<b>15.4</b>	<b>15.8</b>	<b>-0.4</b>	<b>4.0</b>	<b>4.5</b>	<b>-0.5</b>

Figures are quoted gross of fees. Source: Majedie, SSgA, Newton, Insight, Alliance Bernstein, Schroders, Hermes and BNY Mellon.

(1) Estimated by Deloitte.

(2) Since inception performance of Schroders and Hermes property funds is measured from the inception dates of 8 October 2010 and 26 October 2010 respectively. Benchmark since inception performance is measured from 31 December 2010.

## The Fund benchmarks

The Fund's benchmarks at 31<sup>st</sup> March 2012 were:

Asset Class	Benchmark
UK Equity	FTSE All-Share Index
Overseas Equity	FTSE World ex-UK (50% currency hedged)
Global Equity	MSCI All Countries NDR Index <sup>(1)</sup>
Fixed Interest Gilts	FTSE A Gilts up to 15 Years Index
Sterling Non- Gilts	iBoxx Sterling Non-Gilt 1-15 Years Index
Formerly Schoders Property	IPD All Balanced Index
Hermes Property	IPD UK PPFi Balanced PUT Index

<sup>(1)</sup> 75% currency exposure hedged back to sterling

## Review of Fund Investment Performance

The Fund outperformed its benchmark by 0.2% over the year. Contributing to this was the performance of the Insight non-gilts portfolio and the significant benchmark outperformance by Majedie due to timely stock selection. These helped off-set the underperformance by Newton in what was a volatile year for global equity markets.

The table below shows the allocation split by asset class as at 31 March 2012.



Asset Class	31 March 2012 (£m)	31 March 2012 (%)	31 March 2011 (£m)	31 March 2011 (%)	Benchmark Allocation (%)
UK Equity (Active)	162.9	23.2%	160.4	23.1	16.9
UK Equity (Passive)	108.8	15.5%	119.7	17.2	16.9
<b>Total UK Equity</b>	<b>271.7</b>	<b>38.6%</b>	<b>280.1</b>	<b>40.3</b>	<b>33.8</b>
Global Equity (Active)	148.7	21.1%	153.7	22.1	20.6
Global Equity (Passive)	99.6	14.2%	101.6	14.6	20.6
<b>Total Global Equity</b>	<b>248.3</b>	<b>35.3%</b>	<b>255.3</b>	<b>36.7</b>	<b>41.2</b>
Fixed Interest Gilts	36.0	5.1%	32.7	4.7	5.0
Sterling non-Gilts	112.7	16.0%	105.7	15.2	15.0
<b>Total Bonds</b>	<b>148.7</b>	<b>21.1%</b>	<b>138.3</b>	<b>19.9</b>	<b>20.0</b>
Former Schroders	27.8	4.0%	-	-	-
Hermes	7.1	1.0%	-	-	-
<b>Total Property</b>	<b>34.9</b>	<b>5.0%</b>	<b>21.2</b>	<b>3.1</b>	<b>5.0</b>
<b>Total</b>	<b>703.6</b>	<b>100.00%</b>	<b>695</b>	<b>100.0</b>	<b>100.0</b>
Westminster In-House Account	1.0		12.6		
<b>Total</b>	<b>704.53</b>		<b>707.5</b>		

Note: Totals may not add-up due to rounding

Source: Deloitte (Majedie, SSgA, Newton, Insight, Schroders, Hermes and BNY Mellon)

As at 31 March 2012 the Fund was overweight relative to UK equities (+4.9%) and underweight to global equities (-6.0%). Overall the Fund was underweight to its strategic equity benchmark by -1.1% (excluding cash). The Fund was overweight relative to its strategic bond benchmark at the valuation date (+1.2%).

Despite the Fund outperforming over the year to 31 March 2012, assets fell by £4.4m (-0.6%). This reflects a combination of broadly flat contributions and investment returns that were insufficient to offset the rising cost of pensions, benefits and expenses.

#### Largest Holdings (Top 5) by percentage of whole portfolio (as at 31 March 2012)

Holdings	Sector	%
MPF UK Equity	Other investment trusts – UK	15.57
MPF International Equity Index	Other Investment Trusts – UK	14.26
HERMES Property UT PPTY	Unit Trust - Property	3.80
MAJEDIE ASSET MGT SPECIAL SITS INV B ACC NAV	UK equity	2.18
GlaxoSmithKline Ord GBP0.25	Healthcare - UK	2.04

#### Largest Holdings (Top 5) outside of pooled fund investments by percentage of whole portfolio (as at 31 March 2012)

Holdings	Sector	%
GLAXOSMITHKLINE ORD GBP0.25	Healthcare – UK	1.74
BP PLC ORD USD.25	Energy – UK	1.60
VODAFONE GROUP ORD USD0.11428571	Services (Telecom) – UK	1.53
ROYAL DUTCH SHELL 'B' CLASS	Energy – UK	1.31
Uk Treasury 4.75% 2020	UK Gilt	0.85

## **Ethical, Environmental Investment and Activism**

The Superannuation Committee delegates its voting rights in relation to shares held to its Investment Managers. However, the Council wishes to have some influence on issues of environmental or ethical concern with regard to the companies in which the Fund is a shareholder. Therefore, it seeks to codify its approach with Fund Manager and will use the services of specialist agencies as necessary to identify issues of concern. The Council expects the Fund Managers to take a note of the possibility that substantial ethical or environmental considerations may be among those bringing a particular investment decision into the “potentially contentious” category.

The Investment Managers are monitored through quarterly reporting of any action taken.

## **The Myners Review, Code of Best Practice and Proposed 2014 LGPS**

In 2001, a set of ten principles for Defined Benefit Pension Schemes was introduced as a voluntary code of best corporate governance practice following a review of institutional investment by Lord Myners. These became widely known as the Myners’ Principles. In 2008, these principles were narrowed down to six following a review by the National Association of Pension Funds. This was followed by a Government consultation culminating in a required statement of the level of pension fund compliance with these new principles being incorporated into the regulations in 2010. The Fund complies with the revised regulations as set out in the Statement of Investment Principles that is available on request or from the Councils website at

[www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/](http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/) or <http://www.yourpension.org.uk/Westminster/Members/Fund-Investment.aspx>

The primary purpose of the Code of Best Practice is to ensure that the Council and the Committee have the right skill-set and decision-making structures in place with clear objectives for the Fund and an appropriate and well-documented strategy in place for achieving those objectives; the Council and the Superannuation Committee know that they should set explicit goals for the fund managers used by the Fund.

The Council and the Superannuation Committee continually review their training needs and skills in order to ensure effective decision-making and where appropriate, the Council and the Superannuation Committee take independent expert advice. Training is provided by Investment Managers, the Custodian or professional development events.

The Local Government Association (LGA) and trade unions have announced the outcome of their negotiations on a new Local Government Pension Scheme for England & Wales. Among the proposals are changes to the accrual rate as well as the basis on which earnings are to be determined. The LGA and unions will now consult with their respective members, the successful outcome of which may lead the Government to go to straight to a statutory consultation. Any final agreement is due to take effect on 1st April 2014.

## ABRIDGED FINANCIAL STATEMENTS AND REPORTS

The following are abridged financial statements taken from the full audited financial statements of City of Westminster Superannuation Fund for the year ended 31 March 2012. The auditor's report is attached as Appendix A. To access the complete 2012 financial statements for City of Westminster Superannuation Fund please visit our website [www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/](http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/) or <http://www.yourpension.org.uk/Westminster/Members/Fund-Investment.aspx>

### Income and Expenditure Account as at 31 March 2012

<b>Contributions and benefits</b>	<b>Note</b>	<b>2011/12 (£'000)</b>	<b>2010/11 (£'000) (re-presented)</b>
Contributions	7	97,820	32,364
Transfers in	8	2,536	5,367
Other Income			337
		<b>100,356</b>	<b>38,068</b>
Benefits	9	-42,597	-36,330
Payment to and on account of leavers	10	-6,691	-8,917
Other Payments	9	-600	-1,036
Administrative expenses	11	-757	-1,132
		<b>50,645</b>	<b>-47,415</b>
<b>Net additions/withdrawals from dealing with members</b>		<b>49,711</b>	<b>-9,448</b>
<b>Returns on investment</b>			
Investment income	8	18,639	14,370
Other income		32	
Change in market value of investments (realised & unrealised)	9	2,221	35,558
Investment management expenses	7	-2,983	-3,055
Taxation	8	-875	-702
<b>Net return on investments</b>		<b>17,034</b>	<b>46,171</b>
<b>Net increase/(decrease) in fund in year</b>			<b>36,823</b>
Net assets of the scheme at 1 April		707,194	670,371
Prior year adjustment			
<b>Net assets of the scheme at 31 March</b>		<b>773,939</b>	<b>707,194</b>

## Net Asset Statement as at 31 March 2012

	Note	2011/12 (£'000)	2010/11 (£'000) (re- presented)
<b>Investment Assets</b>	15 a & b		
Fixed interest securities		128,353	117,901
Equities		278,241	289,827
Pooled investment vehicles		267,068	267,932
Derivative contracts		42	281
Cash		24,962	28,723
Other investment balances – income due		3,805	3,490
Other investment balances – cash deposits		1,370	649
<b>Investment liabilities</b>			
Derivative contracts – Futures contracts		-61	-3
Derivative contracts - Forward FX	15 b	756	-1,459
<b>Current assets</b>			
Contributions due from employers	20	1,609	1,658
Contributions due from employees	20	563	171
Other current assets		68,996	260
<b>Current liabilities</b>			
Sundry Creditors	21	-1,701	-2,236
Bad Debt Provision		-20	
Cash Balances		-44	
<b>Net assets of the scheme as at 31 March 2012</b>		<b>773,939</b>	<b>707,194</b>

The pension fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

## Statement of responsibilities

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### Respective responsibilities of the Authority, Chief Operating Officer and auditor

#### The authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that the Chief Operating Officer has the responsibility for the administration of those affairs;
- To manage its affairs to secure economic, efficient, and effective use of resources to safeguard its assets; and,
- To approve the statement of accounts.

#### The Responsibilities of the Chief Operating Officer

The Chief Operating Officer is responsible for the preparation of the Fund's statement of accounts in accordance with proper practices set out in the CIPFA Code of Practice on Local Authority Accounting.

In preparing this statement of accounts the Chief Operating Officer has:

- Selected suitable accounting policies and then applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice on Local Authority Accounting;
- Kept proper accounting records which were up to date; and,
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

(Signature needed)

Chief Operating Officer

# Actuarial Report on Funds

## Statement of the Actuary for the year ended 31 March 2012

### Introduction

The Scheme Regulations require that a full actuarial valuation is carried out every third year. The purpose of this is to establish that the City of Westminster Pension Fund (the Fund) is able to meet its liabilities to past and present contributors and to review employer contribution rates. The last full actuarial investigation into the financial position of the Fund was completed as at 31 March 2010 by Aon Hewitt Limited, in accordance with Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

### Actuarial Position

1. The valuation as at 31 March 2010 showed that the funding ratio of the Fund had decreased since the previous valuation with the market value of the Fund's assets at that date (of £670.4M) covering 74% of the liabilities allowing, in the case of current contributors to the Fund, for future increases in pensionable remuneration.
2. The valuation also showed that the required level of contributions to be paid to the Fund by participating Employers (in aggregate) with effect from 1 April 2011 was as set out below:
  - 12.4% of pensionable pay to meet the liabilities arising in respect of service after the valuation date.

#### Plus

- 8.0% of pensionable pay to restore the assets to 100% of the liabilities in respect of service prior to the valuation date over a recovery period of 30 years from 1 April 2011, if the membership remains broadly stable and pay increases are in line with the rate assumed at the valuation of 5.3% p.a.
3. The majority of Employers participating in the Fund pay different rates of contributions depending on their past experience, their current staff profile, the recovery period and the funding strategy agreed with the Administering Authority.
  4. The rates of contributions payable by each participating Employer over the period 1 April 2011 to 31 March 2014 are set out in a certificate dated 31 March 2011 which is appended to our report of the same date on the actuarial valuation.
  5. The contribution rates were calculated taking account of the Fund's funding strategy as described in the Funding Strategy Statement, and for the majority of Employers using the projected unit actuarial method.
  6. The main actuarial assumptions were as follows:

#### Discount rate

Scheduled Bodies	7.5% a year
Admission Bodies	
In service:	6.25% a year
Left service:	4.75% a year

Rate of general pay increases	5.3% a year
Rate of increases to pensions in payment	3.3% a year
Valuation of assets	market value

Further details of the assumptions adopted for the valuation were set out in the actuarial valuation report.

7. Contribution rates for all employers will be reviewed at the next actuarial valuation of the Fund as at 31 March 2013.
8. This statement has been prepared by the Actuary to the Fund, Aon Hewitt Limited, for inclusion in the accounts of the Westminster City Council. It provides a summary of the results of the actuarial valuation which was carried out as at 31 March 2010. The valuation provides a snapshot of the funding position at the valuation date and is used to assess the future level of contributions required.

This statement must not be considered without reference to the formal actuarial valuation report which details fully the context and limitations of the actuarial valuation.

Aon Hewitt Limited does not accept any responsibility or liability to any party other than our client, Westminster City Council, in respect of this statement.

Aon Hewitt Limited  
May 2012

## Statement on Promised Retirement Benefits

The CIPFA Code of Practice on Local authority accounting now requires disclosure of the promised retirement benefits based on projected salaries. As a result, an independent actuarial valuation of the pension funds liabilities as at the latest formal triennial valuation dates, 31 March 2010 and 31 March 2007, was carried out and the following table summarises the results:

	Value as at 31 March 2010 £m	Value as at 31 March 2007 £m
Actuarial present value of the promised retirement benefits	1,243.97	992.36

The Whole of Pension Fund Disclosure Report under IAS26 detailing the valuation methodology of the liabilities as at the latest formal triennial valuation dates together with the assumptions used is available on request or via the Council's website at [www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/](http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/) or <http://www.yourpension.org.uk/Westminster/Members/Fund-Investment.aspx>



## **GOVERNANCE ARRANGEMENTS**

The governance policy sets out the pension fund's scheme of delegation and terms of reference, structure and operational procedures of the delegation.

The Council is the Administering Authority for the Pension Fund. The Council has delegated to the Superannuation Committee various powers and duties in respect of its administration of the fund.

The formal decision making body is the Superannuation Committee. It has full delegated powers from the council and considers the following activities of the fund:

- Investment management arrangements;
- Monitoring investment activity and performance;
- Overseeing administrative activities;
- Ensuring compliance with relevant laws and regulations;
- Provision of guidance to officers in exercising delegated powers.

### **Superannuation Committee**

The Committee is comprised of 6 members, all of whom are Elected Members from the Council. The majority party provides 5 Members and the Opposition provides one. Committee meetings may have 4 others who attend as Observers. A Trade Union Official may represent the Fund's members. All Observers receive copies of agendas and reports.

The Superannuation Committee meets at least four times a year. Its responsibilities are:

1. To agree the investment strategy having regard to the advice from the Fund Managers and the independent adviser.
2. To monitor performance of the Fund and of the individual Fund Managers.
3. To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Custodians and Fund Advisers.
4. To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
5. To approve and publish the pension fund annual report.
6. To prepare and publish a pension administration strategy.
7. To make an admission agreement with any admission body.
8. To ensure compliance with all relevant statutes, regulations and best practice within both the public and private sectors.
9. To determine questions and disputes pursuant to the Internal Disputes Resolution Procedures.
10. To determine any other investment or pension policies that may be required from time to time so as to comply with Government regulations and to make any decisions in accordance with those policies other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council which fall within the remit of the Appointments Sub-Committee.



### **Role of S151 Officer: Chief Operating Officer**

The role of section 151 officer is delegated to the Chief Operating Officer of City of Westminster, pursuant to Section 101 of the Local Government Act 1972 and by the Executive under Section 15 of the Local Government Act 2000 to:

“Undertake all day to day administration of the Pension Fund within the policy laid down by the Superannuation Committee including the authorisation of admission agreements with transferee admission bodies pursuant to Best Value arrangements, as required by the Local Government Pension Scheme Regulations.”

The Chief Operating Officer may authorise officers in its department to exercise on her behalf functions delegated to it. Any decisions taken shall be under the name of the Chief Operating Officer who shall remain responsible and accountable for such decisions.

### **Accountability and Publication of Information**

Details of Superannuation Committee meetings are published on the Council’s website together with agendas and publicly available papers.

The Annual Pension Fund Reports and the Fund’s accounts are published and circulated to all participating employers. The Council’s Statement of Accounts, incorporating the Fund’s accounts, is available on the website

<http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/> or <http://www.yourpension.org.uk/Westminster/Members/Fund-Investment.aspx>

All Reports and Policies relating to the pension fund are available on request or via the website <http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/> or <http://www.yourpension.org.uk/Westminster/Members/Fund-Investment.aspx>

### **Governance Compliance Statement**

The Local Government Pension Scheme (Administration) Regulations 2008 and its predecessor regulation 73A of the Local Government Pension Scheme Regulations 1997 (as amended) require administering authorities to prepare, publish and maintain a governance compliance statement; and to measure its governance arrangements against a set of best practice principles, on a continuum of not compliant to fully compliant. Where the fund’s governance arrangements are not compliant, there is a further requirement to explain departures from best practice principles.

The governance compliance statement adopts a principles based approach requiring the Council, as administering authority to act in the spirit of promoting good governance across public pension schemes. The Department of Communities and Local Government has also issued guidance which indicates in detail the governance principles against which compliance should be measured. These are

- Formal committee structure;
- Committee membership and representation;
- Selection and role of lay members;
- Voting rights;
- Training / Facility time/ Expenses.

The Governance Compliance Statement attached to this document is also available on the website

<http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/> or <http://www.yourpension.org.uk/Westminster/Members/Fund-Investment.aspx>

### **Policy and Process of Managing Conflict of Interest**

Committee Members and Officers directly involved with the administration of the Fund are required to declare any conflicts of interests or potential conflicts at the commencement of all meetings. Where a conflict is considered material, the Member or Officer may be asked to either refrain from participating or to exclude themselves from the meeting for the discussion and consideration of the agenda item.

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## **RISK MANAGEMENT**

### **Risk Management and Governance**

The legal responsibility for the prudent and effective stewardship of the City of Westminster Superannuation Fund, administration of benefits and strategic management of fund assets rests with the Superannuation Committee, established by the Council. This Committee has full delegated authority to make investment decisions, terms of which are set out in its constitution and terms of reference. It receives advice from the Chief Operating Officer and as necessary from the Fund's appointed actuary, investment managers, custodian and investment advisor(s).

The membership of the Superannuation Committee comprises of officers and six Elected Members of the Council, who each have voting rights and meet quarterly. The Committee has regard for the Myners' Principles, as updated and consolidated post 2008 by the Government. The committee manages the pension fund in accordance with LGPS regulations. Independent observers provide effective scrutiny of the decision making process.

The Committee has published a Governance Compliance Statement reporting its compliance against a set of best practice principles (on a continuum of not compliant to fully compliant).

All Committee Members attend formal training to enable the effective challenge and evaluation of reports and advice they receive from external advisors and managers.

The Superannuation Committee's decision making, due diligence and the discharge of its fiduciary duty to pension fund stakeholders is therefore supported by current policies and procedures.

### **How risks are identified, managed and reviewed**

The control environment represents the overall framework within the City of Westminster for establishing and reviewing the effectiveness of specific controls. In this context the Superannuation Committee provides an overall framework for strategy and planning, directing and controlling investment management, investment administration and pension fund administration for members and employers. The Committee meets on a quarterly basis to address risk issues and to review asset manager performance and other risk reporting measures. The activities of the Superannuation Committee may be overseen by the Observers.

The implementation and ongoing maintenance of comprehensive and effective risk management is the responsibility of all City of Westminster Employees, Elected Members and Third Parties providing services on its behalf. The authority maintains a system of internal controls to identify potential events that may affect the pension fund and to manage risk within its risk appetite so as to provide reasonable assurance regarding the achievement of specified Pension Fund objectives.

There are clear roles, responsibility and accountability for the management of risk. The Superannuation Committee accepts its fiduciary responsibility to ensure it manages risk to provide reasonable assurance.

The Chief Operating Officer is proactive in the identification and evaluation of risks inherent in the Council's business processes. The risk management system consists of internal controls, policies, procedures and practices to identify, measure, mitigate and monitor risk. The Chief Operating Officer is responsible for monitoring the risk environment continuously and identifying and reducing risks on a daily basis. The Chief Operating Officer ensures as far as

possible that all financial and non financial risks are identified and managed within acceptable parameters, as required by the Superannuation Committee and Internal Audit. These accountabilities are set out in the sections below.

Reporting to the Superannuation Committee is the responsibility of the Chief Operating Officer who monitors and directs all activities to ensure:

- Authority and responsibility is assigned within the organisation structure;
- Provision of adequate staffing;
- Adequate training in job functions and related policies and risk management;
- Efficient use of resources;
- Management information and reporting; and,
- Establishing risk monitoring and control systems within the City Council.

Reporting to the Director of Resources is the Human Resources Department and London Pension Fund Authority (LPFA). The Human Resources Department has policies and practices in place relating to Pension Fund administration and uses a risk based approach to ensure compliance with policies and laws and regulations. The LPFA is contracted with the responsibility for the administration of the pension fund. This arrangements means it also provides independent oversight of the activities of the Scheme.

The Internal Audit Department performs independent evaluation of the control environment using a risk based approach including compliance with policies and laws and regulations. Significant issues identified by internal audit are reported through formally established and agreed channels including, ultimately, the Audit Committee and/or the Police where any serious fraud is uncovered. All issues raised with line managers are documented and monitored by Internal Audit to determine if and when corrective measures have been taken.

The Treasury and Pensions Unit, under the Director of Corporate Finance and Investment, are responsible for:

- Day-to-day administration and management matters such as:
  - Ensuring financial and regulatory compliance
  - Management information and reporting
  - Analysis of custodian and fund manager accounting
  - Analysis of membership information from human resources and LPFA
  - Analysis of actuarial information
  - Analysis of information from the Investment Advisor
  - Independent oversight of custodian and fund manager reconciliation
  - Reflecting all pension fund transactions in the general ledger
  - Independent oversight of pension administration (Human Resources & LPFA) reconciliations
  - Management of information received from the Actuary
- Managing service provider relationships, such as that with fund managers, the investment advisor and the Actuary to the Fund

- Management of the Procurement (manager selection) process including due diligence and selection
- Monitoring of fund managers and investments and ensuring compliance with both regulatory and internally determined requirements
- Advising the Committee on a wide range of issues from administration, legal and the management of the Fund

### **Key Risks**

The key risks facing the fund are set out in the Statement of Investment Principles. By way of summary these risks and mitigating actions taken are set out below:

1. Strategic risk relating to investment strategy including asset allocation:
  - Appointment of a number of specialist investment managers to secure a wider level of diversification of investment strategies and investments;
  - Investments in alternative assets are allowed only in property via pooled funds and the use of derivatives only for rebalancing asset allocation and hedging appropriate risks;
  - Alignment of risk appetite to funding objectives
2. Investment risks (including equity, credit and other asset class risk):
  - Investments are largely made in quoted assets. Investment in any unquoted assets is only made through pooled funds.
  - Adherence to LGPS regulations on holdings and manager limits;
3. Performance risks
  - Asset allocation benchmarks are used and performance is monitored relative to the targets set

### **Investment Risk Management**

Reporting to the Director of Corporate Finance and investment is the Investment Advisor who carries out the following:

- independent evaluation and analysis of fund performance;
- reviewing benchmarks and asset allocation; financial markets review; and,
- Reviewing changes in the Investment Manager's business.

Reports are sent from the fund manager to the Investment Advisor for independent evaluation. These evaluations are presented to the Director of Corporate Finance and investment for review.

Investments are monitored to ensure they are in accordance with the current requirements of the LGPS Regulations, which specify certain limitations on investments. Principally, these place a limit of 10% of the total value of the fund in any single holding, or deposits with a single bank or institution, or investments in unlisted securities, and not more than 35% of a portfolio can be invested in collective investment schemes managed by a single manager. And no more than 5% of the portfolio can be self-invested, that is, invested in connection with the employers business.

The performance of Investment Managers is monitored quarterly by the Superannuation Committee. The performance target for each Investment Manager varies depending upon the

investment assets and the nature of the mandate, but at a minimum is set to achieve a return equal to the specific benchmark(s), incorporated into the relevant Investment Management Agreements over a rolling 3 year period. Managers are monitored to ensure they adhere to the risk mitigation constraints set in relation to their benchmark. The Council adopts the Investment Managers' policies for Socially Responsible Investment.

### **Management of Third Party Risks**

At the end of the reporting year a report of the Statement on Auditing Standards (SAS) 70 is received from the Custodian, Bank of New York Mellon. Similarly, AAF01/06, SAS70 or SSAE16 statements are received for each Fund Manager. These reports describe internal controls in operation and tests of operating effectiveness in the third party's control environment. The statement also provides information on third party controls that may be relevant to the internal controls of clients.

In addition to the end of year reports, the Director of Corporate Finance and investment receives, on a daily basis, reports from the Custodian. The Custodian maintains a web-based real time platform with management information and reporting tools. The Custodian identifies all out of balance positions and together with the Fund Managers reconciles all transactions.

A further independent evaluation of the fund manager is carried out by the Director of Corporate Finance and investment prior to reporting to the Superannuation Committee. Typically, the view will encompass:

- Analysis of out of balance positions;
- Review of holdings including largest holdings/ breakdown by sector/ asset class/ security type;
- Review of outperformance / underperformance;
- Review of actual asset allocation and planned asset allocation;
- Review of investment style bias; and,
- Degree of leverage / un-invested cash balances.

This review is presented to the Superannuation Committee with appropriate recommendations and an appropriate action plan.



## **GOVERNANCE DOCUMENTS**

### **Funding Strategy Statement**

Since 2004 Administering Authorities have been required to publish and maintain Funding Strategy Statements initially under regulation 76A of the 1997 regulations, but since 1 April 2008, under regulation 35 of the administration regulations. Under that regulation the Authority is required to keep its Statement under review and to make revisions as are appropriate following a material change. There have been no material changes to report in the Funding Strategy Statement since the latest document was prepared on 31 March 2010.

The financial position of the fund was assessed by the actuary against the agreed funding target at 31 March 2010. Analysis showed a shortfall of £238.1m relative to the agreed funding target, equivalent to a funding level of 74%.

The current funding strategy statement is available on request or via the website <http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/> or <http://www.yourpension.org.uk/Westminster/Members/Fund-Investment.aspx>

### **Statement of Investment Principles**

The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 1999 require administering authorities to prepare and review from time to time a written statement recording the investment policy of their Pension Fund. The purpose of this document is to satisfy the requirements of these Regulations, and to explain to Fund members, employers, and other interested parties how the Fund is managed, and the factors taken into account in doing so.

The Statement of Investment Principles outlines the broad investment principles governing the investment policy of the City of Westminster Superannuation Fund and demonstrates compliance with the updated and consolidated six new Myners' Principles.

This policy was presented to the Superannuation Committee on 23 November 2011. The Statement of Investment Principles is available on request or via the website <http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/> or <http://www.yourpension.org.uk/Westminster/Members/Fund-Investment.aspx>

### **Communications Policy Statement**

Regulation 106B of the 1997 Regulations introduced in December 2005 require administering authorities to prepare, maintain and publish a written statement of their policy concerning communication with members, representatives of members and employing authorities. This policy is available on request or via the website:

<http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/> or <http://www.yourpension.org.uk/Westminster/Members/Fund-Investment.aspx>

## **PENSION ADMINISTRATION**

One of the Fund's key objectives is to promote good practice and focus on improving administration standards (data quality, record-keeping, resolution of disputes and member communication). To ensure the right processes are in place to deliver an excellent administrative service as well as managing administration risk, the Fund appointed the London Pension Fund Authority (LPFA) in 1990. In 2011-2012 the Fund continued to set out its renewed focus on improving standards for members.

According to the LPFA, the on time processing for all categories of work exceeded 99% in 2011-12, with an overall percentage of 99.65%. The LPFA reported receipt of five complaints over the year, all of which were resolved.

### **Service Levels**

Good administration is vital to the success and viability of the Fund. Robust, clean, high quality data is central to the overall effectiveness of the scheme as it is the basis for accurately calculating members' benefits and scheme liabilities. Processes employed to ensure data is accurate, complete and reliable include verification, either by member or employer, as well as random sampling and monitoring of error rates over prescribed tolerance levels.

### **At a glance**

- Annual benefit statements were sent to 4,394 deferred and 2,820 active beneficiaries during the reporting period.
- The Fund has designed and delivered an Information Technology infrastructure and capability to achieve effective communication, minimise administrative costs and improve data quality. Examples are given below:
  - A dedicated pension Fund website to communicate and promote the benefits of the LGPS
  - Website facility with ready reckoner (calculators) to provide estimates of entitlements.
  - A self-service PIN facility that allows members to login, access their records and perform calculations independently.
  - E-Forms reduce manual error and allow employers to enact efficient and speedy data transfer
- Fund Administration costs in 2011/12 were £1.1m (2010/11 were £1.2m) (£60 per member; 2010/11 £62 per member).
- The LPFA contract costs in 2011/12 amounted to £246,000 or £12.64 per member (2010/11 amounted to £235,000 or £12.05 per member)
- Average cases per LPFA member of staff was 2,862 (2010/11: 2,741).
- LPFA Staff to member ratio was 1:6,844 (201/11: 1:4,864)
- Complaints received in 2011/12 were 5 or 0.06% of total workload (2010-2011 were 12 or 0.15% of total workload).



## Pension Administration Indicators 2011-2012: Top 10 Case types by number completed

Case type	Received	Completed	On time	% on time
Joiners	303	330	329	99.7
Transfers in	268	270	270	100.00
Transfers out	291	293	293	100.00
Retirements	435	425	425	100.00
Deaths	202	198	198	100.00
Deferred	753	682	682	100.00
Refunds	69	69	69	100.00
Employer estimates	314	300	300	100.00
Individual Estimates	246	243	243	100.00
Other contractual	4946	4918	4892	99.47
<b>Total</b>	<b>7827</b>	<b>7728</b>	<b>7701</b>	<b>99.65</b>

Number completed includes those received from previous years.

### Indicator: Complaints and Internal Dispute Resolution

The City of Westminster as Administering Authority make decisions under pension fund rules that affect members and their dependents. In the event that fund members are not satisfied with a decision, they reserve the right to use the complaints procedure known as the Internal Dispute Resolution Procedure (IDRP). While any complaint is progressing, fund members are entitled to contact The Pensions Advisory Service (TPAS), who can provide free advice.

IDRP Stage 1 involves making a formal complaint in writing. This would normally be considered by the body that made the decision. In the event that the fund member is not satisfied with actions taken at Stage 1 the complaint will progress to Stage 2.

Stage 2 involves a referral to the administering authority, Westminster City Council to take an independent view. The final Stage 3 is a referral of the complaint to the Pension Ombudsman.

Five complaints (0.1% of the workload) were received in 2011 -2012. They can be summarised as issues related to:

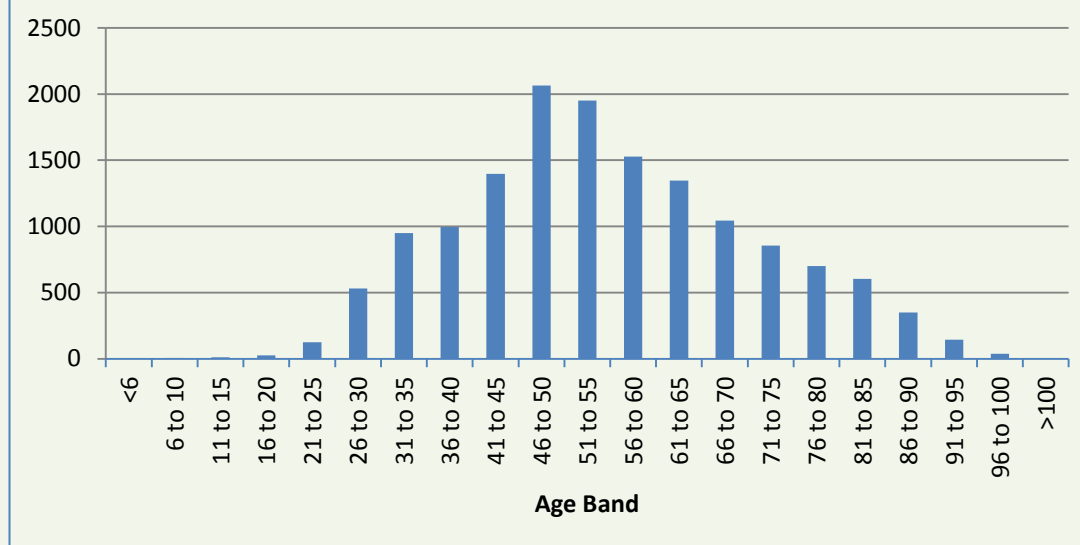
- General
- Options offered
- Ill-health appeal
- Employer discretion
- Payment delay

All these complaints were resolved before going to IDRP.

### Fund Membership

Across all member types (active, deferred and pensioners) the age band 46-50 is the peak membership age followed by members aged 51-55 and 56-60. The fund had 5 members aged 101 – 105. The graph below shows membership and receiving dependents by age band (as at March 2012).

### Membership and Receiving Dependents by Age Band (March 2012)



### Employers Contributions

The contribution rates differ for each employer since the rate is unique to each employer's particular circumstance. The triennial review of the fund at the 31 March 2010 anticipated the required contribution rates for each of the years to 2013. However, the consolidated rate for Westminster City Council was revised from 30<sup>th</sup> September 2011 to 17.8% (previously 16%) for the remainder of the financial year (16.9% average rate for the year). This was to reflect an increase in liability following the admission of a number of unfunded pensioners from 1<sup>st</sup> October 2011. The rate will rise to 18.3% (previously 16.5%) for the financial year 2012-13.

Employer contribution rates (% of pensionable pay)				
Employer	y/e	Year commencing 1 April		
	31 March	2011	2012	2013
<b>Scheduled Bodies</b>				
Westminster City Council	16.0	16.9	18.3	18.8
Paddington Academy	10.8	10.8	10.8	10.8
Westminster Academy	13.1	10.3	10.3	10.3
King Solomon Academy	16.0	6.9	6.9	6.9
Pimlico Academy	16.6	9.3	9.3	9.3
<b>Admission Bodies</b>				
Independent Housing Ombudsman (IHOL)	18.6	22.5	22.5	22.5
Housing 21 (original contract)	18.9	24.4	24.4	24.4
City West Homes Limited	14.5	10.8	10.8	10.8
Homes & Communities Agency (HCA)	10.0	10.0	10.0	10.0
Housing 21 (Day Care Service)	19.7	22.4	22.4	22.4
Ramesys	17.9	23.4	23.4	23.4

Note: During the year: 1) Tenants Services Authority was closed-down with some of its operations transferred to the HCA. 2) Age Concern went into insolvency in October 2011.

Participating employers in 2011 -2012 can be divided into Scheduled Bodies and Admission Bodies.

**Scheduled Bodies**

Westminster Employers:

- Westminster City Council
- St Marylebone School
- St Augustine School
- College Park School
- Greycoat School
- Hallfields School
- Quinton Kynaston School
- Westminster City School
- Soho Parish School
- Edward Wilson J M I School
- Essendine Primary School
- George Elliott School
- LG Burdett Coutts C E Primary School
- Paddington Green J M I School
- Portman Early Childhood Centre
- Queen's Park Primary School
- Robinsfield Infants School
- St Barnabas C E School
- St Gabriel's C E School
- St James's & St Michael's School
- St Mary Bryanston Square
- St Mary Magdalene C E School

- St Matthew's C E School
- St Peter's C E School (W9)
- Wilberforce School
- Churchill Garden School
- St Clement Danes School
- St Luke's School

Academies

- Westminster Academy
- Paddington Academy
- King Solomon Academy
- Pimlico Academy
- Ark Atwood Primary Academy
- Quinton Kynaston
- St Marylebone School

**Admission Bodies**

- City West Homes
- Independent Housing Ombudsman
- Housing 21
- Housing 21 Scheme 2
- Homes and Communities Agency
- Ramesys

The table below details the normal contributions receivable in 2011-2012 for employers and employees.

<b>Normal contributions</b>	<b>Employers</b>	<b>Employees</b>
	<b>£'000s</b>	<b>£'000s</b>
Scheduled Bodies:		
Westminster Employers	13,703	5,716
Other	423	297
<b>Sub-Total</b>	<b>14,126</b>	<b>6,013</b>
Admission Bodies	2,604	1,630
<b>Total</b>	<b>16,730</b>	<b>7,643</b>

Deficit contributions totalling £5.4m were received from five bodies, including the Tenants Services Authority (TSA) before its closure. The Fund also had sundry debtors that included a £65m deficit payment from the Homes & Community Agency in relation to the closure of the TSA. Strain contributions totalling £3.4m were made during the year by six bodies, including the TSA. More detailed information can be found in the Statement of Accounts 2011-12 that is available on request or from the Councils website at [www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/](http://www.westminster.gov.uk/services/councilgovernmentanddemocracy/councils/counciltaxandfinance/pensions/) or <http://www.yourpension.org.uk/Westminster/Members/Fund-Investment.aspx>

### Receipt of Contributions

Some contributions due from employers were received outside the deadlines stipulated by the Regulations. The Council may take the decision to waive the option to levy interest on overdue contributions.<sup>1</sup>

### Employee Contributions

Employee contribution rates as set by regulations are dependent upon each member's full time equivalent salary. The bandings and number of members which relate to each of these for the year beginning 1 April 2012 is shown below. More information on banding is available on [www.timeline.lge.gov](http://www.timeline.lge.gov).

Pay Range	Contribution Rate	No of employees by rate
£0 to £13,500	5.5%	57
£13,501 to £15,800	5.8%	168
£15,801 to £20,400	5.9%	578
£20,401 to £34,000	6.5%	1203
£34,001 to £45,500	6.8%	927
£45,501 to £85,300	7.2%	526
More than £85,300	7.5%	53

Data reflects the position at the time this report was produced.

In 2011-12, normal employee contributions totalling £7.6m were paid into the fund.

<sup>1</sup> Regulation 42(2) Local Government Pension Scheme (Administration) Regulations 2008

## Budgeted Income and Expenditure Account - Fund Cash flow

Estimate 31 March 2013 & Actual for years ended 2011-12 & 2010-11

	2013 (E) £ m	2012 (A) £ m	2011 (A) £ m
<b>Expenditure</b>			
1. Pension (or annuities): retired employees and dependants	27	33	29
2. Lump sums: on retirement (including deferred)	8	10	8
2(a) Optional lump sums, for retirements on or after 1 April 2009	0	0	0
3. Lump sums: on death	1	1	1
5. Transfer values (including apportionments)	7	7	9
6. Pensions Act premiums (less recoveries from employees included in row 5)	0	0	0
7. Administration and fund management costs of the fund	4	4	4
8. Other expenditure	0	1	1
<b>9. Total expenditure (sum of rows 1 to 8)</b>	<b>47</b>	<b>56</b>	<b>52</b>
	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>£ m</b>	<b>£ m</b>	<b>£ m</b>
<b>Income</b>	<b>(E)</b>	<b>(A)</b>	<b>(A)</b>
10. Contributions (including those from other employing authorities): employees	9	8	9
11. Contributions (including those from other employing authorities): employers	25	25	24
12. Investment income	10	19	14
13. Transfer values (including apportionments)	5	3	5
14. Other income	0		0
<b>15. Total income (sum of rows 11 to 14)</b>	<b>49</b>	<b>55</b>	<b>52</b>
<b>Net inflow / (outflow)</b>	<b>2</b>	<b>-1</b>	<b>0</b>

### Commentary

Pension payments rose over the year due to both high inflation increases and the rising number of redundancies resulting in a large numbers of people taking their pension. There were also a higher number of large pension payments to senior staff due to redundancy or flexible retirement.

Markets showed some gains across the main asset classes of equities and fixed income over the year. As a result, the capital growth of the Fund was positive. Investment income also rose for the reasons given below (see commentary under Income/Expenditure Variance Analysis).

## Income and Expenditure Account Variance analysis 2011-2012

### Budgeted & Actual Results for years ended 2011-12

	Actual	Budget
<b>Expenditure</b>	<b>£ m</b>	<b>£ m</b>
1. Pension (or annuities): retired employees and dependants	33	27
2. Lump sums: on retirement (including deferred)	10	8
2(a) Optional lump sums, for retirements on or after 1 April 2009	0	0
3. Lump sums: on death	1	1
5. Transfer values (including apportionments)	7	7
6. Pensions Act premiums (less recoveries from employees included in row 5)	0	0
7. Administration and fund management costs of the fund	4	4
8. Other expenditure	1	0
<b>9. Total expenditure (sum of rows 1 to 8)</b>	<b>56</b>	<b>47</b>

	Actual	Budget
<b>Income</b>	<b>£ m</b>	<b>£ m</b>
10. Contributions (including those from other employing authorities): employees	8	9
11. Contributions (including those from other employing authorities): employers	25	25
12. Investment income	19	7
13. Transfer values (including apportionments)	3	7
14. Other income		0
<b>15. Total income (sum of rows 11 to 14)</b>	<b>55</b>	<b>48</b>

### Commentary

Expenditure was greater than budgeted, largely caused by higher than expected pension increases for the reasons given earlier.

Investment income was also greater than budgeted. This largely reflects a continued general rise in equity market dividends overall, particularly a special dividend by Vodafone, a resumption of dividends by BP and bank stocks generally, plus a broader portfolio shift to higher yielding stocks by the Fund's managers.

## Administrative & Fund Management Costs 2011-2012

### Budgeted & Actual Results for years ended 2011-12

#### Administration and fund management costs of the fund during 2011/12

	£ 000	£ 000
1. Administration costs (excluding fund management costs) charged to the fund		
a. Central costs	693	903
b. Actuary costs	96	76
c. Legal and other professional fees	20	13
d. LPFA invoicing	246	234
	1,055	1,226
2. Fund management costs charged to the fund	2,917	2,961
<b>3. Total costs charged to the fund (including fund management costs)</b>	<b>3,762</b>	<b>4,187</b>

#### Commentary

Results for administrative and fund management costs against forecast were 10% lower overall than predicted. The biggest contributor was the fall in central costs due mainly to a cessation of an earlier support service contract and a decline in both investment consultancy fees and irrecoverable taxation paid by the Fund.

## GLOSSARY

**Active Members:** These are current employees who are contributing (or have contributions made on their behalf) to an organisation's occupational pension scheme. They are distinct from deferred members and pensioners.

**Actuarial valuation:** A report of the financial position of a DB pension scheme carried out by an actuary every three or four years. The report typically sets out the scheme's assets and liabilities as at the date of the valuation; the rate at which the sponsoring employer must contribute to meet the liabilities accruing as they become due; and the additional rate at which the employer must contribute to eradicate any deficit (the excess of liabilities over assets) within a stated time period.

**Additional Benefits:** These are benefits in addition to the pension under a scheme that Active Members may purchase to add to the pension ("added pension"), the years of pensionable service ("added years"), or for a separate money purchase pension ("additional voluntary contributions").

**Additional Voluntary Contribution (AVC):** These are personal pension contributions made by someone who is also a member of an occupational scheme as a top-up to their occupational entitlement. AVCs can be made into the occupational scheme or to a stand-alone product called a Freestanding AVC plan.

**Admitted Body (Status):** An admitted body refers to an organisation (or body) that has become (or been admitted) a member of the Local Government Pension Scheme other than as a result its founding statute. Admitted bodies have no automatic right to membership under the legislation. It enables contractors, who take on an authority's services or functions with employees transferring from the authority, to offer the transferring staff continued eligibility of the transferring authority's pension scheme.

**Consumer Prices Index (CPI):** It is an internationally comparable measure of inflation based on structures in international legislation and guidelines and launched in 1996. Like the Retail Prices Index (RPI) it tracks the changing cost of a fixed basket of goods and services over time. However unlike the RPI it disregards some items, such as housing costs. It also has a different population base for the indices from the RPI and a different way in which the index is calculated.

**Current contribution rate:** The standard contribution rate as adjusted for past surpluses and deficits and payable by employers and employees

**Deferred Members:** Deferred members are scheme members who have left employment, or ceased to be an active member of the scheme whilst remaining in employment, but retain an entitlement to a pension from the scheme.

**Defined Benefit (DB) Pension Scheme:** A pension scheme where the pension is related to the members' salary or some other value fixed in advance.

**Dependent Member:** An individual who is eligible to receive retirement benefits following the death of a scheme member.

**Employee Contribution Rates:** The percentage of their pensionable salary that employees pay as a contribution towards a pension.



**Employer Contribution Rates:** The percentage of the salary of employees that employers pay as a contribution towards the employees' pension.

**Funded:** Pension schemes in which pension contributions are paid into a fund that is invested and pensions are paid out of this pot.

**In-Specie:** A phrase describing the distribution of an asset in its present form, rather than selling it and distributing the cash. In specie distribution is made when cash is not readily available, or allocating the physical asset is the better alternative.

**Longevity:** The length or duration of human life.

**Member contributions:** The amounts paid by active scheme members into their pension schemes.

**Pensioner Member:** Individuals who now draw a pension and who are mainly former employees. However they may also include widows, widowers and other dependants of former active members.

**Retail Prices Index (RPI):** It is a measure of inflation and like the Consumer Prices Index (CPI) it tracks the changing cost of a fixed basket of goods and services over time. However, unlike the CPI it takes into account items such as housing costs. It also has a different population base for the indices from the CPI and a different way in which the index is calculated.

**Scheduled Body:** This is an organisation (or body) that has the right to become a member of the Local Government Pension Scheme under the legislation. Such a body does not, therefore, require to be admitted as its right to membership is automatic.

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