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City of Westminster

Committee Agenda

Title:	**Superannuation Committee**
Meeting Date:	**Monday 8th September, 2014**
Time:	**7.00 pm**
Venue:	**Rooms 3 & 4 - 17th Floor, City Hall**
Members:	**Councillors:** Suhail Rahuja (Chairman) Antonia Cox Ian Rowley Patricia McAllister

Members of the public are welcome to attend the meeting and listen to the discussion Part 1 of the Agenda

Admission to the public gallery is by ticket, issued from the ground floor reception at City Hall from 6.30pm. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.

An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee Officer, Andrew Palmer.

Email: apalmer@westminster.gov.uk Tel: 020 7641 2802
Corporate Website: www.westminster.gov.uk

Note for Members: Members are reminded that Officer contacts are shown at the end of each report and Members are welcome to raise questions in advance of the meeting. With regard to item 2, guidance on declarations of interests is included in the Code of Governance; if Members and Officers have any particular questions they should contact the Head of Legal & Democratic Services in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

1.	**MEMBERSHIP** To note any changes to the membership.	
2.	**DECLARATIONS OF INTEREST** To receive declarations by Members and Officers of the existence and nature of any personal or prejudicial interests in matters on this agenda.	
3.	**MINUTES** To approve the Minutes (open) of the meeting of the Superannuation Committee held on 14 July 2014.	**(Pages 1 - 6)**
4.	**PERFORMANCE AND MANAGEMENT OF THE COUNCIL'S PENSION FUND AND APPROVAL OF THE ANNUAL REPORT** Report by the Director of Corporate Finance & Investment and Deloitte, the Council's Investment Consultants.	**(Pages 7 - 88)**
5.	**STANDARD LIFE INVESTMENTS** To receive a presentation from Standard Life.	
6.	**PENSION COMMUNICATIONS AND ENGAGEMENT STRATEGY UPDATE** Update by the Acting Director of Human Resources.	**(Pages 89 - 92)**
7.	**UPDATE ON COLLECTIVE INVESTMENT VEHICLES, GOVERNANCE REGULATIONS AND PENSIONS BOARDS** Report by the Director of Corporate Finance & Investment.	**(Pages 93 - 124)**
8.	**ANY OTHER BUSINESS WHICH THE CHAIRMAN CONSIDERS URGENT**	

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9. EXEMPT REPORTS UNDER THE LOCAL GOVERNMENT ACT 1972

RECOMMENDED: That under Section 100 (A) (4) and Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), the public and press be excluded from the meeting for the following item(s) of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information:

Item Nos.	Grounds	Para. of Part 1 of Schedule 12A of the Act
10-11	Information relating to financial or business affairs of any particular person (including the authority holding that information).	3

10. MINUTES (EXEMPT)

(Pages 125 - 132)

To approve the confidential Minutes of the meeting of the Superannuation Committee held on 14 July 2014.

11. UPDATE ON THE APPOINTMENT OF MANAGERS

Verbal report of the Director of Corporate Finance & Investment.

Peter Large
Head of Legal & Democratic Services
29 August 2014

City of Westminster

Minutes

Meeting:	**Superannuation Committee** **1/2014**
Date of meeting:	**Monday 14 July 2014 at 7.00pm**
Attendees:	**Councillors:** **Suhail Rahuja (Chairman)** **Antonia Cox** **Patricia McAllister** **Ian Rowley** **Officers:** **Jonathan Hunt (Director of Corporate Finance & Investment)** **Carolyn Beech (Interim Director of Human Resources)** **Nikki Parsons (Pension Fund Officer)** **Andrew Palmer (Senior Committee & Governance Officer)**
Apologies:	**None.**
Contact:	**Andrew Palmer** **Senior Committee & Governance Officer**
Details:	**Tel: 020 7641 2802** **Fax: 020 7641 2917** **Email: apalmer@westminster.gov.uk**

1. MEMBERSHIP OF THE COMMITTEE

1.1 No apologies for absence were received.

2. DECLARATIONS OF INTEREST

2.1 The Chairman made the following declaration:
'I am employed by Fund Managers who have amongst their clients Hermes. I am not involved in any element of the work which relates to the Westminster Fund and accordingly do not regard this as a prejudicial interest'.

3. MINUTES

3.1 The Minutes of the Superannuation Committee meetings held on 18 March and 4 June 2014, which did not include exempt information, were agreed as a correct record and were signed by the Chairman.

4. PERFORMANCE AND MANAGEMENT OF THE COUNCIL'S PENSION FUND

4.1 Jonathan Hunt (Director of Corporate Finance & Investment) presented a report which provided a summary of the Fund's performance over the three month period to 31 March 2014, and which stated that Westminster's Fund was complying with statutory requirements. Over the first quarter of 2014, the Fund had outperformed its composite benchmark by 0.71%, largely as a result of strong performance from Majedie. Over the past 12 months, the Fund had also outperformed its composite benchmark by 3.01%. The Committee noted that the total fund investment performance to 31 March 2014 by manager for the last quarter was 1.3% gross, and not 1.4% as stated in the report.

4.2 During the last quarter, the Fund's passive Overseas Equity Mandate with State Street Global Advisors had been terminated, of which approximately £130m was transferred to Baillie Gifford for investing in the Global Equity Alpha Fund and £164m to LGIM (passive) Global Equity.

4.3 Members commented on the performance of Standard Life Investments, and agreed that the Fund Manager should be invited to attend the Committee to discuss their performance over the past year in relation to the broad property market and against their benchmark.

4.4 The Committee also received a funding update provided by the Fund Actuary, Barnett Waddingham, and noted that the funding level of the Fund had improved from 74% at the last triennial valuation at 31 March 2013 to 81% at 31 March 2014. The Committee discussed the apparent discrepancy between assets given in the reports provided by Barnett Waddingham and Deloitte, and the Director of Corporate Finance & Investment agreed to provide Members with details of the reconciliation between the two figures. The Committee agreed that updates from Barnett Waddingham would be included in future quarterly reports to the Committee.

4.5 Members noted that consideration was being given to updating the Committee's Terms of Reference to reflect its current functions; and also discussed best practice, and the possible inclusion of co-opted representatives of employees and unions.

4.6 The Director of Corporate Finance & Investment reported that the process for the City Council's Annual Statement of Accounts, which included the Pension Fund, had this year been brought forward by three months, and that the final Accounts had been submitted to the Audit Committee on 30 June for sign-off. Members noted that the Statement of Accounts for the Pension Fund would accordingly now be included in the Annual Report, which was to be presented to the next meeting of the Superannuation Committee in September for noting. Discussions were ongoing as to whether the Statement of Accounts for the Pension Fund should be presented to the Superannuation Committee for approval, and Members agreed to recommend that the Committee should in future receive the Accounts for sign-off.

4.7 **RESOLVED:** That the report on the performance and management of Westminster's Pension Fund be noted.

5. RESPONSE TO THE GOVERNMENT'S CONSULTATION ON THE STRUCTURE OF THE LGPS

5.1 In June 2013, the Department for Communities & Local Government (DCLG) and the Local Government Association (LGA) had asked for views and evidence on how the current structure of the Local Government Pension Scheme (LGPS), could be improved. Jonathan Hunt (Director of Corporate Finance & Investment) accordingly provided the Committee with details of the combined Tri-borough response, which had been submitted on 11 July.

5.2 In total, the DCLG had received 133 responses to the call for evidence. Members noted that many of the replies, including the Tri-borough response, had highlighted the importance of local accountability and had considered that efficiencies could be made without the need to change the underlying structure of the LGPS.

5.3 As the closing date for consultation had been 11 July 2014 and before the date of the Committee, the draft response had been included in the Agenda Papers, and the Director agreed to provide Members with a copy of the final response which had been returned to the DCLG.

5.4 The Director reported that an additional consultation, Local Government Pension Scheme: Opportunities for Collaboration, Cost Savings and Efficiencies, which sought the views of LGPS Funds and interested parties on the use of Collective Investment Vehicles (CIVs) and the value of active management, had been published by the DCLG in May 2014. The consultation paper had asserted that savings of £660m could be achieved nationally if all investments were made in CIVs and that all listed assets were invested on a passive basis.

5.5 The Director reported that the development of a CIV by London Councils was already at an advanced stage, with 29 Councils have signed up, and with each of the Tri-borough Councils being a stakeholder. The Committee noted that Councils were already working together in other parts of the Country, with combined Pension Funds in the West Midlands amounting to £10 billion.

5.6 The Committee discussed the potential risks of the proposed London Common Investment Vehicle (CIV), which would allow Councils to buy cheaper and different Funds. Members highlighted the need to understand the robustness of the governance arrangements and what controls and options member authorities would have, and the Director confirmed that individual member Councils would continue to have the ability to decide whether to invest in specific Funds. The Committee acknowledged that the visibility of Fund performance within the CIV would also be beneficial. The Director commented that it was not clear when a decision on the proposed CIV would be taken, and whether legislation would be needed.

5.7 The Committee noted that in addition to the consultation on cost savings and efficiencies, a further consultation was expected in the near future, which would outline the draft regulations to implement the governance requirements of Public Services Pensions Act 2013. The implications of this consultation were to be considered later in the Agenda (Minute 7 below).

5.8 **RESOLVED**: That the response to the Government's consultation on the structure of the Local Government Pension Scheme be noted.

6. WORK PLAN FOR THE THREE TRI-BOROUGH PENSION FUNDS

6.1 Jonathan Hunt (Director of Corporate Finance & Investment) presented a summary of the Tri-borough Pension Fund Business Plan for 2014/15, which set out the work that would be done collectively and individually by the three Pension Committees.

6.2 The report also provided an overview of the assets of the three Funds, together with funding levels and membership at 31 March 2014, and a summary of investment management and other external contracts.

6.3 **RESOLVED:** That the Tri-borough Pension Fund Work Plan for 2014/15 be noted.

7. UPDATE ON GOVERNANCE REGULATIONS

7.1 Jonathan Hunt (Director of Corporate Finance & Investment) provided a verbal update on the forthcoming consultation on the governance of Local

Government Pension Schemes. The consultation was to be issued in response to the Public Services Pensions Act 2013, which had indicated that there should be better and more informed governance of Pension Funds, and had proposed that local authorities create Pensions Boards with effect from 1 April 2015.

7.2 The Committee noted that Pensions Boards needed to be made up of an equal balance of employer and employee representatives, with a minimum of four members meeting four times a year. The Board would have no decision making powers or powers of direction, but would scrutinise regulatory activity and note things that could be improved or dealt with more effectively. It was anticipated that each borough would be required to have its own Pensions Board, which would preclude the Board being established on a Tri-borough basis, and Members noted that Board members would need to receive training and would be paid.

7.3 **RESOLVED:** That the further changes to the governance structure of local authority Pension Funds be noted**.**

8. ANY URGENT BUSINESS

8.1 No additional business was reported.

9. EXEMPT REPORTS UNDER THE LOCAL GOVERNMENT ACT 1972

9.1 **RESOLVED:** That under Section 100 (A)(4) and Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), the public and press be excluded from the meeting for the following items of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information:

Item Nos.	Grounds	Para. of Part 1 of Schedule 12A of the Act
10 to 13	Information relating to financial or business affairs of any particular person (including the authority holding that information).	3

10. MINUTES

10.1 The minutes of the Superannuation Committee meeting held on 18 March 2014 which included exempt information were agreed as a correct record and were signed by the Chairman.

11. APPOINTMENT OF CUSTODIAN

11.1 The Committee received a confidential report which provided an update on the bi-borough tender process undertaken with the London Borough of Hammersmith & Fulham, to appoint a Custodian for the Pension Fund. The Committee agreed that Northern Trust be appointed Custodian to the Fund.

12. EXTENSION OF DELOITTE CONTRACT

12.1 The Committee received a confidential report which considered the contract with Deloitte, who provided investment advisory services to the Fund.

13. UPDATE ON THE APPOINTMENT OF MANAGERS

13.1 The Committee noted a confidential update on the procurement of equity managers, together with proposals for the fixed income allocation and mandate.

14. CLOSE OF MEETING

14.1 The meeting closed at 8.32 pm.

CHAIRMAN: ………………………………... DATE: ……………………….

City of Westminster

Committee Report

Decision Maker:	**SUPERANNUATION COMMITTEE**
Date:	**8 September 2014**
Classification:	**Public**
Title:	**Performance of the Council's Pension Fund; Approval of the Annual Report**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.**
Report of:	**Jonathan Hunt** ***Director of Corporate Finance and Investments*** **jonathanhunt@westminster.gov.uk** **020 7641 1804**

1. Executive Summary

1.1 This report presents a summary of the Pension Fund's performance to 30 June 2014, together with an estimated valuation position.

1.2 This report also presents the 2013/14 draft Annual Report of the Pension Fund for approval.

2. Recommendation

2.1 The Committee note the contents of this paper and the performance report from Deloitte.

2.2 The Committee approves the 2013/14 draft Annual Report (subject to approval from the auditors). Final approval of the Annual Report to be delegated to the Director of Corporate Finance and Investment, in consultation with the Chairman of the Superannuation Committee.

2.3 The Committee notes the future work planned by officers which will be reported at the next meeting in November 2014. In the interim, the decision to draw down funds to meet the Pension Fund's cash flow requirements to be delegated to the Director of Corporate Finance and Investment, in consultation with the Chairman of the Superannuation Committee.

3. Background

Performance of the Fund

3.1 This report presents a summary of the Superannuation Fund's performance and estimated funding level to 30 June 2014. The investment report (Appendix 1) has been prepared by Deloitte, the Fund's investment adviser, who will be attending the meeting to present the key points and answer question.

3.2 The Funding update (Appendix 2) has been provided by the Fund Actuary, Barnett Waddingham. This indicates that the funding level has improved from 74% at the last triennial valuation at 31 March 2013, to 81% at 30 June 2014.

Pension Fund Annual Report

3.3 Under the Local Government Pension Scheme Regulations 2013, local authorities are required to prepare and make available an annual report of the pension fund for which they have responsibility by 1 December following the previous 31 March year end.

3.4 The draft annual report for the City of Westminster Superannuation Fund is attached as Appendix 3. The content of the report has to meet certain requirements as set out in the Regulations and it is the view of officers that the draft Annual Report meets these requirements.

3.5 This report still requires final sign-off from the auditors but officers do not expect there to be any material changes before that signature.

4. Conclusion and Future Programme of Work

4.1 The Committee is invited to comment on the performance of the fund and the draft Annual Report.

4.2 The Statement of Investment Principles (SIP) sets out the principles which govern the decision making on and management of the investment of the Fund's assets. It is good practice to review the SIP on a regular basis and Regulations state this should occur at least every three years. The SIP for Westminster's pension fund was last updated in 2012. Officers propose to use the services of Investment Advisors (Deloittes) to assist in the process of its review. The updated SIP will be presented to the Committee for approval at the next meeting in November 2014.

4.3 Officers have been monitoring the Pension Fund’s bank account and forecast that there may soon be insufficient cash available in the Pension Fund bank account to meet the Fund’s obligations. Officers will undertake a full cash flow review and forecasting exercise, the results of which will be presented to the Committee at the next meeting in November 2014.

If you have any questions about this report, or wish to inspect one of the background papers, please contact:

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

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City of Westminster Superannuation Fund

Investment Performance Report to 30 June 2014

Executive Summary

Deloitte Total Reward and Benefits Limited
August 2014

Contents

Appendices

1 Market Background

Three and twelve months to 30 June 2014

The second quarter of 2014 saw positive returns on UK equities, with the FTSE All Share Index returning 2.2%. Whilst the first two months of the quarter saw positive UK equity returns as a result of continuing positive economic data, the FTSE All Share Index delivered a negative return over the month of June. Equity markets were likely to have been affected by the Governor of the Bank of England’s statement that UK interest rates may rise earlier than anticipated. Larger companies outperformed smaller companies considerably, with the FTSE 100 Index returning 3.2% and the FTSE Small Index returning 0.1% over the quarter.

There was a wide range of performance at the sector level, with Health Care delivering the highest return (9.8%) and Technology being the worst performing sector (-8.1%).

Over the 3 months to 30 June 2014, global equity markets outperformed the UK in both local and sterling terms, delivering returns of 4.6% and 2.7% respectively. Currency hedging was therefore beneficial to investors over the quarter. The Emerging Markets region was the strongest performing over the quarter, returning 5.0% in sterling terms and 7.1% in local currency terms. Europe (ex UK) was the lowest performing region over the period, returning 0.3% in sterling terms and 3.7% in local currency terms.

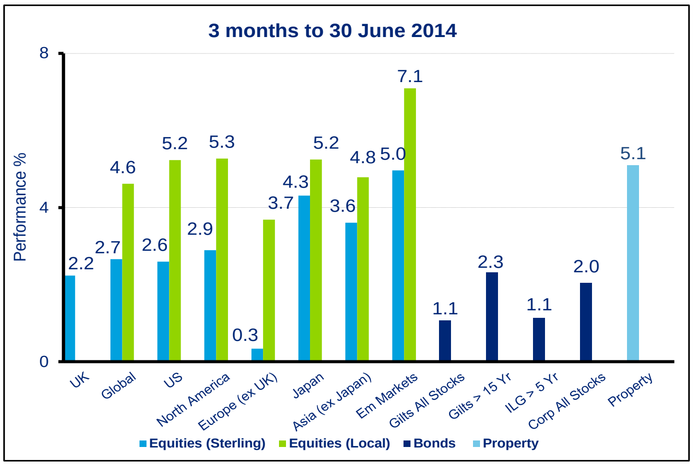
UK nominal gilts performed positively over the second quarter of 2014 as yields fell at longer maturities, with the All Stocks Gilt Index and Over 15 Year Gilt Index returning 1.1% and 2.3% respectively. Corporate bond performance was positive over the quarter as credit spreads narrowed. The iBoxx All Stocks Non Gilt Index returned 2.0% over the period.

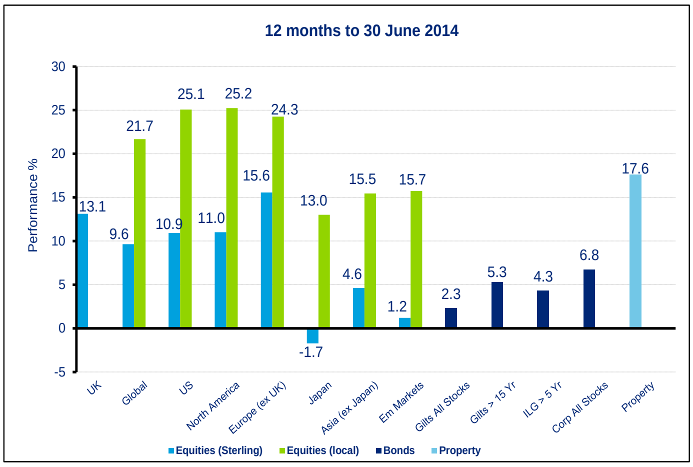
The FTSE All Share Index returned 13.1% over the year to 30 June 2014. Smaller companies played a key role in in this return, with the FTSE Small Cap Index returning 19.1%. Over the 12 months to 30 June 2014, the Health Care sector delivered the highest return of 21.3%. On the other hand, the Financial sector delivered the lowest return of 4.0%.

Global markets outperformed the UK significantly over the year to 30 June 2014 in local currency terms but underperformed the UK in sterling terms. The FTSE All World Index returned 21.7% in local currency terms, yet only 9.6% in sterling terms. Currency hedging was beneficial as sterling appreciated against all major currencies, most substantially against the Japanese yen.

Returns on nominal UK gilts were positive over the year to 30 June 2014, with yields increasing at shorter maturities and falling at the longer end of the curve. The All Stocks Gilt Index returned 2.3% whilst the Over 15 Year Gilt Index returned 5.3%. Real yields on UK index-linked gilts fell over the year, with the Over 5 Year Index-linked Gilts Index returning 4.3%. Corporate bond markets offered a positive return over the year, with the iBoxx All Stocks Non Gilt Index returning 6.8%, as credit spreads narrowed.

The UK property market continues to rise, returning 5.1% over the quarter and 17.6% over the year to 30 June 2014.





2 Total Fund

2.1 Investment Performance to 30 June 2014

The following table summaries the performance of the Fund's managers.

Manager	Asset Class	Last Quarter (%)			Last Year (%)			Last 3 Years (% p.a.)[1]			Since inception (% p.a.)[1]		
		Fund		B'mark	Fund		B'mark	Fund		B'mark	Fund		B'mark
		Gross	Net[1]		Gross	Net[1]		Gross	Net[1]		Gross	Net[1]	
Baillie Gifford	Global Equity	0.4	0.3	2.6	n/a	n/a	n/a	n/a	n/a	n/a	0.8	0.8	3.1
Majedie	UK Equity	1.0	0.9	2.2	19.7	19.3	13.1	15.4	15.0	8.9	11.5	11.1	6.3
LGIM	Global Equity	4.5	4.5	4.5	20.7	20.6	20.6	n/a	n/a	n/a	20.6	20.4	20.6
Insight	Non Gilts	1.8	1.7	1.5	7.1	6.9	5.7	7.7	7.5	6.5	5.8	5.6	5.3
	Gilts	0.4	0.4	0.4	0.8	0.7	0.8	3.1	3.0	3.0	5.3	5.2	5.4
Hermes	Property	3.9	3.8	4.2	16.4	16.0	15.2	8.8	8.4	6.6	7.2	6.8	7.2
Standard Life	Property	2.6	2.5	1.6	12.8	12.3	4.4	n/a	n/a	n/a	n/a	n/a	n/a
Total		2.5	2.4	3.2	15.1	14.9	13.8	10.5	10.3	9.3	6.5	6.3	6.1

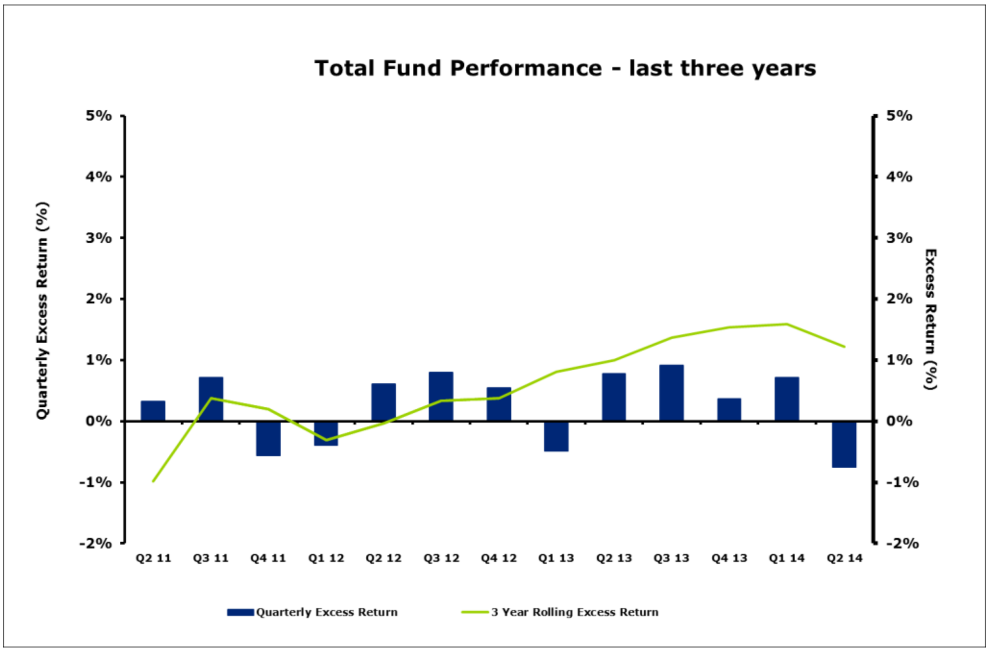
Source: Investment Managers

(1) Estimated by Deloitte when manager data is not available.

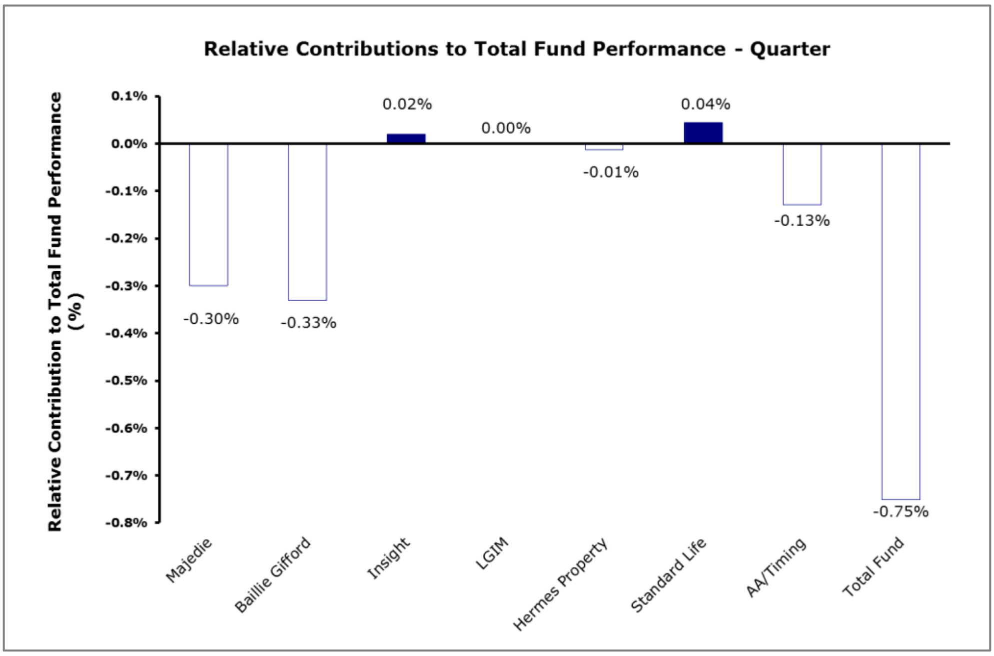
See appendix 1 for more detail on manager fees and since inception dates

Over the quarter the Fund underperformed, mostly due to the active equity managers, Baillie Gifford and Majedie.

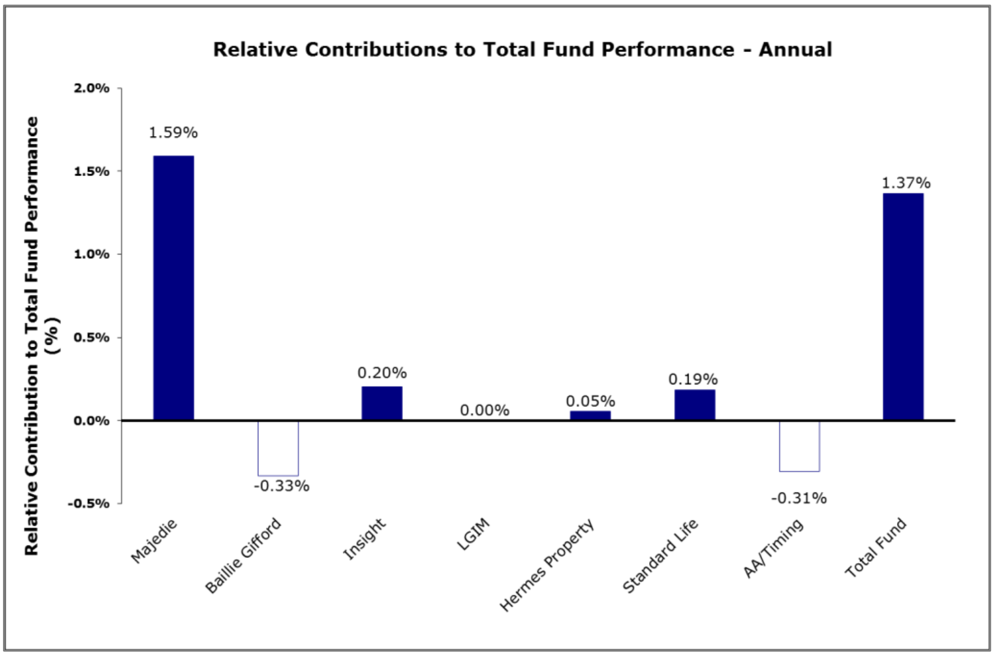
The chart below shows the performance of the Fund over the three year period, highlighting that the rolling three-year performance has been positive since mid-2012, with Majedie, Hermes and Insight contributing positively.



2.2 Attribution of Performance to 30 June 2014



The Fund underperformed its composite benchmark by 75bps over the second quarter of 2014, largely as a result of weak performance from the active equity managers, Majedie and Baillie Gifford.



The Fund outperformed over the year, largely due to strong performance from Majedie.

Asset Allocation as at 30 June 2014

Over the quarter, there were no further changes to manager allocations. As mentioned in last quarter's report, the Committee terminated the Fund's passive overseas equity mandate with State Street Global Advisors (SSgA), with a view to rationalising the passive exposure with LGIM. In addition, the decision was taken to appoint Baillie Gifford to manage a global equity mandate. Around the end of March 2014 c.£296m was disinvested from SSgA, of which approximately £130m was transferred to Baillie Gifford on 18 March for investment in the Global Equity Alpha Fund and in April c. £160m was transferred to the passive global equity mandate managed by LGIM.

The table below shows the assets held by manager and asset class as at 30 June 2014.

		Actual Asset Allocation				
Manager	**Asset Class**	**31 Mar 2014 (£m)**	**30 Jun 2014 (£m)**	**31 Mar 2014 (%)**	**30 Jun 2014 (%)**	**Benchmark Allocation (%)**
Majedie	UK Equity	239.4	241.7	24.9	24.1	16.9
LGIM	Global Equity (Passive)	185.9	362.7	19.3	36.2	43.1
Baillie Gifford	Global Equity	130.2	150.7	13.6	15.0	15.0
	Total Equity	**718.8***	**755.1**	**74.8**	**75.4**	**75.0**
Insight	Fixed Interest Gilts (Passive)	16.8	16.8	1.7	1.7	0.0
Insight	Sterling Non-Gilts	142.3	144.8	14.8	14.5	15.0
	Total Bonds	**159.1**	**161.6**	**16.5**	**16.1**	**15.0**
Hermes	Property	39.1	40.2	4.1	4.0	5.0
Standard Life	Property	43.8	44.9	4.6	4.5	5.0
	Total Property	**82.9**	**85.1**	**8.7**	**8.5**	**10.0**
	Total	**960.7**	**1,001.8**	**100.0**	**100.0**	**100.0**
	Westminster In-House Account	0.2	0.2			-
	Total	**960.9**	**1,002.0**			**-**

Source: Investment Managers and Custodian (BNY Mellon)

Figures may not sum to total due to rounding

* Note there was still a portion of assets in transition from SSgA to LGIM at the start of the quarter

Over the quarter the market value of the assets rose by c. £41.1m, and increased past the £1 billion level.

Rebalancing Framework

As at 30 June 2014, the Fund remains overweight Majedie UK equities (+7.2%). However, at the total equity level the allocation is broadly in line as a result of the underweight allocation to the passive global equity mandate. The Total Bonds allocation is slightly overweight (+1.1%) at the expense of Total Property (-1.5%).

3 Summary of Manager Ratings

The table below summarises Deloitte's ratings of the managers employed by the Fund and triggers against which managers should be reviewed.

Manager	Mandate	Triggers for Review	Rating
Majedie	UK Equity	Further turnover within the core investment team Re-opening the UK equity products with no clear limits on the value of assets that they would take on	1
Baillie Gifford	Global Equity	Loss of key personnel Change in investment approach Lack of control of asset growth	1
LGIM	Global Equity (passive)	Major deviation from benchmark returns Significant loss of assets under management	1
Insight	Sterling Non-Gilts	Departure of any of the senior members of the investment team Steps to broaden their product offering beyond the current UK and European focus without first bringing in the additional expertise	1
Insight	Fixed Interest Gilts (Passive)		n/a
Hermes	Property	Significant growth in the value of assets invested in the fund Changes to the team managing the mandate	2
Standard Life	Property	Growth in the value of the Long Lease Property Fund above £1.5bn Departure of the fund manager	1

* The Provisional rating is applied where we have concerns over changes to an investment manager

Majedie UK Equity

Majedie launched its new global and US equity funds at the end of June, seeding the funds with money from funds managed for Majedie Investments. While the global funds will be managed along similar lines to the current UK funds, adopting a multi manager approach, the US fund will be a single manager fund Adrian Brass.

Deloitte view – We continue to rate Majedie positively for their UK equity capabilities.

Baillie Gifford

Total assets under management increased over the quarter from £105bn at 31 March 2014 to £108.2bn as at 30 June 2014.

Client net flows were positive (c. £1.6bn) over the quarter, with inflows from both new and existing clients slightly offset by a very low level of client outflow.

There were no changes to the team or process applied in the management of the Global Alpha portfolio.

Deloitte view – We continue to rate Billie Gifford positively for their global equity capabilities.

LGIM

There were no signifincant changes to the passive team over the quarter.

Deloitte view – We continue to rate Legal & General's passive capabilities positively.

Insight

Insight continues to grow the assets under management for both the fixed interest and liability solutions parts of the business. To assist the growth, Insight has been adding resource to its US operation, extending the analyst coverage which has included the transfer of Alex Moss from the UK to the US. Further resource has also been added to the Financial Solutions Group, with the hiring of Jo Howley from Ignis.

Deloitte view – We continue to rate Insight positively for its bond and LDI capabilities.

Hermes

There have been no changes to the team managing HPUT or the processes applied.

Deloitte view – We continue to rate the team managing HPUT.

Standard Life

The acquisition of Ignis Asset Management by Standard Life received regulatory approval during the second quarter of 2014 and work is now starting on the integration of the two businesses. SLI advises that the integration is being managed to minimise the potential distraction to investment personnel.

As part of the Ignis acquisition, the real estate team will increase in size, with additional team members and around £3.5bn of real estate assets. Most of the property assets under management are retail orientated however, with no long lease element.

As at 30 June 2014, the Long Lease Property Fund's assets under management amounted to c. £1.3bn with a further c. £60m of commitments awaiting drawdown.

There have been no changes to the team which is responsible for the Long Lease Property Fund.

Deloitte view – At the time of their appointment, the Committee asked about the capacity for the strategy and SLI commented that they believed it would be around £1.5bn of assets. With a number of recent appointments, the fund is approaching this level, albeit SLI believes that there is still scope for further growth, particularly given the recent change to the permitted level of pre-funded projects that the fund could hold.

We continue to monitor closely SLI's willingness to take further cash flows into the Long Lease Property Fund and and their deployment of the new monies, recognising that the increasing demand for long lease properties in desirable locations could cause SLI to invest in lower quality assets.

4 Baillie Gifford – Global Equity

Baillie Gifford was appointed to manage an active Global Equity mandate from 18 March 2014. The manager is remunerated on an asset based fee, reflecting the total value of assets invested in the strategy across the Tri-borough. The target is to outperform the benchmark of 2% p.a.

4.1 Global equity – Investment Performance to 30 June 2014

	Last Quarter (%)	Since Inception (% p.a.)[1]
Baillie Gifford – Gross of fees	0.4	0.8
Net of fees[1]	0.3	0.7
MSCI AC World Index	2.6	3.1
Relative	-2.2	-2.3

Source: Baillie Gifford

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 18 March 2014

The Baillie Gifford Global Equity fund has underperformed its benchmark over the quarter.

Key drivers of underperformance over the quarter included holdings in Ryanair and Ebay, Td Ameritrade (an American online broker) and Xilinx (an American technology company). Not holding Apple also detracted from performance over the quarter.

Baidu (a Chinese web services company) and Eog Res (an American oil and gas company) were the top contributors to performance.

Next quarter, once Baillie Gifford has been in place for more than one quarter, we will include a chart of its quarterly relative performance, along with its cumulative performance.

5 LGIM – Global Equity (Passive)

LGIM was appointed to manage a passive global equity mandate from the 31 October 2012.The manager is remunerated on a fixed fee based on the value of assets. The target is to deliver performance in line with the stated benchmarks.

5.1 Passive Global Equity – Investment Performance to 30 June 2014

	Last Quarter (%)	Last Year (%)	Since inception (%)[1]
LGIM – Gross of fees	4.5	20.7	21.4
Net of fees[1]	4.5	20.6	21.2
FTSE World GBP Hedged	4.5	20.6	21.4
Relative	0.0	0.0	0.0

Source: LGIM

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 1 November 2012 (prior to that the mandate was an active equity mandate). The portfolio aims to track the benchmark .

The investment objective of the fund is to track the performance of the FTSE AW-World Index (less withholding tax if applicable) - GBP Hedged (with the exception of advanced emerging markets) to within +/-0.5% p.a. for two years out of three.

The LGIM fund has performed in line with the benchmark over the quarter, one year and since the inception of the mandate.

6 Majedie – UK Equity

Majedie was appointed to manage an active UK equity mandate. The manager's remuneration is a combination of a fixed fee based on the value of assets and a performance related fee which is payable when the excess return of the portfolio over a rolling 3 year period is more than 1% p.a. The target is to outperform the benchmark by 2% p.a.

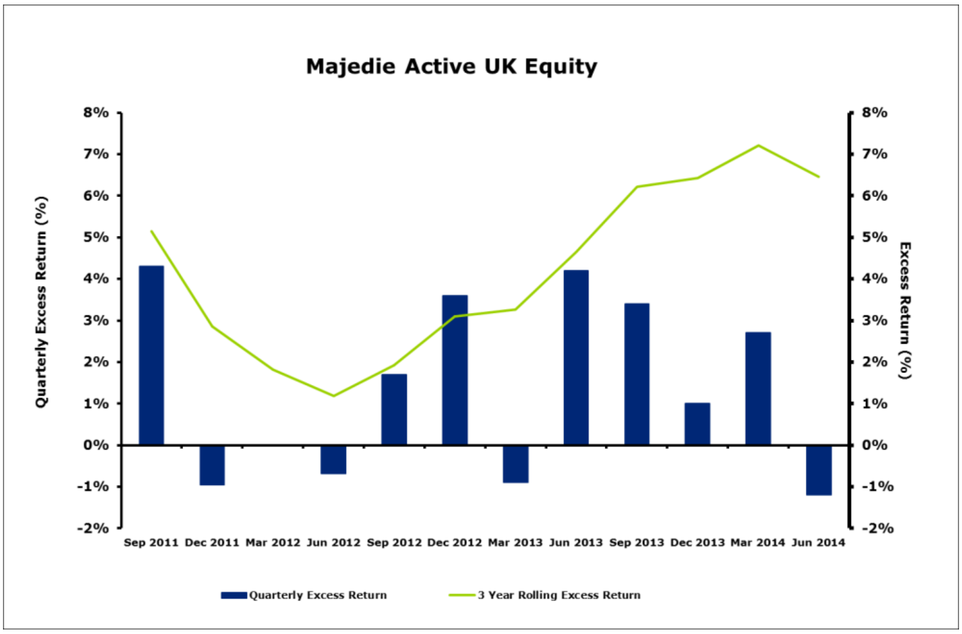
6.1 Investment Performance to 30 June 2014

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie – Gross of base fees	1.0	19.7	15.4	11.5
Net of base fees[1]	0.9	19.3	15.0	*11.1*
FTSE All-Share Index	2.2	13.1	8.9	6.3
Relative	-1.2	6.6	6.5	5.2

Source: Majedie

See appendix 1 for more detail on manager fees

Target estimated by Deloitte. Inception date taken as 31 May 2006.



Majedie underperformed its benchmark over the quarter by 1.2%. However, over the longer timeframes of one year, three years and since inception the manager has outperformed its target by 6.6%, 6.5% p.a. and 5.2% p.a. respectively.

Over the quarter, positive performance was driven by AstraZeneca and Orange, however, holdings in Firstgroup and Marks & Spencer negated performance. In addition, not holding any positions in Shire and BG detracted from performance as both stocks jumped in price due to M&A activity and bid speculation.

Note that on 7 April the segregated portfolio was transferred to the pooled Majedie Institutional Trust.

7 Insight – Bonds

Insight was appointed to manage two bond portfolios – an actively managed corporate bond (non –Gilt) portfolio and a passively managed gilt portfolio. The manager's fee is based on the value of assets. The target of the Non-Gilt portfolio is to outperform the benchmark by 0.9% p.a.

7.1 Insight – Active Non Gilts

7.1.1 Investment Performance to 30 June 2014

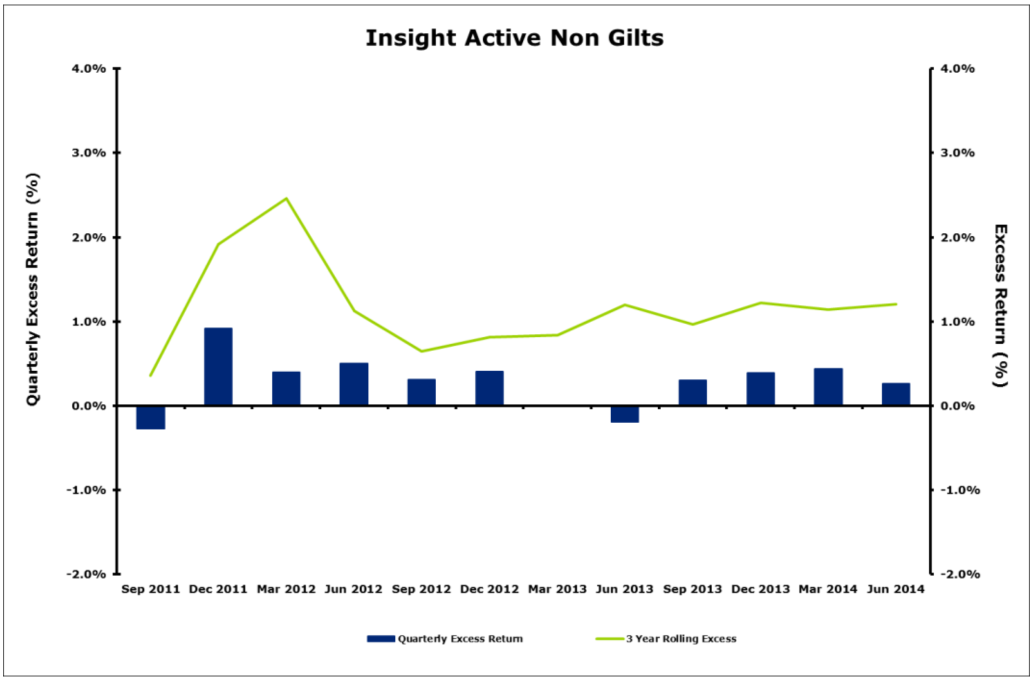
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)[1]
Insight (Non-Gilts) – Gross of fees	1.8	7.1	7.7	5.8
Net of fees[1]	1.7	6.9	7.4	5.6
iBoxx £ Non-Gilt 1-15 Yrs Index	1.5	5.7	6.5	5.3
Relative	0.3	1.4	1.2	0.5

Source: Insight

(1) Estimated by Deloitte

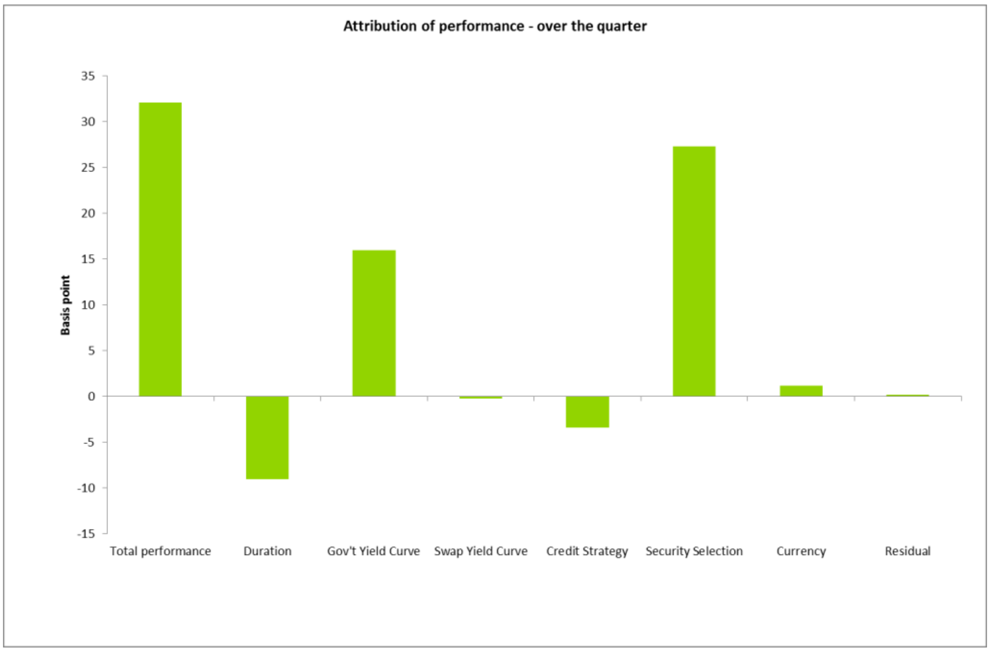
See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006.



Over the quarter the portfolio outperformed the benchmark by 0.3%. Over the one year and three years Insight has outperformed the benchmark by 1.4% and 1.2% p.a. respectively.

7.1.2 Attribution of Performance



Source: Insight

Security selection was the main driver of performance over the quarter, with most of the added value coming through the new issuance market. However, performance was offset by losses in their Duration and Currency strategy

7.2 Insight – Government Bonds

7.2.1 Investment Performance to 30 June 2014

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight (Passive Bonds) – Gross	0.4	0.8	3.1	5.3
Net of fees[1]	0.4	0.7	3.0	5.2
FTSE A Gilts up to 15 Yrs Index	0.4	0.8	3.0	5.4
Relative	0.0	0.0	0.1	-0.1

Source: Insight

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 30 June 2008.

The gilt portfolio has performed broadly in line with its benchmark over the quarter, one and three year period to 30 June 2014.

7.3 Duration of portfolios

	31 March 2014		30 June 2014	
	Fund (Years)	Benchmark (Years)	Fund (Years)	Benchmark (Years)
Non-Government Bonds (Active)	5.7	5.6	5.2	5.5
Government Bonds (Passive)	4.5	4.8	4.6	4.6

Source: Insight

8 Hermes – Property

Hermes was appointed to manage a core UK property portfolio.The manager is remunerated on a fixed fee based on the value of assets. The target is to outperform the benchmark by 0.5% p.a.

8.1 Portfolio Monitoring Summary

	Last Quarter (%)	Last Year (%)	Last 3 Years (%)	Since Inception (% p.a.)[1]
Hermes – Gross of fees	3.9	16.4	8.8	7.2
Net of fees[1]	3.8	16.0	8.4	6.8
Benchmark	4.2	15.2	6.6	7.2
Relative	-0.3	1.2	2.2	0.0

Source: Hermes

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date is taken as 26 October 2010

Hermes marginally underperformed its benchmark by 0.3% over the quarter.

The underperformance is partly due to the relatively high level of transactions during Q2 where the Trust acquired three assets, totalling just over £36m. There continues to be strong investor interest in the Trust with a waiting list for new subscriptions in place.

Longer term the performance has been ahead of benchmark

8.2 Sales and Purchases

Purchases:

- Centrus Industrial Estate, Hertford – a freehold multi-let industrial estate acquired in May 2014 for £8.0 million reflecting an initial yield of 7.0%. This industrial estate includes a range of modern industrial units in Hertford’s well established central business location.

- Madelayne Court, Chelmsford – a freehold single-let purpose built care home acquired in May 2014 for £12.3 million reflecting an initial yield of 5.7%. The property benefits from good access to local amenities and planning consent for the construction of 223 dwellings to the rear of the property.

- LGC Complex, Fordham – a freehold industrial and office investment acquired in June 2014 for £15.9 million reflecting an initial yield of 7.5%. The Estate comprises 35 acres and is located to the south of Fordham in an area which has established itself as an industrial and distribution hub.

9 Standard Life – Long Lease Property

Standard Life Investments ("SLI") was appointed to manage a UK property portfolio investing in core assets where the focus is on properties with long leases let to high quality tenants. The manager is remunerated on a fixed fee based on the value of assets. The target is to outperform the benchmark by 0.5% p.a.

9.1 Portfolio Monitoring Summary

	Last Quarter (%)	Last Year (%)
Standard Life – Gross of fees	2.6	12.8
Net of fees[1]	*2.5*	*12.3*
Benchmark	1.6	4.4
Relative	1.0	8.4

Source: Standard Life

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Since inception: 14 June 2013

The SLI Long Lease Property Fund returned 2.6% over the second quarter, outperforming the benchmark of the FTSE Gilt All Stocks Index + 2 by 1.0%.

9.2 Sales and Purchases

- Investment activity was somewhat muted over the quarter. The only transaction was the agreement to purchase 9 pub/restaurants let to Marstons plc, an existing tenant in the Fund. These properties are currently under development, and were purchased for £28m, equivalent to an initial yield of 4.2% p.a. Once completed, the buildings will be let to Marstons on 40 year leases, with annual RPI-linked uplifts subject to a cap of 4% and a floor of 1%. SLI expects that the Fund's exposure to Marstons plc will increase to around 5% of the Fund's rental income as a result of this purchase.

Appendix 1: Fund and Manager Benchmarks

The tables in this Appendix detail the benchmarks and outperformance targets, for the Total Fund and each individual manager.

Total Fund

Inception: 1 June 2006. Current benchmark allocation effective from 18 March 2014.

Manager	Asset Class	Allocation	Benchmark	Outperformance Target	Inception Date	Fees (p.a.)	Tracking Error p.a.
Majedie	UK Equity	16.9	FTSE All-Share Index	+2.0 p.a. (net of fess)	31/05/06	c.35bps base fees +20 performance fee on 1 outperformance over 3 year rolling	2.0-6.0
Baillie Gifford	Global Equity	15.0	MSCI AC World Index	+2.0 p.a. (net of fess)	18/03/214	40bps base fee	
LGIM	Global Equity	43.1	FTSE World GBP Hedged	Passive	01/11/12	13bps base fees	+/- 0.5
Insight	Fixed Interest Gilts	-	FTSE GILTS up to 15 Yrs Index	Passive	31/05/06	10bps base fees	
	Non-Gilts	15.0	iBoxx £ Non-Gilt 1-15 Yrs Index	+ 0.90 p.a. (gross fees)	31/05/06	c.24bps base fee	0 - 3.0
Hermes	Property	5.0	IPD UK PPFI Balanced PUT Index	+0.5 p.a. (net of fess)	26/10/10	40bps base fee	
Standard Life	Property	5.0	FTSE Gilts All Stocks Index +2% p.a.	+0.5 p.a. (net of fess)	14/06/13	50bps base fee	
	Total	**100.0**					

Appendix 2: Manager Ratings

Based on our manager research process, we assign ratings to the investment managers for specific products or services. The ratings are based on a combination of quantitative and qualitative factors, where the inputs for the qualitative factors come from a series of focused meetings with the investment managers. The ratings reflect our expectations of the future performance of the particular product or service, based on an assessment of:

- The manager's business management;
- The sources of ideas that go to form the portfolio ("alpha generation");
- The process for including the ideas into the portfolio ("alpha harnessing"); and
- How the performance is delivered to the clients.

On the basis of the research and analysis, managers are rated from 1 (most positive) to 4 (most negative), where managers rated 1 are considered most likely to deliver outperformance, net of fees, on a reasonably consistent basis. Managers rated 1 will typically form the basis of any manager selection short-lists.

Where there are developments with an investment manager that cause an element of uncertainty we will make the rating provisional for a short period of time, while we carry out further assessment of the situation.

Appendix 3: Risk Warnings

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

Our advice will be specific to your current circumstances and intentions and therefore will not be suitable for use at any other time, in different circumstances or to achieve other aims or for the use of others. Accordingly, you should only use the advice for the intended purpose.

Our advice must not be copied or recited to any other person than you and no other person is entitled to rely on our advice for any purpose. We do not owe or accept any responsibility, liability or duty towards any person other than you.

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Barnett Waddingham

City of Westminster Pension Fund

Funding Update Report as at 30 June 2014

Graeme D Muir FFA
Barnett Waddingham LLP

5 August 2014

Contents

1. Introduction

1.1. We have carried out a quarterly monitoring assessment of the City of Westminster Pension Fund as at 30 June 2014. The purpose of this assessment is to provide an update on the funding position.

1.2. We assess the funding position on a smoothed basis which is an estimate of the average position over a 6 month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a 6 month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until 3 months after the reporting date. The smoothed results are indicative of the underlying trend.

1.3. In addition, we assess the funding position on an “unsmoothed” basis where assets are taken at market value and discount rates are taken as the spot rates at the reporting date.

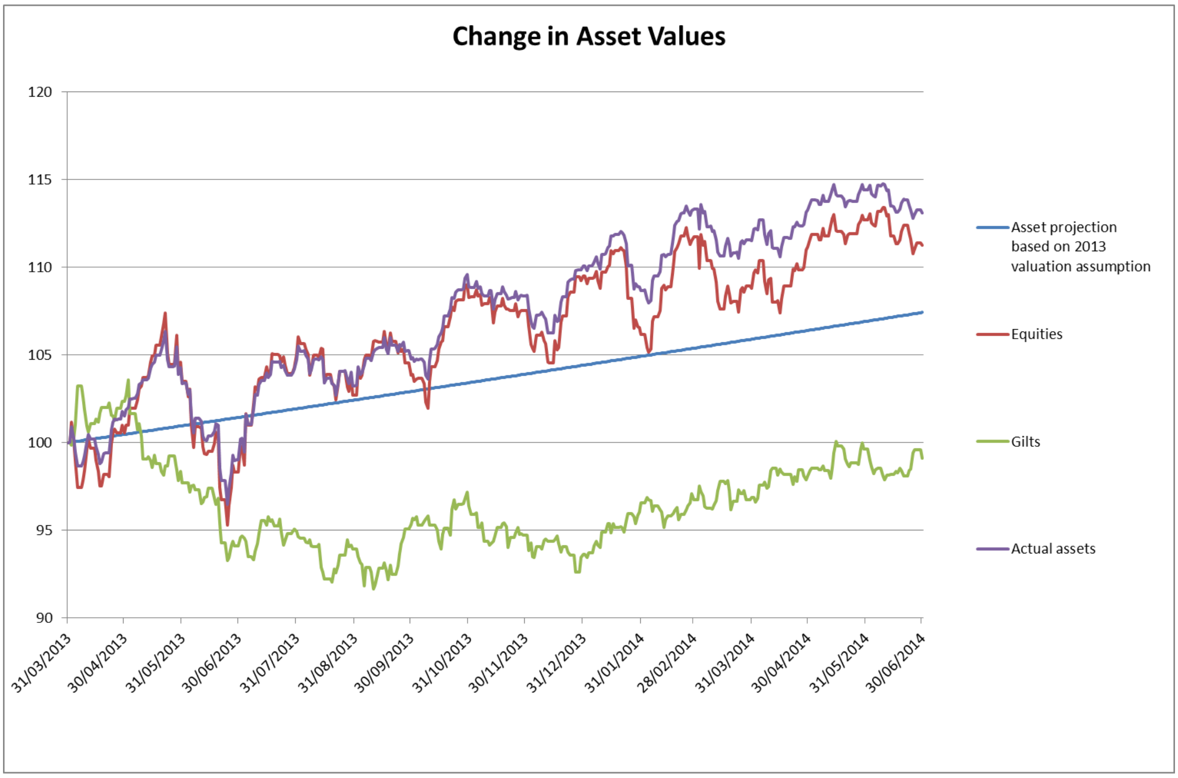
2. Assets

2.1. The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 30 June 2014 is as follows:

Assets (Market Value)	30 June 2014		31 March 2014		31 March 2013	
	£000's	%	£000's	%	£000's	%
UK and Overseas Equities	770,337	76.6%	712,005	71.6%	643,179	73.6%
Bonds	121,383	12.1%	112,663	11.3%	111,092	12.7%
Property	84,635	8.4%	82,509	8.3%	35,787	4.1%
Gilts	16,561	1.6%	15,679	1.6%	49,821	5.7%
Cash and Accruals	12,982	1.3%	71,564	7.2%	34,303	3.9%
Total Assets	**1,005,898**	**100%**	**994,420**	**100%**	**874,182**	**100%**

2.2. The investment return achieved by the Fund's assets in market value terms for the quarter to 30 June 2014 is estimated to be 1.4%. The return achieved since the previous valuation is estimated to be 13.1% (which is equivalent to 10.4% per annum).

2.3. The following chart shows the changes in equity and bond markets since the previous actuarial valuation and compares with the estimated actual fund returns and the expected fund returns assumed at the previous valuation:



2.4. As we can see asset value as at 30 June 2014 in market value terms is more than where it was projected to be at the previous valuation.

3. Changes in Market Conditions – Market Yields and Discount Rates

3.1. The actual investment returns earned by the Fund will affect the value of the Fund's assets. The value of the Fund's liabilities however is dependent on the assumptions used to value the future benefits payable. The following table show how these assumptions have changed since the last triennial valuation:

Assumptions (Smoothed)	30 June 2014		31 March 2014		31 March 2013	
	Nominal	Real	Nominal	Real	Nominal	Real
	%p.a.		%p.a.		%p.a.	
Pension Increases	2.78%	-	2.78%	-	2.74%	-
Salary Increases	4.58%	1.80%	4.58%	1.80%	4.54%	1.80%
Discount Rate						
Scheduled Bodies	6.15%	3.37%	5.99%	3.21%	5.90%	3.16%
Admission Bodies (in service)	5.15%	2.37%	5.07%	2.29%	4.90%	2.16%
Admission Bodies (left service)	3.75%	0.97%	3.79%	1.01%	3.50%	0.76%

Assumptions (Unsmoothed)	30 June 2014		31 March 2014		31 March 2013	
	Nominal	Real	Nominal	Real	Nominal	Real
	%p.a.		%p.a.		%p.a.	
Pension Increases	2.78%	-	2.83%	-	2.80%	-
Salary Increases	4.58%	1.80%	4.63%	1.80%	4.60%	1.80%
Discount Rate						
Scheduled Bodies	6.11%	3.34%	6.09%	3.26%	5.91%	3.11%
Admission Bodies (in service)	5.12%	2.34%	5.14%	2.32%	4.86%	2.06%
Admission Bodies (left service)	3.74%	0.96%	3.82%	0.99%	3.40%	0.59%

3.2. The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate – the higher the real discount rate the lower the value of liabilities. As we see the real discount rates are higher than at the 2013 valuation, reducing the value of liabilities used for funding purposes.

4. Summary of Results

4.1. The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 30 June 2014 is 81% and the average required employer contribution would be 28.3% of payroll assuming the deficit is to be paid by 2038.
- The current projection of the unsmoothed funding level as at 30 June 2014 is 81% and the average required employer contribution would be 28.7% of payroll assuming a deficit is to be paid by 2038.
- This compares with the reported (smoothed) funding level of 74% and average required employer contribution of 29.8% of payroll at the 2013 funding valuation.

4.2. Based on the Scheduled Body discount rate of 6.2% per annum, the investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 7.0% per annum.

4.3. The funding position for each month since the formal valuation is shown in Appendix 1. It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.

4.4. We would be pleased to answer any questions arising from this report.

Graeme D Muir FFA
Partner

Appendix 1 Financial position since previous valuation

Below we show the financial position on both a smoothed and an unsmoothed basis for each month since the previous full valuation. As the smoothing adjustment reflects average market conditions spanning a 6 month period straddling the reporting date, the smoothed figures for the previous 3 months are projected numbers and likely to change up until 3 months after the reporting date.

Smoothed Valuation Date	Assets £000's	Liabilities £000's	Surplus/ Deficit £000's	Funding Level %	Final Salary Ongoing (% of Payroll)	CARE Ongoing Cost (% of Payroll)	Past Service Ctbn	Total Ctbn (% of payroll)	Main Discount Rate	Return required to restore funding level (pa)
March 2013	866,938	1,164,198	(297,260)	74%	14.3%	13.3%	16.5%	29.8%	5.9%	7.1%
April 2013	878,910	1,165,568	(286,658)	75%	14.3%	13.8%	13.1%	26.8%	5.9%	7.1%
May 2013	888,642	1,169,568	(280,926)	76%	14.2%	13.7%	12.9%	26.6%	5.9%	7.1%
June 2013	895,688	1,170,718	(275,030)	77%	14.1%	13.5%	12.7%	26.2%	6.0%	7.1%
July 2013	904,339	1,173,403	(269,063)	77%	14.0%	13.4%	12.5%	25.9%	6.0%	7.0%
August 2013	909,690	1,175,518	(265,828)	77%	13.9%	13.3%	12.4%	25.7%	6.0%	7.1%
September 2013	918,777	1,183,051	(264,274)	78%	13.9%	13.3%	12.3%	25.7%	6.0%	7.1%
October 2013	929,362	1,191,805	(262,443)	78%	13.9%	13.4%	12.3%	25.7%	6.0%	7.0%
November 2013	938,213	1,201,055	(262,842)	78%	13.9%	13.4%	12.3%	25.7%	6.0%	7.0%
December 2013	946,872	1,211,047	(264,176)	78%	14.0%	13.4%	12.4%	25.8%	6.0%	7.0%
January 2014	954,969	1,220,108	(265,139)	78%	13.9%	13.4%	14.1%	27.5%	6.0%	7.0%
February 2014	962,658	1,228,794	(266,137)	78%	13.9%	13.4%	14.3%	27.7%	6.0%	7.0%
March 2014	1,004,578	1,236,829	(232,251)	81%	13.9%	13.4%	14.4%	27.8%	6.0%	6.9%
April 2014	1,005,726	1,247,749	(242,023)	81%	-	13.4%	15.8%	29.2%	6.0%	6.9%
May 2014	1,005,256	1,258,014	(252,758)	80%	-	13.4%	16.3%	29.7%	6.0%	6.9%
June 2014	1,004,827	1,238,977	(234,150)	81%	-	12.8%	15.5%	28.3%	6.2%	7.0%
July 2014										
August 2014										
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December 2015										
January 2016										
February 2016										
March 2016										

Unsmoothed Valuation Date	Assets £000's	Liabilities £000's	Surplus/ Deficit £000's	Funding Level %	Final Salary Ongoing (% of Payroll)	CARE Ongoing Cost	Past Service Ctbn	Total Ctbn (% of payroll)	Main Discount Rate	Return required to restore funding level (pa)
March 2013	874,182	1,175,148	(300,966)	74%	14.7%	13.6%	13.4%	27.0%	5.9%	7.1%
April 2013	886,487	1,186,870	(300,384)	75%	14.9%	13.8%	13.5%	27.3%	5.8%	7.0%
May 2013	901,919	1,182,756	(280,837)	76%	14.6%	13.5%	12.8%	26.2%	5.9%	7.0%
June 2013	862,959	1,138,024	(275,065)	76%	13.2%	13.5%	12.9%	26.4%	6.1%	7.2%
July 2013	911,592	1,173,707	(262,116)	78%	14.1%	13.5%	12.1%	25.6%	5.9%	6.9%
August 2013	897,984	1,162,093	(264,109)	77%	13.5%	13.3%	12.4%	25.7%	6.1%	7.2%
September 2013	910,261	1,176,348	(266,087)	77%	13.7%	13.3%	12.5%	25.8%	6.0%	7.0%
October 2013	944,904	1,208,939	(264,035)	78%	14.4%	13.2%	12.3%	25.5%	5.9%	6.9%
November 2013	939,772	1,206,750	(266,978)	78%	14.0%	13.4%	12.5%	25.9%	6.1%	7.1%
December 2013	953,407	1,212,836	(259,429)	79%	14.1%	13.4%	12.2%	25.6%	6.0%	7.0%
January 2014	940,435	1,213,328	(272,893)	78%	13.8%	13.4%	12.9%	26.3%	6.0%	7.0%
February 2014	979,617	1,231,045	(251,428)	80%	14.1%	13.4%	11.9%	25.3%	5.9%	6.9%
March 2014	994,420	1,226,711	(232,291)	81%	13.6%	13.2%	11.2%	24.5%	6.1%	7.0%
April 2014	1,009,341	1,247,964	(238,623)	81%	-	13.4%	15.7%	29.1%	6.0%	6.9%
May 2014	1,018,430	1,265,089	(246,660)	81%	-	13.6%	16.0%	29.5%	6.0%	6.9%
June 2014	1,005,898	1,245,649	(239,751)	81%	-	12.9%	15.8%	28.7%	6.1%	7.0%
July 2014										
August 2014										
September 2014										
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December 2015										
January 2016										
February 2016										
March 2016										

City of Westminster

City of Westminster Superannuation Fund
Annual Report
2013-2014


Contents

Chairman's Report

The Superannuation Committee is responsible for overseeing the management of the City of Westminster Pension Fund including investment management and pension administration issues. As the current Chairman of this Committee, I am pleased to introduce the Pension Fund's Annual Report for the year 2013-14.

During the year, the value of the Fund rose by £91m following positive absolute investment returns over the year. The Fund's total investment return outperformed the target return by 3%. The Committee has continued to monitor the Fund closely at every meeting and challenged the investment advisers as necessary to ensure the Fund's investments are being managed effectively.

Reviewing the asset allocation of the Fund led to some changes being made during the year to the type of mandates held and the fund managers invested with. Baillie Gifford were appointed as the new core equity manager and funds were moved from State Street Global Advisors into this new mandate.

The final report of the actuarial valuation of the Fund as at 31 March 2013 was published in March 2014. The report showed that the past service funding level as a whole has increased from 73.8% to 74.5% between 31 March 2010 and 31 March 2013. Reasons for this improvement included slightly higher than expected investment returns, lower than expected pay increases and a decrease in the discount rate which is used to project future cashflows for the value of past service liabilities. As part of the valuation process, the Committee also reviewed the Funding Strategy Statement to ensure it remains relevant going forward.

In April 2014 the new Local Government Pension Scheme was implemented and the scheme changed from a final salary based scheme to a career average scheme. It is envisaged that the new scheme will be more cost effective and fairer to all scheme members in the long term. Further details of the new scheme are included in the next section of this report.

I would like to thank all those involved in the management of the Pension Fund during the year, especially those who served on the Committee during 2013-14, as well as officers, advisers and investment managers.

Councillor Suhail Rahuja
Chairman of Superannuation Committee

Introduction

The Superannuation Fund is part of the national Local Government Pension Scheme (LGPS) and is administered by Westminster Council. It is a contributory defined benefit pension scheme established by the Superannuation Act 1972, which provides for the payment of benefits to employees and former employees of the City of Westminster Council and the admitted and scheduled bodies in the Fund.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and returns from the Fund's investments. The contributions are set by the Fund's actuary at the actuarial valuation which is carried out every three years.

A new LGPS scheme was introduced with effect from 1st April 2014. One of the main changes is that a scheme member's pension is no longer based on their final salary but on their earnings throughout their career. This is known as a Career Average Revalued Earnings (CARE) scheme. Everything built up in the Scheme before 1st April 2014 is protected so benefits up to that date will be based on the scheme member's final year's pay. The revised benefits payable from the Fund are set out in the Local Government Pension Scheme regulations and in summary are:

- A pension based on career average earnings (revalued in line with the Consumer Prices Index)
- Pensionable pay to include non-contractual overtime and additional hours
- Flexibility for member to pay 50% contributions for 50% of the pension benefit
- Normal pension age to equal the individual member's State Pension Age
- Option to trade £1 of pension for a £12 tax-free lump sum at retirement
- Death in service lump sum of three times pensionable pay and survivor benefits
- Early payment of pensions in the event of ill health

This annual report starts with the Management and Performance section which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.

The Investment section follows and details the Fund's investment strategy, arrangements and performance. This is followed by Scheme Administration which sets out how the administration of the scheme's benefits and membership is undertaken. Section 4 outlines the funding position of the Fund with a statement from the Fund's actuary and section 5 provides a summary of the Fund's annual accounts.

The report concludes with a list of contacts in section 6 and a glossary of some of the more technical terms in section 7.

Section 1: Management and Performance

Governance Arrangements

Westminster Council has delegated decision making powers in respect of pension matters to the Superannuation Committee (the Committee). Since May 2014, the Committee is made up of four elected Members of the Council (three from the administration and one minority party representative). Members of the admitted bodies, representatives of the Trade Unions and one co-opted member may attend the committee meetings but have no voting rights.

The Committee meets at least four times a year and has the following terms of reference:

- To agree the investment strategy having regard to the advice from the Fund Managers and the independent adviser;
- To monitor performance of the Fund and of the individual Fund Managers;
- To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Custodians and Fund Advisers;
- 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;
- To approve and publish the pension fund annual report;
- To prepare and publish a pension administration strategy;
- To make an admission agreement with any admission body;
- To ensure compliance with all relevant statutes, regulations and best practice within both the public and private sectors;
- To determine questions and disputes pursuant to the Internal Disputes Resolution Procedures.

The following decisions are to be made in accordance with that policy 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):

- To determine the compensation policy on termination of employment;
- To determine policy on the award of additional membership of the Pension Fund;
- To determine policy on the award of additional pension;
- To determine policy on retirement before the age of 60;
- To determine a policy on flexible retirement;
- To determine any other investment or pension policies that may be required from time to time so as to comply with Government regulations.

The Committee obtains and considers advice from the Director of Corporate Finance & Investments, the Section 151 Officer and as necessary from the Fund's appointed actuary, advisors and investment managers.

The current membership of the Superannuation Committee is as follows:

Councillor Suhail Rahuja (Chairman)
Councillor Antonia Cox
Councillor Patricia McAllister
Councillor Ian Rowley

The membership of the Superannuation Committee during the 2013/14 year also included:

Councillor Edward Baxter
Councillor Dr. Cyril Nemeth

Governance Compliance Statement

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare, publish and maintain a governance compliance statement; and to measure its governance arrangements against a set of best practice principles. This measurement should result in a statement of full, partial or non compliance with a further explanation provided for any non- or partial-compliance.

The key issues covered by the best practice principles are:

- Formal committee structure;
- Committee membership and representation;
- Selection and role of lay members;
- Voting rights;
- Training, facility time and expenses.

The Fund's published statement can be found in the Pension Fund section of the following website: http://www.westminster.gov.uk/pensionfund

Scheme Management and Advisers

The City of Westminster, the London Borough of Hammersmith & Fulham and the Royal Borough of Kensington & Chelsea councils have combined certain parts of their operational areas to provide a more efficient service and greater resilience. One of the areas that have joined together is the treasury and pension teams of the three boroughs.

The combined team was formed in February 2012 and is responsible for the management of the pension fund investments and the treasury operations across the three boroughs. The team is based at Westminster's offices.

The three pension funds continue to be managed separately in accordance with each Council's strategy and so each continues to have sovereignty over decision making. However, officers are continually seeking to improve efficiency and resilience and to minimise the cost of running the Pension Funds, in line with the tri-borough working aims.

Officers

City Treasurer and Section 151 Officer	Steven Mair
Tri-Borough Pensions Team	Jonathan Hunt Nikki Parsons Alex Robertson Nicola Webb
Pensions and Payroll Officer	Sarah Hay

Contact details are provided in section 6 of this document.

External Parties (as at 31 March 2014)

Investment Adviser	Deloitte
Investment Managers	**Equities (Active)** Baillie Gifford & Co Majedie Asset Management **Equities (Passive)** Legal and General Investment Management State Street Advisers UK State Street Global Advisers International **Fixed Income** Insight Investment **Property** Hermes Investment Management Ltd Standard Life Investments
Custodian	Bank of New York Mellon
Banker	Lloyds Bank
Actuary	Barnett Waddingham
Auditor	KPMG
Legal Adviser	Eversheds
Scheme Administrators	LPFA[1]
AVC Providers	Aegon Equitable Life Assurance Society

[1] Surrey County Council were appointed Scheme Administrators with effect from 1st September 2014

Financial Summary and Performance

The investment return in 2013/14 was positive both in absolute terms and relative to the Fund's benchmark. The return was 12.7%, which was 3% above the benchmark set for the Fund. During the year, Baillie Gifford was appointed as the new core equity fund manager. The decision was taken by the Committee to transfer out of the passively managed State Street funds into this new mandate and the existing one held with Legal and General. The Investment Policy and Performance report in section 2 provides more detail on the Fund's investments and performance.

The table below summarises the investment performance of the total Fund and individual managers for the one and three year periods to 31 March 2014 (gross and net of fees). It is too soon to report on the performance of the newly opened mandate held with Baillie Gifford.

	Last Year (%)				Last 3 Years (% p.a.)[1]				Since inception (% p.a.)[1]			
	Fund		B'mark	Net	Fund		B'mark	Net	Fund		B'mark	Net
	Gross	Net[2]		Relative	Gross	Net[1]		Relative	Gross	Net[1]		Relative
Majedie[3]	21.6	21.2	8.8	12.4	16.0	15.6	8.8	6.8	11.7	11.3	6.2	5.1
SSgA UK[4]	7.5	7.4	7.4	0.0	8.5	8.4	8.4	0.0	6.2	6.1	6.0	0.1
SSgA Overseas	12.6	12.5	13.1	-0.6	9.3	9.2	9.5	-0.3	9.4	9.3	9.6	-0.3
LGIM[5]	16.9	16.8	16.9	-0.1	n/a	n/a	n/a	n/a	0.9	0.8	0.9	-0.1
Insight – Non Gilt	2.7	2.5	1.8	0.7	7.8	7.6	6.7	0.9	5.8	5.6	5.3	0.3
Insight – Gilts	-2.0	-2.1	-2.2	0.1	3.8	3.7	3.8	-0.1	5.4	5.3	5.5	-0.2
Hermes[6]	13.9	13.5	12.2	1.3	8.4	8.0	5.8	2.2	6.6	6.2	6.2	0.0
Standard Life[7]	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	9.8	9.4	2.8	6.6
Total Fund	**12.7**	**12.5**	**9.7**	**2.8**	**10.1**	**9.9**	**8.5**	**1.4**	**5.7**	**5.4**	**5.2**	**0.2**

Source: Deloitte Investment Performance Report to 31 March 2014

The Fund Account and Net Assets Statement set out in section 5 provide more detail about the financial transactions during the year and the value of assets at the end.

[2] *Estimated by Deloitte*
[3] *Majedie's fee is a combination of a base fee and performance fee*
[4] *Performance is to 24 March 2014 when assets were disinvested*
[5] *Since inception performance of LGIM is measured from 1 November 2012*
[6] *Since inception performance of Hermes property fund is measured from 26 October 2010*
[7] *Since inception performance of Standard Life property fund is measured from 14 June 2013*

Risk Management

The Fund's primary long-term risk is that its assets fall short of its liabilities such that there are insufficient assets to pay promised benefits to members. The investment objectives have been set with the aim of maximising investment returns over the long term within specified risk tolerances. This aims to optimise the likelihood that the promises made regarding members' pensions and other benefits will be fulfilled.

Responsibility for the Fund's risk management strategy rests with the Superannuation Committee. It receives advice from the Director of Corporate Finance & Investment and as necessary from the Fund's appointed actuary, investment managers, custodian and investment advisor(s).

The Investment Advisor carries out the following evaluations which are reviewed by the Committee on a quarterly basis:

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

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.

All of the Fund's assets are managed by external investment managers. They are required to provide an audited internal controls report regularly to the Fund, which sets out how they ensure the Fund's assets are managed in accordance with the Investment Management Agreement the Council has signed with each fund manager. A range of investment managers are used to diversify manager risk. All the Fund's assets are held for safekeeping by the custodian, who is independent of all the investment managers. They are also required to provide an audited internal controls report to the Fund on a regular basis.

The Funding Strategy Statement sets out the key risks, including demographic, regulatory, governance, to not achieving full funding in line with the strategy. The actuary reports on these risks at each triennial valuation or more frequently if required.

2. Investment Policy and Performance

One of the Fund's key objectives is to manage employers' liabilities effectively and one of the key risks for the Fund is that the assets will fall short of the liabilities. As a result the investment policy is set and performance measured by reference to a benchmark. The Superannuation Committee keeps under review the suitability of the Fund's benchmarks and its investment asset allocation strategy.

Investment Benchmark and Objective

The Fund's benchmarks at 31st March 2014 were:

Asset Class	Benchmark
UK Equity	FTSE All-Share Index
Overseas Equity	FTSE World (GBP Hedged)
Global Equity	FTSE World (GBP Hedged)
Fixed Interest Gilts	FTSE Gilts up to 15 Years Index
Sterling Non- Gilts	iBoxx Sterling Non-Gilt 1-15 Years Index
Standard Life Property	FTSE Gilts All Stocks Index +2%
Hermes Property	IPD UK PPFI Balanced PUT Index

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.

Statement of Investment Principles

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 require Pension Funds to prepare, maintain and publish a statement setting out the investment policy of the Fund. In addition Pension Funds are required to demonstrate compliance with the "Myners Principles".

The "Myners Principles" are a set of recommendations relating to the investment of pension funds which were originally prepared by Lord Myners in 2001 at the request of the Chancellor of the Exchequer and which were subsequently endorsed by Government. The current version of the principles covers the following areas:

- Effective decision making;
- Clear objectives;
- Risk & liabilities;
- Performance Measurement;
- Responsible ownership;
- Transparency and reporting.

The Fund's published statement can be found in the Pension Fund section of the following website: http://www.westminster.gov.uk/pensionfund

Investment Strategy

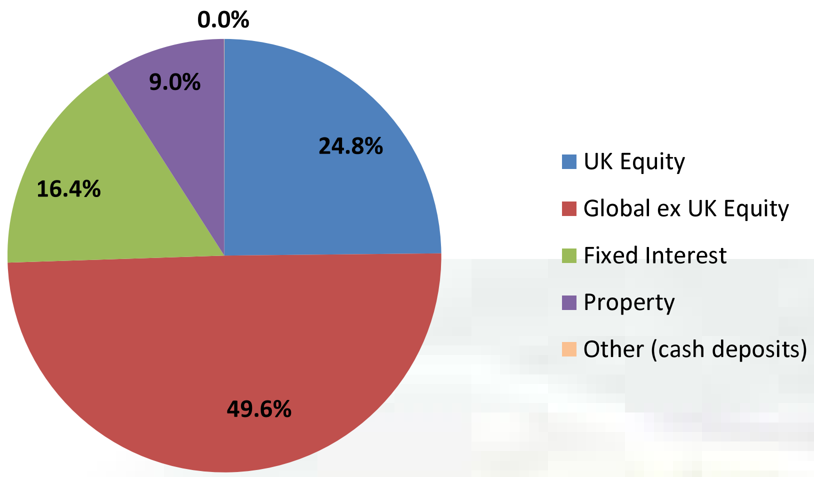
The investment objective is to ensure that the Fund's investments maximise the likelihood that benefits will be paid to members as they fall due and to ensure the continued long-term financial support from the sponsoring employer.

The Fund's strategic allocation during the year to 31 March 2014 comprised approximately 15% in assets more closely reflecting the nature of the liabilities and 85% in return seeking assets, split between UK and International equities and property.

The investment strategy of the Fund is to invest across three main asset classes – equities, fixed income and property. The investment strategy is designed to provide diversification and specialisation to reduce exposure to market risk and achieve optimum return against an appropriate benchmark.

The table and graph below shows how the Fund was split between the three main asset classes at 31/03/14. The split at 31/03/13 is shown in the table for comparison.

Portfolio	% Benchmark at 31/03/2014	Market Value at 31/03/2014 (£m)	% of Fund at 31/03/2014	Market Value at 31/03/2013 (£m)	% of Fund at 31/03/2013
UK Equity	33.8	239	24.8	313	36.4
Global ex UK Equity	41.2	479	49.7	321	37.5
Fixed Interest	15.0	159	16.5	186	21.6
Property	10.0	87	9.0	39	4.5
Other (cash and cash equivalent)				14	
TOTAL	**100.0**	**964**	**100.0**	**873**	**100.0**



The main change to the split of the portfolios in the year 2013/14 is an increase in the allocation to equity as a proportion of the total assets of the Fund and a reduction in the allocation for fixed interest and property. The "Other" category is made up mainly of cash and cash equivalents.

Investment Managers

The Fund has appointed external investment managers within the three main asset classes. 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. The table below shows how the Fund's assets were allocated between the investment managers at 31/03/14, and at 31/03/13 for comparison.

Asset class	Investment Manager	Market Value at 31/03/2014 (£m)	% of Fund at 31/03/2014	Market Value at 31/03/2013 (£m)	% of Fund at 31/03/2013
UK Equity	Majedie Asset Management	239	24.8	197	22.9
	State Street Global Advisors UK	0	0	115	13.5
Global Equity	Legal & General Investment Management	349	36.2	159	18.5
	Baillie Gifford & Co	130	13.5	0	0
Global (ex UK) Equity	State Street Global advisors Int'l	0	0	163	19.0
Fixed Income - Gilts	Insight Investment Management	17	1.7	48	5.5
Fixed Income – non-Gilts	Insight Investment Management	142	14.7	138	16.1
Property	Hermes	43	4.5	39	4.5
	Standard Life	44	4.6	0	0
Other	In-house cash	0	0	14	0
	TOTAL	**964**	**100.0**	**873**	**100.0**

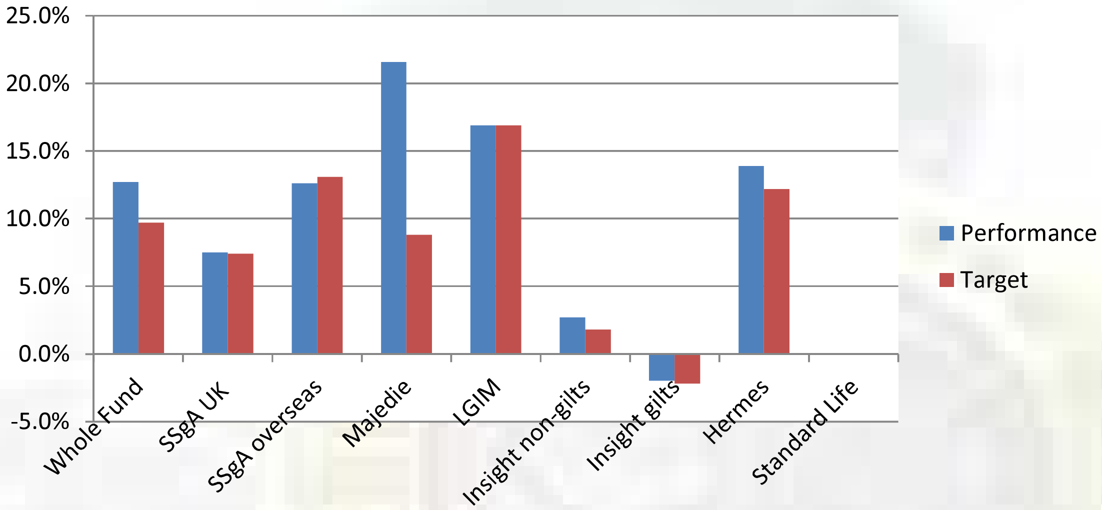
Investment Performance

The table below shows the performance of the Fund against the target in 2013/14, the previous financial year, and the annualised performance over three and since inception.

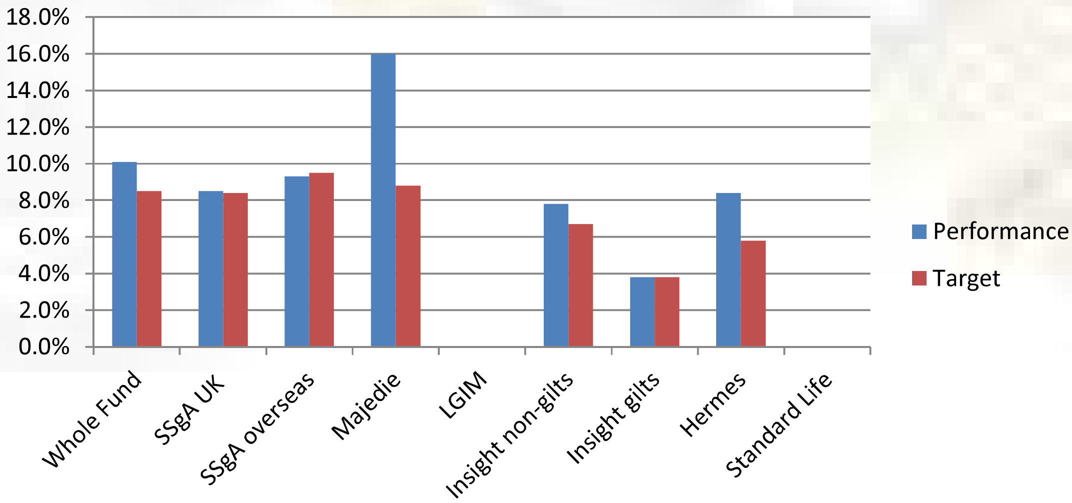
	2013/14	2012/13	3 years	Since Inception
Performance (gross of fees)	12.7%	15.2%	10.1%	5.7%
Benchmark	9.7%	13.5%	8.5%	5.2%
Out / (under) performance against Target	**3.0%**	**1.7%**	**1.6%**	**0.5%**

Each of the investment managers has a benchmark set within their Investment Management Agreements with the Fund. 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. The graphs below show the performance of the investment managers against their targets over 2013/14 and annualised over three years.

2013/14 Performance Against Benchmarks



Since Inception Annualised Performance Against Benchmarks



The graph shows that Majedie Asset Management significantly outperformed their benchmark in 2013/14 which mainly contributed to the outperformance against benchmark for the Fund as a whole over the year. The Superannuation Committee keeps under review the Fund's benchmarks and its investment asset allocation strategy.

Responsible Investment

The Fund recognises that the neglect of corporate governance and corporate social responsibility may lead to poor or reduced shareholder returns. Following consideration of how to address the issue, in the light of the resources available to the Fund, it has been decided to delegate responsibility for the consideration of responsible investment matters to the Fund's investment managers. The Committee believes this is the most efficient approach for a Fund of this size.

Custody and Banking

The Fund has appointed a global custodian, independent to the investment managers, to be responsible for the safekeeping of all of the Fund's investments. They are also responsible for the settlement of all investment transactions and the collection of income. During the period this report covers, the custodian was Bank of New York Mellon. The Fund's bank account is held with Lloyd's Bank. Funds not immediately required to pay benefits are held as interest bearing operational cash with Lloyds Bank.

3. Scheme Administration

The Local Government Pension Scheme ("LGPS") is a statutory pension scheme whose regulations are made by the government in accordance with the Superannuation Act 1972. It is a defined benefit pension scheme and the benefits are currently based on final salary and length of scheme membership.

Service Delivery

Although the LGPS is a national scheme, it is administered locally. Westminster City Council has a statutory responsibility to administer the pension benefits payable from the Pension Fund on behalf of the participating employers and the past and present members and their dependents. During the period covered by this report, London Pension Fund Authority was contracted to perform the pension administration service for Westminster City Council.

Key Service Standards

The London Pension Fund Authority work to an agreed set of targets based on the number of working days from the date all of the required information is available to them. The following table sets out their performance during 2013/14.

Work area	Target Days	Total Number	Within Target	% Within Target	Average Days
Starters	10	710	710	100	5.5
Transfer Value In (Quote)	10	171	171	100	180.04
Transfer Value In (Actual)	10	137	137	100	78.98
Transfer Value Out (Quote)	15	159	159	100	45.01
Transfer Value Out (Actual)	12	68	68	100	43.18
Refund	10	109	109	100	102.48
Preserved Benefit	15	520	520	100	72.51
Estimate (Benefit)	10	365	365	100	7.03
Retirement	5	291	291	100	78.88
Death in Service	5	12	12	100	185.26
Death on Pension	5	202	202	100	124.10
Quote AVCs	5	n/a	n/a	n/a	n/a
Quote ARCs	10	34	34	100	72.04

Membership of the Fund

The Fund provides pensions not only for employees of Westminster City Council, but also for the employees of a number of scheduled and admitted bodies. Scheduled Bodies are organisations which have the right to be a member of the Local Government Pension Scheme under the regulations e.g. academies. Admitted bodies participate in the scheme via an admission agreement, which is a legal document made between the Council and the organisation. Examples of admitted bodies are not for profit organisations with a link to the Council and contractors who have taken on the Council's services and therefore staff have been transferred.

The number of employers has been growing over the last five years. This is in part due to an increase in academies and free schools and partly due to outsourcing of Council services.

A full list of the Fund's current active contributing employers is set out at the end of this section below.

The table below shows the Fund's membership over the last five years[8]. It demonstrates how the number of active contributing members in the Pension Fund has been falling over the last five years and the number of pensioners and deferred members has been rising. This pattern is common across local government pension schemes and demonstrates the maturity of those schemes.

	31 March 2010	31 March 2011	31 March 2012	31 March 2013	31 March 2014
Contributors	4,038	3,903	3,527	3,391	3,862
Deferred	5,391	5,699	5,935	6,173	5,307
Pensioners & Dependents	4,883	4,989	5,177	5,230	6,335
Total Membership	**14,312**	**14,591**	**14,639**	**14,794**	**15,504**

Employer List

Below is a list of the current active contributing employers.

Scheduled Bodies	Admitted Bodies
WESTMINSTER CITY COUNCIL	TENANT SERVICES AUTHORITY[9]
	INDEPENDENT HOUSING OMBUDSMAN
WESTMINSTER EMPLOYERS:	HOUSING 21
ST MARYLEBONE SCHOOL	CITY WEST HOMES
ST AUGUSTINE'S SCHOOL	HOUSING AND COMMUNITIES AGENCY
COLLEGE PARK SCHOOL	RAMESYS
GREYCOAT SCHOOL	AMEY
HALLFIELDS SCHOOL	CREATIVE EDUCATION TRUST
QUINTON KYNASTON	ALLIED HEALTHCARE
WESTMINSTER CITY SCHOOL	
SOHO PARISH SCHOOL	
GEORGE ELLIOT SCHOOL	

[8] The above figures exclude undecided joiners and those with frozen pensions.
[9] Tenant Services Authority has since merged with the Housing and Communities Agency

Scheduled Bodies	Admitted Bodies
BURDETT COUTTS C OF E SCHOOL	
PADDINGTON GREEN JMI SCHOOL	
PORTMAN EARLY CHILDHOOD CENTRE	
QUEENS PARK PRIMARY	
ROBINSFIELD INFANTS SCHOOL	
ST BARNABAS C OF E SCHOOL	
ST GABRIEL'S C OF E SCHOOL	
ST MARY BRYANTSTON SCHOOL	
ST MARY MAGDALENE C OF E SCHOOL	
ST MATTHEW'S C OF E SCHOOL	
EDWARD WILSON JMI SCHOOL	
ESSENDINE PRIMARY SCHOOL	
ST PETER'S C OF E SCHOOL	
WILBERFORCE SCHOOL	
ST JAMES' & ST MICHAEL'S SCHOOL	
CHURCHILL GARDENS SCHOOL	
ST CLEMENT DANES SCHOOL	
ST LUKE'S SCHOOL	
ALL SOULS SCHOOL	
ST PETERS EATON SQUARE SCHOOL	
GATEWAY SCHOOL	
OTHER SCHEDULED BODIES	
WESTMINSTER ACADEMY	
PADDINGTON ACADEMY	
KING SOLOMON ACADEMY	
PIMLICO ACADEMY	
ARK ATWOOD PRIMARY ACADEMY	
QUINTON KYNASTON ACADEMY	
ST MARYLEBONE SCHOOL ACADEMY	
GREYCOAT HOSPITAL ACADEMY	
MILLBANK PRIMARY ACADEMY	
ST GEORGES MAIDA VALE ACADEMY	
WESTMINSTER CITY ACADEMY	
GATEWAY ACADEMY	
WILBERFORCE ACADEMY	
CHURCHILL GARDENS ACADEMY	
PIMLICO FREE SCHOOL	

Communication policy statement

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare, publish and maintain a communication policy statement. This statement sets out the methods used by the Fund to communicate with the various stakeholders, including scheme members, employers and their representatives.

The Fund's Communication policy statement can be found on the following website:

http://www.westminster.gov.uk/pensionfund or
www.yourpension.org.uk/Westminster/Members/Fund-Investment

Sources of information

Further information about the benefits payable from the Pension Fund can be found on the national Local Government Pension Scheme website www.lgps.org.uk . For further information about the administration of the scheme in Westminster, visit the website www.wccpensionfund.co.uk .

Internal Dispute Resolution Procedure

Members of pension schemes have statutory rights to ensure that complaints, queries and problems concerning pension rights are properly resolved.

To facilitate this process, an Internal Disputes Resolution Procedure (IDRP) has been established. While any complaint is progressing, fund members are entitled to contact The Pensions Advisory Service, 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 question. 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.

Both TPAS and the Pensions Ombudsman can be contacted at:
11 Belgrave Road
London
SW1V 1RB

Additional Voluntary Contributions

The Fund's AVC providers are AEGON (Scottish Equitable) and Equitable Life Assurance Society. The AVC providers secure benefits on a money purchase basis for those members electing to pay AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. In accordance with Regulation 4(2) (b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009 the contributions paid and the assets of these investments are not included in the Pension Fund Accounts, but are recorded in a disclosure note.

4. Actuarial Information

Summary of the last triennial valuation

The Fund is required to arrange an actuarial valuation of the Fund's assets and liabilities once every three years. This enables the employer contribution rates to be set for the coming three years. The last triennial valuation of the Fund was undertaken as at 31st March 2013.

The results of the valuation in 2013 are shown in the table below:

Value of Assets	£867m
Liabilities	(£1,164m)
Deficit	(£297m)
Funding Level	74%
Future Service Contribution Rate	13.3%
Past Service Recovery Contribution Rate	16.5%
Total Employer Contribution Rate	29.8%

These results show that the Fund had assets sufficient to meet 74% of the liabilities at the time of the last valuation. The actuary set an employer contribution rate of 13.3% of payroll to meet the cost of service built up in the Fund in future. An additional contribution of 16.5% of payroll was set to recover the deficit over a 25 year period. Individual employers pay adjusted rates to reflect the circumstances of their own membership.

Funding Strategy Statement

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare a funding strategy statement which sets out how the Fund will manage its liabilities and return to full funding. The strategy is considered by the Fund Actuary when undertaking the triennial valuation and setting the employer contribution rates. The statement is reviewed every three years in conjunction with the actuarial valuation.

The Fund's published statement can be found at the following website address:

http://www.westminster.gov.uk/pensionfund or
http://www.yourpension.org.uk/Westminster/Home.aspx

Funding Update from the Fund Actuary

The information below[10] has been provided by the Fund Actuary, Barnett Waddingham LLP.

Introduction

The last full triennial valuation of the City of Westminster Pension Fund was carried as at 31 March 2013 in accordance with the Funding Strategy Statement of the fund. The results were published in the triennial valuation report dated March 2014.

This statement gives an update on the funding position as at 31 March 2014 and comments on the main factors that have led to a change since the full valuation.

The estimated funding position in this statement at 31 March 2014 is just based on market movements over the year rather than being a full valuation with updated member data.

2013 Valuation

The results for the Fund at 31 March 2013 were as follows:

- The Fund as a whole had a funding level of 74% i.e. the assets were 74% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £297m which is higher than the deficit at the previous valuation in 2010.
- To cover the cost of new benefits and to also pay off the deficit over a period of 25 years, a total contribution rate of 29.8% of pensionable salaries would be needed.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their individual deficit.

Assumptions

The assumptions used at the whole Fund level to value the benefits at 31 March 2013 and used in providing this estimate at 31 March 2014 are summarised below:

Assumption	31 March 2013	31 March 2014
Discount rate	5.9% p.a.	6.0% p.a.
Pension increases	2.7% p.a.	2.8% p.a.
Salary increases	1% until 31 March 2016 then 4.5% p.a.	1% until 31 March 2015 then 4.6% p.a.
Mortality	S1PA tables with future improvements in line with the CMI 2012 Model with a long term rate of improvement of 1.5% per annum.	
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced	
Commutation	Members will convert 50% of the maximum possible amount of pension into cash	

[10] *Adapted from Funding Update Report as at 31 March 2014, Barnett Waddingham LLP*

The effect of the change in the assumptions over the year is discussed in the final section

Assets

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date so the asset values are also measured in a consistent manner although the difference between the smoothed and market values at either date is not expected to be significant.

At 31 March 2013, the value of the assets used was £867m and this has increased over the year to an estimated £1,003m.

Updated position

The estimated funding position at 31 March 2014 is a funding level of 81% which is an improvement on the position at 31 March 2013.

The assets have given a return of 7.2% over the year. Payment of deficit contributions during 2013/14 in line with agreed contribution schedules has improved the position. Changes in the assumptions used to value the liabilities between 31 March 2013 and 31 March 2014 have made a marginal improvement to the position.

The next formal valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017.

Graeme Muir FFA
Partner, Barnett Waddingham LLP

5. Pension Fund Accounts

This section sets out the full audited financial statements of the City of Westminster Superannuation Fund for the year ended 31st March 2014. The full financial statements for the Council, including the Superannuation fund, are available at http://www.westminster.gov.uk

The Authority's Responsibilities

The Authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Acting Section 151 Officer.
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the Statement of Accounts.

The Acting Section 151 Officer's Responsibilities

The Acting Section 151 Officer is responsible for the preparation of the authority's Statement of Accounts and of its Pension Fund Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ('the Code'), are required respectively to present fairly the financial position of the authority and of the Pension Fund at the accounting date and the income and expenditure for the year then ended.

In preparing these Statements of Accounts, the Acting Section 151 Officer has:

- Selected suitable accounting policies and then applied them consistently except where policy changes have been noted in these accounts.
- Made judgments and estimates that were reasonable and prudent.
- Complied with the Code.

The Acting Section 151 Officer has also:

- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Certificate of the Acting Section 151 Officer

I certify that the Accounts present a true and fair view of the financial position of the City of Westminster and the City of Westminster Superannuation Fund as at 31 March 2014 and income and expenditure for the year for the financial year 2013/14.

Anna D'Alessandro, Acting Section 151 Officer

CITY OF WESTMINSTER PENSION FUND

FUND ACCOUNT

	Notes	2012/13 £000	2013/14 £000
Dealings with members, employers and others directly involved in the fund			
Contributions			
From Employers	6	24,576	52,381
From Members	6	7,068	7,583
Transfers in from other pension funds		3,991	3,677
Other income		-	-
		35,635	**63,641**
Benefits			
Pensions	7	(36,941)	(38,244)
Commutation and lump sum retirement benefits	7	(6,146)	(5,349)
Payments to and on account of leavers			
Individual Transfers Out to other Pension Funds		(4,250)	(3,162)
Refunds to members leaving service		-	(81)
Other Expenditure	7	(941)	(1,642)
Administration expenses	8	(694)	(671)
		(48,972)	**(49,149)**
Net additions/(withdrawals) from dealings with members		**(13,337)**	**14,492**
Returns on investments			
Investment income	9	17,779	16,071
Other income		8	2
Taxes on income	9	(745)	(736)
Profit and loss on disposal of investments and changes in the market value of investments			
Realised		28,844	110,919
Unrealised		69,487	(16,120)
	12	98,331	94,799
Investment in management expenses	10	(2,013)	(3,107)
Net return on investments		**113,360**	**107,029**
Net increase/(decrease) in the net assets available for benefits during the year		**100,023**	**121,521**
Opening Net Assets of the Scheme		**774,153**	**874,176**
Closing Net Assets of the Scheme		**874,176**	**995,697**

NET ASSETS STATEMENT FOR THE YEAR ENDED 31 MARCH 2014 *

	Notes	2012/13 £000	2013/14 £000
Investment assets			
Fixed Interest Securities	13	160,912	128,343
Equities	13	172,424	208,296
Pooled investment vehicles	13	506,299	585,990
Derivative contracts	13	130	137
Cash	13	29,648	23,979
Other investment balances:			
income due	12	3,411	2,981
cash deposits	12	(161)	14,604
Derivative contracts:			
Forwards	13	159	90
		872,822	**964,420**
Investment liabilities	13		
Derivative contracts:			
- Futures	13	(45)	
Net value of investment assets		**872,777**	**964,420**
Borrowings		-	-
Current assets			
Contributions due - employers	20	1,441	1,621

NOTE 1 - DESCRIPTION OF THE CITY OF WESTMINSTER PENSION FUND

a) General

The Pension Fund (the 'Fund') is part of the Local Government Pension Scheme (LGPS) and is administered by the City of Westminster. It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the City of Westminster and the admitted and scheduled bodies in the Fund.

These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. From 1st April 2014, revised regulations will be effective changing the scheme from a final salary scheme to a career average revalued earnings based scheme. All benefits payable on service from 1st April 2014 onwards will be based on the average of each year of salary revalued in line with the Consumer Price Index.

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from interest and dividends on the Fund's investments.

The Fund is governed by the Superannuation Act 1972 and is administered in accordance with the following secondary legislation: the LGPS (Benefits, Membership and Contributions) Regulations 2007 (as amended), the LGPS (Administration) Regulations 2008 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009 (as amended). The regulations are updated on a regular basis by central government.

b) Superannuation Committee

The Council has delegated the investment arrangements of the scheme to the Superannuation Committee (the 'Committee') who decide on the investment policy most suitable to meet the liabilities of the fund and have the ultimate responsibility for the investment policy. The Committee is made up of six Members of the Council, including one opposition party Member, each of whom has voting rights.

The Committee reports to the full Council and has full delegated authority to make investment decisions. The Committee considers views from the Director of Corporate Finance & Investment, and obtains, as necessary, advice from the Fund's appointed investment advisors, managers and actuary.

c) Investment Principles

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

The latest Statement of Investment Principles (SIP) was approved in 2012 by the Superannuation Committee and outlines the broad investment principles governing the investment policy of the City of Westminster Pension Fund and demonstrates compliance with the "10 Investment Principles" identified in the Myners Review of Institutional Investment in the UK as subsequently revised in 2008 by the Department for Communities and Local Government.

The SIP is available from the Council's website at
https://www.westminster.gov.uk/council-pension-fund

The Fund's investment objective is to ensure that its assets are invested in a way that maximises 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 employers.

The Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

d) Membership

In July 2013, the City of Westminster implemented the Auto-Enrolment procedures for its pension fund whereby employees not in the fund are automatically enrolled. Should employees not wish to remain in the fund, they can elect to be withdrawn from the fund. Where this election occurs within three months of their auto-enrolment, the employee is refunded their employee contributions; where that election is more than three months after their auto-enrolment, the contributions paid remain in the fund. The in year increase in fund membership is largely due to the auto-enrolment process.

Organisations participating in the Fund include scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund and admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

The following table summarises the membership numbers of the scheme:

	31st March 2013	31st March 2014
Active members	3,391	3,862
Pensioners receiving benefits	5,230	5,307
Deferred Pensioners	6,173	6,335
Total	**14,794**	**15,504**

Details of the scheduled and admitted bodies in the scheme are shown in Note 6 (Contributions Receivable) and Note 7 (Benefits Payable).

e) Tri-Borough Working

The City of Westminster, London Borough of Hammersmith & Fulham and the Royal Borough of Kensington & Chelsea councils have combined certain parts of their operational areas to provide a more efficient service and greater resilience. One of the areas that have joined together has been the Treasury and Pension teams of the three boroughs.

The combined Pension team was formed in February 2012 and is responsible for the management of the pension fund investments across the three boroughs. The team is based at the City of Westminster's offices.

The pension fund operations will continue to be managed separately in accordance with Government Regulations and the strategies agreed by the home boroughs who will continue to have sovereignty over decision making.

NOTE 2 - BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The Statement of Accounts summarise the Fund's transactions for 2013/14 and its position at year end as at 31st March 2014. They have been prepared in accordance with International Accounting Standard 26 (IAS26): Accounting and Reporting by Retirement Benefit Plans and the Code of Practice on Local Authority Accounting in the United Kingdom (The Code). The Code is issued by the Chartered Institute of Public Finance and Accounting and is based on International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts have been prepared on an accrual basis in accordance with the Code, apart from transfer values which have been accounted for on a cash basis also in accordance with the Code.

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. IAS 26 gives administering authorities the option to disclose this information in the Net Asset statement, in the notes to the accounts or by appending an actuarial report, prepared for this purpose. The authority has opted to disclose this information in an accompanying report to the accounts which is discussed in Note 19.

NOTE 3 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Fund Account – Revenue Recognition

a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.
Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.
Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment Income

Investment Income is recognised on the following basis:

- Dividends from quoted securities are accounted for when the security is declared ex-div.
- Interest income is accrued on a daily basis.
- Investment income is reported net of attributable-tax credits but gross of withholding taxes which are accrued in line with the associated investment income.
- Irrecoverable withholding taxes are reported separately as a tax charge.
- Investment income arising from the underlying investments of the Pooled Investment Vehicles is reinvested within the Pooled Investment Vehicles and reflected in the unit price. It is reported within “Profit and Losses on Disposal of Investments and Change in Market Value”.

Fund Account – Expense Items

d) Benefits Payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Lump sums are accounted for in the period in which the member becomes a pensioner. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The Fund is an exempt approved fund under the Income and Corporation Taxes Act 1988 and is therefore not liable to certain UK income tax on investment income or to capital gains tax. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

f) Administrative Expenses

Expenses are accounted for on an accruals basis to ensure expenses for the full accounting period are accounted for in the fund account. All staff costs of the pension administration team are charged direct to the Fund.

g) Investment Management Expenses

The fees of the Fund's external investment managers reflect their differing mandates. Management fees are usually linked to the market value of the Fund's investments and therefore may increase or reduce as the value of the investment changes. An element of this fee may be performance related. Fees are also payable to the Fund's custodian and other advisors.

Investment management expenses are accounted for on an accruals basis to ensure expenses for the full accounting period are shown.

Net Assets Statement

h) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. Quoted Investments have been valued by the Fund's Custodian using internationally recognised pricing sources (bid price at market value). Unquoted investments are included at fair value based on valuation advice from the investment manager.

Fixed interest securities are stated at a price that excludes accrued income. Accrued income is accounted for within investment income.

Pooled Investment Vehicles are stated at bid price or at the Net Asset Value quoted by their respective managers.

Forward foreign exchange contracts are valued by determining the gain or loss that would arise from closing out the contract at the reporting date by entering into an equal and opposite contract at that date.

Acquisition costs of investments are treated as part of the investment cost.

i) Foreign Currency Transactions

Investments held in foreign currencies as at the 31 March 2014 reporting date are shown at their sterling market value calculated using the prevailing applicable spot exchange rate.

j) Derivatives

Derivatives are stated at market value. Exchange traded derivatives are stated at market values determined using market prices. For Exchange Traded Derivative Contracts which are Assets, market value is based on quoted bid prices. For Exchange Traded Derivative Contracts which are Liabilities market value is based on quoted offer prices.

Open futures contracts are included in the net asset statement at their fair market value, which is the unrealised profit or loss at the current bid or offer market quoted price of the contract. Amounts due to the

broker represent the amounts outstanding in respect of the initial margin (representing collateral on the contracts) and any variation margin which is due to or from the broker.
The amounts included in the profit and loss on disposal of investments and the change in market value are the realised gains or losses on closed futures contracts and unrealised gains or losses on open futures contracts.

Over-the-Counter (OTC) derivatives are stated at market value using pricing models and relevant market data as at the reporting date.

All gains and losses arising on derivative contracts are reported within “Profits and losses on disposal of investment and changes in value of investment” within the Fund Account Statement.

k) Cash and Cash Equivalents

Cash and cash equivalents comprise cash in hand and deposits with financial institutions which are repayable on demand without penalty.

l) Financial Liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

m) Actuarial present value of promised retirement benefits

Paragraph 6.5.2.8 of the CIPFA Code of Practice on Local Authority Accounting sets out that the actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS19 Post Employment Benefits and relevant actuarial standards. As permitted under IAS26 Accounting and Reporting by Retirement Benefit Plans, the financial statements include a report from the Actuary by way of disclosing the actuarial present value of retirement benefits.

n) Additional Voluntary Contributions

Additional Voluntary Contributions for the defined benefit scheme are not included within the accounts in accordance with the relevant regulations and are paid over to be invested separately from the pension fund in the form of individual insurance policies with Aegon and Equitable Life. More information is given in Note 22.

o) Recharges from the General Fund

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have been charged to the Fund on the basis of actual time spent on Pension Fund business. Costs incurred in the management and administration of the fund is set out separately.

NOTE 4 – CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING PRACTICES

The Accounts contains certain estimated figures that are based on assumptions made by the Council and other bodies about the future or that are otherwise uncertain. Estimates are made because they are required to satisfy relevant standards or regulations and are on the basis of best judgement at the time derived from historical experience, current trends and other relevant factors. As a result, actual results may differ materially from those assumptions.

a) Pension Fund Liability

The Pension Fund liability is calculated triennially by the appointed actuary as permitted under IAS 26. The most recent triennial valuation was as at 31st March 2013 so the next one is due as at 31st March 2016 and is expected to be completed by March 2017. The methodology used follows generally agreed guidelines and is in accordance with IAS 19. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

These assumptions are summarised in Note 18 (Funding Arrangements) that should be read along with the Statement of the Actuary for 2014 and the Triennial Valuation as at 31 March 2013 that can be found on the Council's website.

b) Unquoted Private Equity Investments

It is important to recognise the subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equity assets are valued by the investment managers in accordance with industry standards.

NOTE 5 – EVENTS AFTER THE BALANCE SHEET

The £30M payment received from the Housing and Communities Agency on the 31st March 2014 was invested in the fund during April 2014.
As at 31st May 2014 the Fund's investments have changed in value to £1.009B compared to the value placed on the net assets statement as at the reporting date of 31 March 2014. This mainly reflects a combination of general asset market movements and the actual inflow of funds.

NOTE 6 – CONTRIBUTIONS RECEIVABLE

	2012/13 £'000				2013/14 £'000			
	Employees Normal	Employers Normal	Deficit	Early Retirement	Employees Normal	Employers Normal	Deficit	Early Retirement
Adminstering body								
WESTMINSTER CITY COUNCIL	4,865	12,678	-	433	5,194	14,011	-	350
ST MARYLEBONE SCHOOL	-	-	66	-	-	-	-	-
ST AUGUSTINE'S SCHOOL	29	81	-	-	34	100	-	-
COLLEGE PARK SCHOOL	16	44	-	-	2	4	-	-
GREYCOAT SCHOOL	10	27	-	-	-	-	-	-
HALLFIELDS SCHOOL	33	95	-	-	38	115	-	-
QUINTON KYNASTON	-	-	111	-	-	-	-	-
WESTMINSTER CITY SCHOOL	8	23	-	-	-	-	-	-
SOHO PARISH SCHOOL	4	13	-	-	6	19	-	-
GEORGE ELLIOT SCHOOL	13	37	-	-	22	66	-	-
BURDETT COUTTS C OF E SCHOOL	16	49	-	-	18	55	-	-
PADDINGTON GREEN JMI SCHOOL	13	38	-	-	17	52	-	-
PORTMAN EARLY CHILDHOOD CENTRE	19	53	-	-	29	85	-	-
QUEENS PARK PRIMARY	16	48	-	-	18	56	-	-
ROBINSFIELD INFANTS SCHOOL	10	30	-	-	19	35	-	-
ST BARNABAS C OF E SCHOOL	7	21	-	-	5	15	-	-
ST GABRIEL'S C OF E SCHOOL	8	22	-	-	9	26	-	-
ST MARY BRYANTSTON SCHOOL	12	35	-	-	14	43	-	-
ST MARY MAGDALENE C OF E SCHOOL	8	24	-	-	13	40	-	-
ST MATTHEW'S C OF E SCHOOL	10	30	-	-	11	34	-	-
EDWARD WILSON JMI SCHOOL	13	38	-	-	13	40	-	-
ESSENDINE PRIMARY SCHOOL	22	67	-	-	32	98	-	-
ST PETER'S C OF E SCHOOL	12	35	-	-	13	40	-	-
WILBERFORCE SCHOOL	18	53	-	-	9	24	-	-
ST JAMES' & ST MICHAEL'S SCHOOL	11	39	-	-	13	37	-	-
CHURCHILL GARDENS SCHOOL	19	57	-	-	9	28	-	-
ST CLEMENT DANES SCHOOL	11	32	-	-	15	45	-	-
ST LUKE'S SCHOOL	7	26	-	-	9	27	-	-
ALL SOULS SCHOOL	9	17	-	-	11	33	-	-
ST PETERS EATON SQUARE SCHOOL	7	19	-	-	8	25	-	-
GATEWAY SCHOOL	-	-	-	-	5	17	-	-
Subtotal of Westminster Employers	**5,226**	**13,731**	**177**	**433**	**5,586**	**15,170**	**0**	**350**
Scheduled bodies								
WESTMINSTER ACADEMY	36	58	-	34	35	47	-	-
PADDINGTON ACADEMY	91	109	-	-	75	135	-	-
KING SOLOMON ACADEMY	28	30	-	-	39	43	-	-
PIMLICO ACADEMY	98	139	-	-	90	128	-	8
ARK ATWOOD PRIMARY ACADEMY	8	10	-	-	10	13	-	-
QUINTON KYNASTON ACADEMY	68	122	-	-	76	139	-	-
ST MARYLEBONE SCHOOL ACADEMY	44	78	-	-	52	93	-	-
GREYCOAT HOSPITAL ACADEMY	30	68	45	-	43	93	-	-
MILLBANK PRIMARY ACADEMY	11	26	15	-	20	45	27	-
ST GEORGES MAIDA VALE ACADEMY	2	6	7	-	32	111	-	-
WESTMINSTER CITY ACADEMY	26	48	35	-	32	61	-	-
GATEWAY ACADEMY	-	-	-	-	10	23	-	-
WILBERFORCE ACADEMY	-	-	-	-	14	43	-	-
CHURCHHILL GARDENS ACADEMY	-	-	-	-	15	49	-	-
PIMLICO FREE SCHOOL	-	-	-	-	1	3	-	-
Subtotal of Scheduled bodies	**442**	**694**	**102**	**34**	**544**	**1,026**	**27**	**8**
Admitted bodies								
TENANT SERVICES AUTHORITY	441	651	-	206	382	566	-	-
AGE CONCERN	-	- 2	320	-	-	- 1	8	-
INDEPENDENT HOUSING OMBUDSMAN	123	355	110	86	126	369	116	-
HOUSING 21	8	85	191	-	2	10	201	-
CITY WEST HOMES	504	788	361	52	610	929	381	-
HOUSING AND COMMUNITIES AGENCY	310	426	5,651	65	299	415	32,702	-
RAMESYS	12	55	-	-	12	45	-	-
AMEY	-	-	-	-	5	20	-	-
CREATIVE EDUCATION TRUST	-	-	-	-	14	26	-	-
ALLIED HEALTHCARE	2	5	-	-	3	13	-	-
Subtotal of Admitted bodies	**1,400**	**2,363**	**6,633**	**409**	**1,453**	**2,392**	**33,408**	**-**
TOTAL CONTRIBUTIONS	**7,068**	**16,788**	**6,912**	**876**	**7,583**	**18,588**	**33,435**	**358**
TOTAL BY GROUP	**7,068**	**24,576**			**7,583**	**52,381**		

NOTE 7 – BENEFITS PAYABLE

	2012/13 £'000	2013/14 £'000
By category		
Pensions	(36,941)	(38,244)
Commutation and lump sum retirement benefits	(6,146)	(5,349)
Lump sum death benefits	(941)	(1,642)
	(44,028)	**(45,235)**

The fund paid benefits to members of the following employers. This summary excludes lump sum retirement benefits and death benefits as this information is not held at employer level.

	£'000	£'000
Westminster City Council	(32,154)	(33,332)
Scheduled bodies	(40)	(50)
Admitted bodies	(4,747)	(4,862)
	(36,941)	**(38,244)**

The fund paid benefits to members of the following employers. This summary excludes lump sum retirement benefits and death benefits as this information is not held at employer level.

	£'000	£'000
Westminster City Council	(32,154)	(33,332)
Scheduled bodies		
Westminster Academy	(36)	(37)
Paddington Academy	(4)	(4)
St Marylebone School Academy	0	(9)
Admitted bodies		
Tenant Services Authority	(445)	(469)
Age Concern	(18)	(19)
Independent Housing Ombudsman	(58)	(59)
Housing 21	(348)	(353)
City West Homes	(329)	(344)
Housing And Communties Agency	(470)	(482)
Elonex Ltd	(16)	(16)
Capital Careers Ltd	(62)	(63)
Association of Local Government	(82)	(116)
Housing Corporation	(2,855)	(2,874)
Institute Of Public Finance	(27)	(29)
Queens Park FSU	(37)	(38)
	(36,941)	**(38,244)**

Note: The admitted and scheduled bodies listed here differs slightly to that given in Note 6 (contributions receivable) due to the membership profile of the employer. Some employers no longer have any active members in the scheme, only pensioners.

NOTE 8 – ADMINISTRATIVE EXPENSES

	2012/13 £'000	2013/14 £'000
Provision of Pension Administration	(248)	(261)
Support services including IT	(364)	(318)
External audit fees	(21)	(21)
Actuarial fees	(5)	(26)
Other Fees	(56)	(45)
	(694)	**(671)**

NOTE 9 - INVESTMENT INCOME

	2012/13 £'000	2013/14 £'000
Fixed interest securities	7,076	6,533
Equity dividends	8,894	7,400
Pooled investments - unit trust and other managed funds	1,642	2,050
Interest and cash deposits	167	88
Total before taxes	**17,779**	**16,071**
Taxes on income	(745)	(736)
	17,034	**15,335**

NOTE 10 – INVESTMENT EXPENSES

	2012/13 £'000	2013/14 £'000
Management fees	(1,828)	(1,670)
Management fees related to performance	(40)	(1,250)
Custody fees	(85)	(79)
Investment consultancy	(60)	(71)
Other fees	-	(37)
	(2,013)	**(3,107)**

NOTE 11 – INVESTMENT STRATEGY

As at 31 March 2014, the investment portfolio was managed by eight external managers who are Hermes Investment Managers (Property), Standard Life (Property), Insight Investment Managers (fixed income), Majedie Investment Managers (active UK equity), Baillie Gifford (active global equities), Legal and General Investment Management (LGIM) (passive global equity), State Street Global Advisers UK (passive UK equities) and State Street Global Advisers International (passive global equities).

All managers have discretion to buy and sell investments within the constraints set by the Council's Superannuation Committee and their Investment Management Agreements.

The change in ratio of equities invested in UK and global investment strategies follows a decision taken by the Superannuation Committee in September 2012, which noted that the segregation is sub-optimal for investment choices, and introduces an artificial barrier.

The market value and proportion of investments managed by each fund manager at 31 March 2014 was as follows:

Fund Manager	Mandate	31 March 2013 Market Value (£M)	%	31 March 2014 Market Value (£M)	%
Majedie	UK Equity (Active)	196.93	22.94%	239.39	24.83%
State Street Global Advisors (UK)	UK Equity (Passive)	115.73	13.48%	0.01	0.00%
UK Equity	**Sub-Total**	**312.66**	**36.43%**	**239.4**	**24.83%**
Baille Gifford	Global Equity (Active)	-	-	130.15	13.50%
LGIM	World Equity (Passive)	158.79	18.50%	348.68	36.17%
State Street Global Advisors (Int'l)	Global Equity (Passive)	162.69	18.96%	-	0.00%
Global Equity	**Sub-Total**	**321.48**	**37.46%**	**478.83**	**49.67%**
Insight	Fixed Interest Gilts	47.57	5.54%	16.75	1.74%
Insight	Sterling non-Gilts	138	16.08%	141.87	14.71%
Bonds	**Sub-Total**	**185.57**	**21.62%**	**158.62**	**16.45%**
Hermes	Property	38.57	4.49%	43.45	4.50%
Standard Life	Property	-	-	43.83	4.55%
Property	**Sub-Total**	**38.57**	**4.49%**	**87.28**	**9.05%**
	Total	**858.28**	**100.00%**	**964.13**	**100.00%**
Other (cash deposits)		14.49		0.29	
	Total	**872.77**		**964.42**	

The Superannuation Committee has appointed Bank of New York Mellon as its global custodian. The bank account for the Fund is held with Lloyds Bank.

The current investment strategy is looking to diversify further the current asset mix with an increased weighting towards alternative investments and active global equity.

NOTE 12 – RECONCILIATION IN MOVEMENT IN INVESTMENTS

Period 2013/14	Market value 1st April 2013 £'000	Purchases during the year and	Sales during the year and	Change in market value during the	Market value 31st March 2014 £'000
Fixed interest securities	160,912	48,978	(76,597)	(4,950)	128,343
Equities	172,424	118,983	(115,424)	32,313	208,296
Pooled investments	506,299	325,655	(313,161)	67,197	585,990
Derivatives	85	1,025	(679)	(294)	137
Cash Instruments	29,648	231,563	(237,233)	1	23,979
Subtotal	869,368	726,204	(743,094)	94,267	946,745
Derivative Forward Foreign Exchange	159	388	(1,130)	673	90
Cash deposits	(161)	16,955	(2,055)	(135)	14,604
Outstanding dividends & recoverable withholding tax	3,411	160	(581)	(9)	2,981
Net investment assets	**872,777**	**743,707**	**(746,860)**	**94,796**	**964,420**

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £600K in 2013/14 (2012/13: £801K).

Period 2012/13	Market value 1st April 2012 £'000	Purchases during the year and	Sales during the year and	Change in market value during the	Market value 31st March 2013 £'000
Fixed interest securities	128,353	134,116	(110,097)	8,540	160,912
Equities	278,241	117,812	(251,611)	27,982	172,424
Pooled investments	267,067	358,290	(176,953)	57,895	506,299
Derivatives	(20)	1,436	(1,464)	133	85
Cash Instruments	24,962	282,486	(277,806)	6	29,648
Subtotal	698,604	894,140	(817,931)	94,555	869,368
Derivative Forward Foreign Exchange	756	4,138	(5,987)	1,252	159
Cash deposits	1,371	-	(1,643)	111	(161)
Outstanding dividends & recoverable withholding tax	3,805	-	(392)	(2)	3,411
Net investment assets	**704,536**	**898,278**	**(825,953)**	**95,916**	**872,777**

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include costs charged directly to the scheme such as fees, commissions, stamp duty and other fees. Transaction costs incurred during the year amounted to £801K in 2012/13 (2011/12: £660K).

NOTE 13 - CLASSIFICATION OF FINANCIAL INSTRUMENTS (EXCLUDING DERIVATIVE CONTRACTS)

	31st March 2013 £'000	31st March 2014 £'000
Fixed interest securities		
UK Public sector quoted	49,821	15,680
UK Corporate quoted	102,359	96,202
Overseas Corporate quoted	8,733	16,461
	160,912	**128,343**
Equities		
UK Quoted	144,551	147,614
Overseas Quoted	27,872	60,682
	172,424	**208,296**
Pooled funds - investment vehicles		
UK Managed Funds Other	131,900	21,960
UK Unit Trusts Property	35,787	82,508
Overseas Managed	338,612	481,522
	506,299	**585,990**
Cash Instruments		
UK	29,588	23,979
Overseas	60	-
	29,648	**23,979**
Total	**869,283**	**946,608**

The largest 10 holdings of the Fund as at 31st March 2014 were:

Holding	**Market Value £'000**	**% Holding**
Word Equity Index - GBP Hedged	185,466	19.23%
Baille Gifford Life Global Alpha Pension FD CLS S	130,150	13.50%
Standard Life Long Lease PPTY FUN	43,832	4.54%
Hermes Property Unit Trust PPTY UNIT TR	38,676	4.01%
Majedie Asset Management Special Sits INV B ACC NAV	21,960	2.28%
Royal Dutch Shell PLC B SHS	21,137	2.19%
BP PLC Ord USD0.25	17,928	1.86%
Glaxo Smithkline Ord GBP0.25	13,671	1.42%
Astrazeneca ORD USD0.25	9,778	1.01%
Vodafone Group Ord USD0.11428571	9,553	0.99%
Total	**492,152**	**51.03**
Total Value of Investments	**964,420**	

Excluding the fund's segregated mandates that are given in Note 1 Description of the Fund, no other single investment exceeds either 5% of the net assets available for benefits or 5% of any class or type of security except for some pooled investment vehicles as detailed above. These pooled investment vehicles are made up of underlying assets which will each represent substantially less than 5%.

Analysis of derivatives

A derivative is a financial contract whose value is dependent upon the price behaviour of an underlying contract or financial variable. Derivative receipts and payments represent the realised gains and losses on futures contracts.

The exposure to equities and fixed interest include futures on an economic exposure basis. Other than the pooled investment vehicles and over-the-counter derivatives (foreign exchange contracts), all the investments described below are quoted on a recognised stock exchange. The Fund has not sanctioned any kind of speculative use of derivatives. The Superannuation Committee has only authorised the use of derivatives for efficient portfolio management purposes and to reduce certain investment risks in particular, foreign exchange risk. All uses of derivatives are outsourced to the Fund's professional asset managers that must adhere to the detailed requirements set out in their investment management agreements.

	31st March 2013 £'000s	31st March 2014 £'000s
Futures contracts	**85**	**137**

Outstanding exchange traded future contracts are as follows:

Exchange traded future contracts	**Expiration**	Market value £'000s	Market value £'000s
Assets			
UK LONG GILT FUTURE (LIF)	less than 1 year	78	100
EURO-BOBL FUTURE (EUX)	less than 1 year	-	2
EURO-BUND FUTURE (EUX)	less than 1 year	52	-
US 10 YR TREAS NTS FUTURE (CBT)	less than 1 year	-	35
		130	137

		31st March 2013 £'000s	31st March 2014 £'000s
Liabilities			
EURO-BOBL 30 YR BOND FUT (EUX)	less than 1 year	(20)	-
EURO-SCHATZ FUTURE (EUX)	less than 1 year	(1)	-
US 2YR TREAS NTS FUT (CBT)	less than 1 year	-	-
US 10 YR TREAS NTS FUTURE (CBT)	less than 1 year	(25)	-
		(45)	-
Net futures		**85**	**137**

Forward foreign exchange contracts - Over-the-Counter Contracts:

	31st March 2013 £'000s	31st March 2014 £'000s
Insight Investment Management	159	90
	159	**90**

NOTE 14 - FAIR VALUE OF FINANCIAL INSTRUMENTS AND LIABILITIES

	31st March 2013		31st March 2014	
	Market Value £'000	Book Costs £'000	Market Value £'000	Book Costs £'000
Investment assets	869,368	751,733	946,745	845,145
Cash deposits	(2)	(2)	14,694	14,694
Income due	3,411	3,411	2,981	2,981
Total Value of Investments	**872,777**	**755,142**	**964,420**	**862,820**

NOTE 15 – CONTINGENT LIABILITIES AND CONTRACTUAL COMMITMENTS

As at 31 March 2014, the Fund has no contingent liabilities or contractual commitments.

NOTE 16 – STOCK LENDING

Stock lending is subject to specific approval. No direct stock lending or underwriting took place during the financial year.

NOTE 17 – NATURE OF RISK ARISING FROM FINANCIAL INSTRUMENTS

Risk and Risk Management

The aim of the Fund is to provide a pool of assets sufficient to meet the long-term pension and other benefit liabilities (as prescribed by the Local Government Pension Scheme Regulations) for the members of the Fund. Therefore, the Fund's primary long-term risk is that its assets fall short of its liabilities such that there are insufficient assets to pay promised benefits to members.

The investment objectives have been set with the aim of maximising investment returns over the long term within specified risk tolerances. This aims to optimise the likelihood that the promises made regarding members' pensions and other benefits will be fulfilled. Investment returns are defined as the overall rates of return (capital growth and income).

Responsibility for the Fund's risk-management strategy rests with the Superannuation Committee. (Risk management policies are established that aim to identify and analyse the investment risks faced by the Fund).

Policies are regularly reviewed in the light of changing market and other conditions. The Superannuation Committee receives advice from relevant officers, the Fund's appointed actuary, investment managers, custodian and its appointed investment advisor.

Per IFRS 7 Financial Instruments, the financial instruments within the Fund which are carried at fair value are all categorized as Level 1 – quoted prices on active markets.

a) Market Risk

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.

Market risk is the risk of loss emanating from general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investments.

Price Risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to price risk. This arises from investments held by the fund for which the future price is uncertain. All securities represent a risk of loss of capital. The maximum risk resulting from financial instruments (with the exception of derivatives where the risk is currency related) is determined by the fair value of the financial instruments. The fund's investment managers aim to mitigate this price risk through diversification and the selection of securities and other financial instruments.

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed Interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Superannuation Committee recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits.

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than pounds sterling. The Fund aims to mitigate this risk through the use of derivatives (see Analysis of Derivates).

The Superannuation Committee recognises that a strengthening/weakening of the pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits.

b) Credit Risk

Credit risk is the possibility that other parties might fail to pay amounts due to the Fund, either in whole, in part or on a timely basis. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

The selection of quality fund managers, counterparties, brokers and financial institutions helps to reduce credit risk.

c) Liquidity Risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The Fund's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on its cash flow needs. Cash flows are monitored and managed with assistance from a central treasury team, under policies approved by the Council.

NOTE 18 – FUNDING ARRANGEMENTS

The Local Government Pension Scheme (Administration) Regulations 2008 requires the Administering Authority to carry out a formal valuation of the Fund every three years. The main purpose of the valuation is to review the financial position of the Fund and to recommend the contribution rates payable to the Fund in the future.

The latest triennial valuation was signed by the Actuary, Barnett Waddingham, on 28th March 2014. It provided a position of the Pension Fund as of 31st March 2013, together with the view of the Actuary of the deficit based on certain assumptions. This showed there was a shortfall of £297.3M at 31st March 2013 relative to the funding target (i.e. the level of assets agreed by the Authority and the Actuary as being consistent with the Funding Strategy Statement appropriate to meet member benefits, assuming the Fund continues as a going concern). This corresponds to a funding ratio of 74% (2010: 74%).

Full details of the 2013 actuarial valuation report and the funding strategy statement can be found on the Council's website at https://www.westminster.gov.uk/council-pension-fund

The market value of the scheme's assets at 31 March 2013 was £866.9M and the Actuary assessed the present value of the funded obligation at £1,164M resulting in the net shortfall of £297.3M. Under IAS19 the Actuary has assessed the value of the assets to be £874.1M, the present value of the funded obligation to be £1,418.6M, resulting in a shortfall of £544.4M. The Fund has chosen to disclose under Option C of the regulations which means that the IAS26 report is in a separate document.

The aggregate employer contribution rate required to restore the funding ratio to 100%, using a recovery period of 25 years from 1 April 2014 is calculated to be 29.8% of Pensionable Pay (2010 over 30 years:20.4%) assuming membership numbers remain broadly stable and Pensionable Pay increases in line with the then actuary's assumptions. The common future service contribution rate for the Fund was set at 13.3% of Pensionable Pay (2010: 12.4%).

The triennial valuation also sets out the individual contribution rate to be paid by each Employer from 1st April 2014 to 31st March 2017. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report, on the Council's website.

The contributions receivable disclosed in these accounts are based on the actuarial valuation as at 31st March 2010 which set contribution rates for the period 1st April 2011 to 31st March 2014.

The actuarial valuation as at 31st March 2013 was carried out using the projected unit method for employers remaining open to new entrants, whereas employers who did not allow new entrants to join were valued using the Attained Age Method. The valuation is based on economic and statistical assumptions, the main ones being:

i. The rate of accumulation of income and capital on new investments over the long-term and the increase from time to time of income from existing investments.

ii. Future rises in pensionable pay due to inflation and pension increases.

iii. Withdrawals from membership due to mortality, ill health and ordinary retirement.

iv. Progression of pensionable pay due to promotion.

The detail of the key financial assumption is shown in the table below:

Discount Rate (Scheduled Bodies)	
Pre retirement	5.9% per annum
Post retirement	5.9% per annum
Discount Rate (Admitted Bodies)	
In Service	4.9% per annum
Left Service	3.5% per annum
Rate of increases in pay	4.5% per annum (1% for the 3 years to 31st March 2016)
Rate of Increases to pensions in payment	2.7% per annum

The contribution rate for the Council is set on the basis of the cost of future benefit accrual, increased to bring the funding level back to 100 per cent over a period of 25 years, as set out in the Funding Strategy Statement. It is set to be sufficient to meet the additional annual accrual of benefits allowing for future pay increases and increases to pension in payment when these fall due, plus an amount to reflect each participating employer's notional share of value of the Fund's assets compared with 100 per cent of their liabilities in the Fund in respect of service to the valuation date.

The next actuarial valuation of the Fund will be as at 31 March 2016 and will be published in 2017.

NOTE 19 – ACTUARIAL PRESENT VALUE OF PROMISED RETIREMENT BENEFITS

The Authority has chosen to disclose the actuarial present value of promised retirement benefits through an accompanying report only at formal triennial valuations, the most recent being as at 31st March 2013, as permitted under IAS26 option C. The actuarial present value is calculated on assumptions set in accordance with IAS19.

IAS19 requires that the assets be valued at Fair Value. For the purposes of the exercise, asset values were taken directly from the Fund's audited annual accounts as at 31st March 2013 and 31st March 2010. Service related benefits were valued based on service completed to the date of calculations only.

The key assumptions adopted for the 2013 valuation in accordance with IAS19 were as follows:

	31st Mar 13 (% p.a.)	31st Mar 10 (% p.a.)
Financial Assumptions		
Discount rate	4.1	5.5
RPI Inflation	3.5	3.9
CPI Inflation	2.7	3.0
Rate of increase to pensions in payment	2.7	3.9
Rate of increase to deferred pensions	2.7	3.9
Rate of general increase in salaries *	4.5	5.4
Mortality Assumptions		
Longevity at 65 for current pensioners (aged 65):		
Male	21.9	22.1
Female	25.0	24.3
Longevity at 65 for future pensioners (aged 45):		
Male	24.0	24.0
Female	27.3	26.3

* The long term salary increase is shown. In addition the actuary has allowed for a short term overlay from 31st March 2013 to 31st March 2016 for salaries to rise at 1.0% per annum.

NOTE 20 – CURRENT ASSETS

Debtors	31st March 2013 £'000	31st March 2014 £'000
Contributions due - employers	1,441	1,621
Contributions due - employees	604	638
Sundry debtors	304	189
	2,349	**2,448**

Analysis of debtors

	31st March 2013 £'000	31st March 2014 £'000
Central government bodies	-	-
Other entities and individuals	2,349	2,448
	2,349	**2,448**

NOTE 21– CURRENT LIABILITIES

	31st March 2013 £'000	31st March 2014 £'000
Sundry creditors	(477)	(872)
Benefits payable	(153)	(365)
	(630)	**(1,237)**

Analysis of creditors

	31st March 2013 £'000	31st March 2014 £'000
Central government bodies	-	-
Other entities and individuals	(630)	(1,237)
	(630)	**(1,237)**

NOTE 22 – ADDITIONAL VOLUNTARY CONTRIBUTIONS

Additional Voluntary Contributions are not included in the Pension Fund in accordance with Regulation 4 (2) (C) of the LGPS (Management and Investment of Funds) Regulations 2009 (SI 2009 no. 3093).

The scheme provides for members to pay Additional Voluntary Contributions (AVCs) to increase their benefit entitlement at retirement subject to HMRC limits. Such contributions attract tax relief and provide increased benefits. AVCs for the defined benefit scheme are not included within the accounts and are paid over to be invested separate from the pension fund in the form of individual insurance policies with Aegon and Equitable Life. Members participating in this arrangement receive an annual statement confirming the amounts held in their accounts and the movements in year. At 31st March 2014 the value of these AVCs was £1.7M (2012/13 £1.5M). Additional voluntary contributions of £0.1M were paid directly to Aegon during the year (2012/13: £0.1M).

	Market Value 31st March 2013 £'000	Market Value 31st March 2014 £'000
AEGON	1,091	1,258
EQUITABLE LIFE	464	457
	1,555	**1,715**

More information can be obtained from the AVC providers by writing to the following addresses:

Equitable Life Assurance Society, PO Box 177, Walton Street, Aylesbury, Bucks HP21 7HY.

Aegon, Edinburgh Park, Edinburgh EH12 9SE.

NOTE 23 – RELATED PARTY TRANSACTIONS

The City of Westminster Pension Fund is administered by Westminster City Council. The Council incurred costs of £0.32M in the period 2013/14 (2012/13 £0.36M) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses. The Fund uses the same Payroll and Banking and Control Service provider as WCC and no charge is made in respect of this.

In year the Council contributed £14.4M in employer contributions and £0.35M in respect of early retirement capital costs (2012/13 £13.1M and £0.43M).

The Council has significant interest in one admitted body (City West Homes) who are within the Fund and it received £1.3M in employer contributions, deficit and early retirement costs from this body.

NOTE 24 – CONTINGENT ASSETS

Funds in respect of the Age Concern Westminster deficit have now been recovered and there are no new contingent assets for 2013/14.

Independent Auditor's Report To The Members Of City Of Westminster

Independent auditor's report to the members of City of Westminster Council

We have audited the financial statements of City of Westminster Council for the year ended 31 March 2014 on pages 24 to 44. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the members of the Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the members of the Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Acting Section 151 Officer and auditor

As explained more fully in the Statement of the Acting Section 151 Officer's Responsibilities, the Acting Section 151 Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Authority's, the Group's and the Pension Fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Acting Section 151 Officer; and the overall presentation of the financial statements.

In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Authority and the Group as at 31 March 2014 and of the Authority's and the Group's expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2014 and the amount and disposition of the fund's assets and liabilities as at 31 March 2014 other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

Matters on which we are required to report by exception

The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 11 to 17 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or 6
- INDEPENDENT AUDITORS REPORT TO MEMBERS OF WESTMINSTER CITY COUNCIL
- the information given in the explanatory foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; or
- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or
- any recommendations have been made under section 11 of the Audit Commission Act 1998; or
- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters.

Andrew Sayers
for and on behalf of KPMG LLP, Appointed Auditor
Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
30 June 2014

6. Contacts

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64 Victoria Street
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SW1E 6QE
Email: pensionfund@westminster.gov.uk

Pensions and Payroll Officer
Westminster City Council
City Hall
64 Victoria Street
London
SW1E 6QE

Pension Administration Services (WCC Team)
Surrey County Council
Room G59
County Hall
Kingston upon Thames
Surrey
KT1 2DN
Telephone: 020 8541 9293
Email: wccpensions@surreycc.gov.uk
Website: www.wccpensionfund.co.uk

National Local Government Pension Scheme information website
www.lgps.org.uk

The Pensions Advisory Service (TPAS)
11 Belgrave Road
London SW1V 1RB
Telephone: 0845 601 2923
Email: www.pensionsadvisoryservice.org.uk/online-enquiry

The Office of the Pensions Ombudsman
11 Belgrave Road
London, SW1V 1RB
Telephone: 020 7630 2200
Email: enquiries@pensions-ombudsman.org.uk

7. Glossary

Active member: Current employee who is contributing to a pension scheme.

Actuary: An independent professional who advises the Council on the financial position of the Fund. Every three years the actuary values the assets and liabilities of the Fund and determines the funding level and the employers' contribution rates.

Additional Voluntary Contributions (AVC): An option available to active scheme members to secure additional pension benefits by making regular contributions to separately held investment funds managed by the Fund's AVC provider.

Admitted Body: An organisation, whose staff can become members of the Fund by virtue of an admission agreement made between the Council and the organisation. It enables contractors who take on the Council's services with employees transferring, to offer those staff continued membership of the Fund.

Asset Allocation: The apportionment of a fund's assets between different types of investments (or asset classes). The long-term strategic asset allocation of a Fund will reflect the Fund's investment objectives.

Benchmark: A measure against which the investment policy or performance of an investment manager can be compared.

Deferred members: 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 Scheme: A type of pension scheme, where the pension that will ultimately be paid to the employee is fixed in advance, and not impacted by investment returns. It is the responsibility of the sponsoring organisation to ensure that sufficient assets are set aside to meet the pension promised.

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

Equities: Ordinary shares in UK and overseas companies traded on a stock exchange. Shareholders have an interest in the profits of the company and are entitled to vote at shareholders' meetings.

Fixed Interest Securities: Investments, mainly in government stocks, which guarantee a fixed rate of interest. The securities represent loans which are repayable at a future date but which can be traded on a recognised stock exchange in the meantime.

Index: A calculation of the average price of shares, bonds, or other assets in a specified market to provide an indication of the average performance and general trends in the market.

Pooled Investment Vehicles: Funds which manage the investments of more than one investor on a collective basis. Each investor is allocated units which are revalued at regular intervals. Income from these investments is normally returned to the pooled fund and increases the value of the units.

Return: The total gain from holding an investment over a given period, including income and increase or decrease in market value.

Scheduled Body: An organisation that has the right to become a member the Local Government Pension Scheme under the scheme regulations. Such an organisation does not need to be admitted, as its right to membership is automatic.

Unrealised Gains/Losses: The increase or decrease in the market value of investments held by the fund since the date of their purchase.

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Superannuation & Investment Committee

City of Westminster

Date:	**8th September 2014**
Classification:	**Not for Publication**
Title:	**Pension Communications and Engagement Strategy update**
Report of:	**Director of Human Resources**
Wards Involved:	**Not Applicable**
Policy Context:	**Communicating and engaging with LGPS stakeholders**
Financial Summary:	**There are some financial implications arising from this report in terms of additional employer contributions**
Report Author and Contact Details:	**Carolyn Beech** **Tel: 020 7641 3221** **Email: cbeech@westminster.gov.uk**

1. Summary

1.1 Human Resources (HR) is committed to ensuring that current employees, ex-employees and all other stakeholders understand, and where appropriate are able to take advantage of the benefits associated with, membership of the Local Government Pension Scheme (LGPS).

1.2 To drive this commitment HR has in place an active communications and engagement strategy. In particular this report details the impact of auto enrolment and the implementation of the 50/50 scheme on membership numbers highlighting the financial impact of the increase.

1.3 This report does not include employees in other pension schemes such as the teachers and NHS schemes.

2. Recommendation

2.1 That the Committee notes the contents of this report.

3. Auto Enrolment update

3.1

Number of people in the LGPS as at 01/07/2013 (prior to auto enrolment)	2171
Number of people currently paying into the LGPS (August 2014)	2729
Number of people entitled to join the LGPS – (includes schools support staff, claims posts etc)	4034
Number of additional people in the LGPS following the introduction of the 50/50 scheme	8 (this number is included in the 2729 above)

Note: Membership has increased by 558 people since auto enrolment.

3.2 The main reason stated by employees for opting out during auto enrolment was affordability.

4. Financial implications of the increase

The additional members (558) are driving ongoing additional funds into the WCC pension scheme but also increasing costs to the authority.

The addition contributions into the WCC LGPS have increased by the following:-

- Employer contributions have increased by £1.2M per year.
- The employee contributions are £.4M per year
  (This figure is estimated as there are differing contribution rates and part time workers included in the 558 people)

5. Future engagement and communications strategy

5.1 On the 1st September 2014 the Pensions Administration contract was awarded to Surrey County Council (SCC) governed via a section 101 agreement.

5.2 Letters have been sent to all deferred and pensioner members to inform them of the change to SCC, with an internal message also sent to all staff.

5.3 A new pension website was launched on 1st September 2014 www.wccpensionfund.co.uk which is being hosted by a different provider Hymans Robertson.

5.4 Initially the number one priority was to ensure that all financial records, current workloads and the pensioners payroll were transferred between the LPFA and SCC correctly, the new arrangements with SCC now provide WCC with an opportunity to reinvigorate our engagement and communications strategies during the remainder of 2014/15 and beyond.

5.5 Revised engagement and communications plans are currently being drawn up with SCC and will be subject to a future report, however the committee are asked to note the immediate interim engagement plans for the remainder of 2014/15 are as follows:

- Pensioners Fund member panel – 25th September 2014
- Westminster AGM – 8th October 2014
- Pension Surgery - November 2014 (dates to be confirmed with SCC)
- Winter newsletter – December 2014
- Admitted body workshop / best practices. – December 2014 (dates to be confirmed with SCC).

5.6 In our future engagement strategies it is envisaged that we will further highlight the benefits of the 50/50 scheme to address point 3.2 above.

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City of Westminster

Committee Report

Decision Maker:	**SUPERANNUATION COMMITTEE**
Date:	**8 September 2014**
Classification:	**Public**
Title:	**Responses to Government Consultations on the LGPS**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are minimal future financial implications arising from this report.**
Report of:	**Jonathan Hunt** ***Director of Corporate Finance and Investments*** **jonathanhunt@westminster.gov.uk** **020 7641 1804**

1. Executive Summary

1.1. The final tri-borough response to the Department for Communities and Local Government consultation was submitted in July 2014. This consultation focused on Collective Investment Vehicles and the balance of active and passive management.

1.2. Officers have also responded to a further consultation from the Department for Communities and Local Government, this time concerning scheme governance. This sought comments on draft regulations to implement the governance elements of the Public Sector Pensions Act 2013 in the Local Government Pension Scheme.

2. Recommendation

2.1 The Committee note the contents of this report.

3. Background

3.1 In May 2014, the Department for Communities and Local Government (DCLG) published a consultation document – "*Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies*". This focused on Collective Investment Vehicles and the balance of active and passive management. This was discussed in a report to this committee on 14 July 2014, where initial thoughts in response to the consultation were provided.

3.2 In June 2014, the DCLG published another consultation, this time on draft regulations to implement the governance requirements of the Public Sector Pensions Act 2013 in the Local Government Pension Scheme (LGPS). The Public Sector Pensions Act 2013 sets out the governance requirements for all public sector pension schemes, including the unfunded national schemes such as the Teachers Pension Scheme and the NHS, as well as the LGPS.

4. Proposals and Issues

“Opportunities for Collaboration, Cost Savings and Efficiencies”

4.1 As reported to the committee on 14 July 2014 the DCLG consultation on *“Opportunities for Collaboration, Cost Savings and Efficiencies”* focused on Collective Investment Vehicles and the balance of active and passive management. The final tri-borough response to this consultation is attached at Appendix 1 for the committee’s information.

Draft Regulations on Scheme Governance

4.2.1 In June 2014 DCLG published another consultation – this time on the draft regulations on scheme governance to implement the requirements of the Public Sector Pensions Act 2013 (“the Act”) in the LGPS. Responses to this consultation were due to be submitted by 15th August 2014. A copy of the consultation paper is attached at Appendix 2.

4.2.2 One of the main provisions of the Act is for schemes which are subject to local administration, such as the LGPS, to provide for the establishment of local pension boards. These are required to be set up by administering authorities by 1st April 2015.

4.2.3 The pension board will be responsible for assisting the scheme manager in securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme. Scheme managers will be responsible for administering, investing and managing the pension fund and may delegate these responsibilities to a committee, an officer or an investment manager (as appropriate). It is the officers’ understanding that the pension board will not be decision makers but will check that the scheme manager and those with delegate responsibilities comply with scheme regulations and other legislation relating to the governance and administration of the scheme. Information available to date has been limited but the remit of pension boards is expected to be clarified by the statutory guidance to be issued in October.

4.2.4 The Act requires pension boards to have an equal number of employer representatives and scheme member representatives, the total of which cannot be less than four. Before appointment, the administering authority must be satisfied that the representatives have "the relevant experience and capacity to perform their roles" and that they do not have a conflict of interest. Consideration must be given to the process of appointing scheme member and employer representatives onto the local pension boards and whether there is likely to be sufficient interest and uptake for the number of roles required for each of the individual Funds.

4.2.5 The draft regulations state that elected members cannot be employer or scheme member representatives but they may be appointed (as can other types of members, such as independent experts) over and above the required representative members. The costs of local pension boards are to be regarded as administration costs charged to the fund.

4.2.6 The scheme manager will be responsible for administering, investing and managing the pension fund and may delegate these responsibilities to a committee, an officer or an investment manager (as appropriate). In the case of the Westminster City Council (WCC), it is assumed the existing delegation to the Superannuation Committee will continue to deal with these matters. The pension board will check that the scheme manager (in WCC's case, the committee) complies with the scheme regulations and other legislation relating to the governance and administration of the scheme.

4.2.7 Given that the policy issues concerning pension boards are already determined by the Act, the consultation was focused on the practicalities of setting up a board and implementing the Act. Given this focus, a tri-borough officer response was submitted to DCLG and this is attached at Appendix 3 for information.

4.2.8 One of the key issues raised by the consultation is the possibility of joint pension boards. The tri-borough response argues that such an arrangement for the tri-borough funds would allow for efficiencies and it would be advantageous for it to be available as an option. However if the final regulations allow such an approach, decisions will need to be made by the three councils at that time if this is something to be pursued.

4.2.9 Final regulations are expected to be published in October 2014, alongside statutory guidance and the process to set up a pension board will be underway shortly to ensure it is in place by 1st April 2015.

5. Financial Implications

5.1 The draft regulations make clear that the costs of administering pension boards can be charged to the Pension Fund. It is expected that the statutory guidance will include information about whether it will be appropriate to remunerate board members. This will enable officers to have a clearer picture as to the likely cost of the board, however it is not expected to be significant in the context of the Fund's administration costs.

6. Conclusion and Next Steps

6.1 The Committee is invited to comment on the draft regulations and discuss the practicalities of a Tri-Borough board and how it might interact with the respective committees responsible for the pension funds in each administering authority.

6.2 Officers will provide a further report once the final regulations and statutory guidance has been published. In the meantime, officers will commence preparations for the establishment of pension boards.

If you have any questions about this report, or wish to inspect one of the background papers, please contact:

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

Tri-Borough Consultation Response

The City of Westminster, London Borough of Hammersmith & Fulham and the Royal Borough of Kensington and Chelsea have been managing their respective pension fund investments for over two years as part of a Tri-Borough initiative, in part to reduce costs for the three councils. The funds remain sovereign in their decision making and asset allocation processes but considerable efficiencies and greater resilience in service provision have been achieved through the joint administration arrangements. Hence, we consider ourselves well placed to offer our views on the consultation on *The Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies* and we welcome this opportunity to respond.

We note that following the Call for Evidence carried out last summer, the work commissioned by CLG last autumn, the subsequent report from Hymans Robertson and this Consultation that there have been significant discussions on the structure of the LGPS which could have far reaching consequences. We welcome the substantive nature of the discussions and understand the importance of considering a broad range of ideas and approaches. The objective should be to reach agreement on a structure that will provide long term stability on a sustainable basis, rather than a quick-fix which may achieve short-term savings but at the expense of asset growth in the longer-term.

Before discussing the current consultation, we would like to consider some of the points made in the Government's response to the Call for Evidence on the future of the LGPS. The maintenance of the link between a fund's asset allocation and local determination is a key plank of local democracy – given the local impacts of the costs that would fall on the administering authority.

While the two primary objectives listed last summer were dealing with deficits and improving investment returns, the current consultation adds the reduction of costs and greater efficiencies.

We note that the Shadow Board will be asked to continue to explore options for dealing with deficits and trust that considerations such as these will be taken forward in the best interests of the LGPS as a whole.

The objectives for improving investment returns and the reduction of costs are not necessarily aligned because although passive management fees are undoubtedly cheaper, the higher costs of active management are often far outweighed by the higher returns achieved. The return <u>net of fees</u> is therefore the most important consideration. This is not only the case in rising equity markets. When markets fall, it is inevitable that the fund's loss will be commensurate with the market fall if the assets are passively invested. However, a good active manager should be able to protect a significant proportion of a fund's assets by switching into more favourable sectors or other asset classes.

There has been much discussion of whether size is a factor in generating better returns and outcomes. At best, these arguments have been inconclusive, with some small and some large funds performing very well while others of similar size languish lower in the league tables. Rather than size, it is likely that the strength of knowledge on the pension committee and the overall quality of the governance arrangements are determinants of performance.

Under the Tri-Borough arrangements, we have found greater efficiencies and significant advantages in the running of three funds which, though segregated, can all benefit from the sharing of ideas, discussion of strategies, reduction in costs and improved oversight. While this is noted in the current consultation, we believe there is more to be gained in this area from the adoption of similar approaches elsewhere, than is given credit for in the current Consultation.

This leads on to the current Consultation on the LGPS. We note that while the current consultation is focusing on fees, we firmly believe (as we demonstrate below) that the focus should be on outperformance over a relevant benchmark, net of fees. Focusing on the absolute level of fees may provide some understanding of costs the more relevant and useful information is what value is actually being added to the funds through the particular strategy. In some cases, the costs may be greater but these may be justified by higher returns. This last point seems to have been lost in the recent analysis by Hymans Robertson.

Turning to the questions posed in the current Consultation:

1. Do you agree that common investment vehicles would allow funds to achieve economies of scale and deliver savings for listed and alternative investments? Please explain and evidence your view.

Collective (rather than Common) Investment Vehicles (CIVs) are indeed a way for some funds to achieve economies of scale and deliver savings for a range of asset classes, but there is also a governance benefit (depending on how they are structured). The Tri-Borough Funds are working closely with London Councils and are supportive of their proposals for a London CIV. This proposed CIV is expected to be an effective model given the similar sizes of pension funds, the proximity of locations which facilitates joint meetings, as well as similar structural backgrounds of many London boroughs. Tri-Borough officers have been extensively involved in setting up the London CIV which is expected to be operational in 2015. The proposed London CIV will be available to London LGPS funds on a voluntary basis, ensuring that the individual pension committees retain the right to invest in the most effective and beneficial manner as they see fit.

The Tri-Borough Funds firmly believe that CIVs would allow groups of funds to achieve economies of scale and deliver significant savings. Within Tri-Borough, some managers have already aggregated fees where two authorities have the same mandate and there is every reason to expect that by coming together with other funds (through a CIV), further savings could be achieved.

Looking further ahead, CIVs could provide opportunities to pool resources and have far stronger governance over illiquid and often fragmented asset classes such as private equity and infrastructure. Long-term investments such as these are well suited to the liability profiles of pension funds, but require specialist knowledge which would be best paid for collectively. At present, the main way of investing in these asset classes tends to be through fund of funds structures.

There are other ideas that could be considered alongside CIVs, where some large funds undertake a significant amount of asset management in-house (especially outside London). Such funds could provide services such as passive management to other LGPS funds. The legal vehicle of such an offer may have to be via a CIV for technical reasons, and that may have to be a different structure to the proposed London CIV. There may also need to be changes to regulation to allow one LGPS fund to manage assets on behalf of another LGPS fund.

As it is early days in the development of the CIV structure, we do not believe it is appropriate to set out in regulation a “one size fits all” model.

2. Do you agree with the proposal to keep decisions about asset allocation with the local fund authorities?

Yes. Asset allocation is a key decision taken by each pension committee and an important means of managing pension fund cashflows and deficits. It is also important that the decision regarding the use of active or passive management (itself a subset of asset allocation decisions) is made at the local level, since different types of investments will be appropriate for schemes with different membership profiles and funding levels.

3. How many common investment vehicles should be established and which asset classes do you think should be separately represented in each of the listed asset and alternative asset common investment vehicles?

We do not have a fixed view on how many collective investment vehicles there should be, but there should be enough to make investing effective and efficient. There may be some geographic constraints to consider when establishing CIVs if governance and efficiencies are to improve as a result of the CIV structure. There are three key issues which determine our view on the number of collective investment vehicles:

Governance – To work effectively for the benefit of the LGPS, there needs to be a strong governance structure in place for any CIV. The larger the CIV, the more robust the governance structure needs to be. Given that funds will still be responsible for investment strategies locally, it is crucial they are able to input into the direction a CIV takes.

In London, this is being achieved by establishing a joint committee of elected members who represent the participating boroughs and have oversight of the CIV. This ensures that local democracy feeds through to the CIV and that the investment needs of the boroughs are met by the structure.

The geography of the CIV is important in this regard given that meetings with managers and other funds in the CIV may be more effective where held in person. For example, a CIV established in the North East may be of limited benefit to funds in the South West.

If there were to be only one or two CIVs nationally, not all Funds would be able to have representation and the local democratic input would be significantly reduced.

Capacity – As we set out in our response to the Call for Evidence, many of the best managers have a natural ceiling to their investment strategies and close to new business in order to protect this. This ensures that diminishing returns do not result from the market impact on price, which can happen when managing a large value of assets. If a small number of CIVs each of significant size were introduced, there is a risk that the best fund managers may not offer their best products because of this capacity issue.

Competition – In order to ensure that the LGPS continues to get the best possible deals from the industry, it is important to ensure there is competition. A monopoly situation of just one CIV is unlikely to lead to competitive pricing and value for money for the LGPS. However, if a number of CIVs were operating, comparisons between them would be possible, enabling the LGPS to put further pressure on the industry to deliver value for money.

It is our view that each CIV should offer all asset classes which the participating funds require and for which there is a clear benefit through the CIV structure. The structure of the proposed London CIV allows it to offer a range of asset classes through a series of sub funds. Therefore it is not necessary, or desirable, to have one CIV per asset class.

The London CIV is expected to have sub-funds representing different asset classes and will be driven by the needs and requests from the participating boroughs via the joint committee. This structure ensures the CIV remains relevant to the investment strategies which are being set locally.

The London CIV is also being set up on a voluntary basis, so that funds can still invest outside the CIV where this is more beneficial to them. It is our view that this flexibility is essential to enable LGPS funds to maximise their investment return and ultimately meet their liabilities.

4. What type of common investment vehicle do you believe would offer the most beneficial structure? What governance arrangements should be established?

Following the work undertaken by London Councils, we believe a CIV needs to have the following characteristics:

- Appropriate for professional institutional investors to pool assets;
- Capable of supporting a range of separately managed sub funds;
- Efficiently run and cost-effective;
- Appropriately regulated;

- Have assets held by an appropriate custodian/depositary;
- Tax efficient with regard to any capital gains or income tax at fund level;
- Give appropriate access to Dual Tax Treaties to minimise Withholding Tax;
- Suitable for a wide range of investment strategies including conventional and alternative assets.

As London Councils developed the work to set up the London CIV, they have taken external advice from experts in the fields of tax, law, asset servicing and had discussions with HM Treasury. This has led to the conclusion that a UK Authorised Contractual Scheme (ACS) is the most appropriate (if not, only) vehicle for a LGPS CIV.

The Tri-borough funds are represented on the London CIV working group so we have a good understanding that alternative structures are less attractive. An ACS is regulated by the Financial Conduct Authority, is tax transparent, enables the accessing of different asset classes and it is an on-shore UK based vehicle.

An appropriate governance structure would depend on how and where the CIV is established. In London, it has been agreed that this is best delivered through the Joint Committee. This ensures that local democracy flows through to the CIV and the development of what is offered is driven by the investment strategies of the participating boroughs.

5. In light of the evidence on the relative costs and benefits of active and passive management, including Hymans Robertson's evidence on aggregate performance, which of the options set out above offers best value for taxpayers, scheme members and employers?

The decision of whether to invest on an active or passive basis is an integral part of asset allocation and the setting of an investment strategy for a Fund. The consultation states at paragraph 4.8 that "all asset allocation decisions should remain with the fund authorities". We believe this should include the decision of whether the management of the assets is on an active or a passive basis.

The Tri-Borough funds invest the majority of their assets on an active basis. We believe that long-term active asset management can play a key role in reducing deficits and contribution levels. We do not think it will be possible to eliminate fund deficits through passive management alone. The three pension Committees of the Tri-Borough funds have extensive knowledge and understanding of investment matters enabling them to make informed decisions and monitor effectively their investment strategies and the managers they have selected. This experience leads to good governance which has ensured the active strategies have been successful over long periods.

For example, the Royal Borough of Kensington and Chelsea pension fund has invested in active management strategies for over these 20 years. The returns from one active manager have exceeded the performance benchmarks by 1.6% per annum. Over the 20 years, this investment has earned the pension fund £196 million, net of fees. Had the funds been invested on a passive basis, the pension fund would have earned only £126 million – £70 million less than the active return.

The Hammersmith & Fulham and Westminster funds have invested with another manager on an active basis, since 2005. In this time these investments have earned £65 million and £68 million respectively over the index, net of all fees. This is double what would have been returned had the funds been invested on a passive basis.

For all three funds, this active return (net of fees) is significant added value, which has assisted in the reduction of the respective deficits.

Active management of assets is not just confined to portfolios of only equities or bonds, there are other investment options for funds to manage risk on an active basis and in particular protect against downturns in markets.

For example the Hammersmith and Fulham fund invested with a diversified fund manager on an absolute return basis in August 2008. During the following eight months, the FTSE All Share fell 26.8% while the fund delivered a positive return of 12.7% for Hammersmith and Fulham net of all fees. In total over the whole of the period Hammersmith and Fulham have invested with them the return net of fees has been 78.3%, whereas the FTSE All Share has returned only 56.2%. This demonstrates how difficult it is for passive investments to recover from a period of market underperformance.

Restricting LGPS funds' ability to invest in active management would have the, perhaps unintended, consequence of limiting the options for funds to manage risk through other investment options. If funds had a requirement to use some passive management, this would be a forced importing of risk to the fund's strategy. Investing passively or actively is not mutually exclusive, and indeed two of the Tri-Borough funds have taken a decision to be invested in both active and passive listed equities at the same time.

Passive management can be effected through a number of different indices and approaches. The consultation provides no definition of passive management and so it is not clear what range of approaches are considered appropriate.

LGPS funds are required to explain what the investment strategy is, and why, through the Statement of Investment Principles. It is in this document that a Committee's investment decisions are explained, and we believe this is the most appropriate document to state the decision whether to invest actively or passively.

This would enable the funds with the appropriate governance in place to continue to invest on an active basis where it is in the best interests of their fund and where value can be added.

Department for Communities and Local Government

The Local Government Pension Scheme (Amendment) Regulations 2014

Draft Regulations on Scheme Governance

Consultation

This document/publication is also available on our website at www.gov.uk

Any enquiries regarding this document/publication should be sent to us at:

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 030 3444 0000

ISBN : 978-1-4098-4254-5

The Consultation Process and How to Respond

Scope of the consultation

Topic of this consultation:	The Local Government Pension Scheme (Amendment) Regulations 2014
Scope of this consultation:	This consultation seeks responses from interested parties on draft scheme governance regulations for the new Local Government Pension Scheme which came into force on 1 April 2014.
Geographical scope:	England and Wales.
Impact Assessment:	These Regulations have no impact on business or the voluntary sector.

Basic Information

To:	This consultation is aimed at all Local Government Pension Scheme interested parties.
Body responsible for the consultation:	The Secretary of State for Communities and Local Government is responsible for policy and the consultation exercise.
Duration:	8 weeks. As timing allows, account will be taken of representations made after the close of the consultation.
Compliance with the Code of Practice on Consultation:	This consultation complies with the Code and it will be for 8 weeks. The consultation is aimed at all parties with an interest in the Local Government Pension Scheme and in particular those listed on the Government's website: https://www.gov.uk/government/publications/local-government-pension-scheme-regulations-information-on-who-should-be-consulted

Background

Getting to this stage:	The Government commissioned Lord Hutton to chair the Independent Public Service Pensions Commission to review public service pensions and to make recommendations on how they can be made sustainable and affordable in the long term, and fair to both public sector workers and the taxpayer. Lord Hutton's final report was published on 10 March 2011. In that report he made clear that change is needed to "make public service pension schemes simpler and more transparent, fairer to those on low and

	moderate earnings". The recommendations made by Lord Hutton were accepted by the Government and were carried forward into the Public Service Pensions Act 2013. The Act included a requirement for DCLG as a responsible authority to make regulations establishing a national scheme advisory board and enabling each LGPS administering authority to establish local pension boards. In June 2013, the Department published an informal discussion paper inviting comment from a wide range of interested parties on how the requirements of the 2013 Act should be taken forward into the new 2014 Scheme. The outcome of that exercise and comments from the Shadow Scheme Advisory Board has been fully taken into account in the preparation of the draft regulations. These draft regulations carry forward these requirements into the 2014 Scheme

How to respond

1. You should respond to this consultation by **15 August 2014**.

2. You can respond by email to Sandra.layne@communities.gsi.gov.uk. When responding, please ensure you have the words "LGPS Governance Regulations 2014" in the email subject line.

Alternately you can write to:

LGPS Governance Regulations 2014
Department for Communities and Local Government
Zone 5/F5 Eland House
Bressenden Place
LONDON SW1E 5DU

3. When responding, please state whether you are responding as an individual or representing the views of an organisation. If responding on behalf of an organisation, please give a summary of the people and organisations it represents and, where relevant, who else you have consulted in reaching your conclusions.

Additional copies

4. This consultation paper is available on the Department for Communities and Local Government website at: https://www.gov.uk/government/organisations/department-for-communities-and-local-government

Confidentiality and data protection

5. Information provided in response to this consultation, including personal information, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

6. If you want the information that you provide to be treated as confidential, please be aware that, under the Freedom of Information Act 2000, there is a statutory code of practice with which public authorities must comply and which deals, amongst other things, with obligations of confidence. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, in itself, be regarded as binding on the department.

7. DCLG will process your personal data in accordance with the Data Protection Act 1998 and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. Individual responses will not be acknowledged unless specifically requested.

Help with queries

8. Questions about the policy issues raised in the document can be sent to the address given at paragraph 2 above.

9. A copy of the consultation criteria from the Code of Practice on Consultation is at http://www.cabinetoffice.gov.uk/resource-library/consultation-principles-guidance. Are you satisfied that this consultation has followed these criteria? If not or you have any other observations about how we can improve the process please email: consultationcoordinator@communities.gsi.gov.uk

or write to:

DCLG Consultation Co-ordinator, Zone 8/J6, Eland House, Bressenden Place London SW1E 5DU.

Contents

Chapter 1

Introduction

1.1 This document commences a period of statutory consultation on the new governance arrangements for the 2014 Local Government Pension Scheme ("LGPS") which came into effect on 1 April 2014. Your comments are invited on the set of draft regulations at **Annex A**. and also on the separate policy issues included at Chapter 3 below.

1.2 **The closing date for responses is 15 August 2014**.

Background and context

1.3 This consultation on the Local Government Pension Scheme (Amendment) Regulations 2014 represents a key step in the process of reform that began with the commitment given in the Coalition Government's programme to review the efficiency, effectiveness and sustainability of public service pension schemes.

1.4 A key aim of the reform process is to raise the standard of management and administration of public service pension schemes and to achieve more effective representation of employer and employee interests in that process.

1.5 The Public Service Pensions Act 2013 included two main provisions to achieve this policy objective. Firstly, a requirement for responsible authorities such as DCLG to establish at national level a Scheme Advisory Board with responsibility to provide advice to the Department on the desirability of changes to the Scheme. And secondly, in cases where schemes like the Local Government Pension Scheme are subject to local administration, for scheme regulations to provide for the establishment of local pension boards to assist administering authorities with the effective and efficient management and administration of the Scheme.

Consultation responses

1.6 In view of the need to give administering authorities and other interested parties sufficient lead-in time to establish local pension boards, Ministers have agreed to a consultation period of 8 weeks.

1.7 To allow for the fullest response to proposed Scheme regulations, every attempt will be made to include any late submissions.

1.8 Your comments should therefore be sent by 15 August 2014 to LGPS Governance Regulations 2014, Department for Communities and Local Government, Zone 5/G6, Eland House, Bressenden Place, London SW1E 5DU. Electronic responses can be sent to Sandra.layne@communities.gsi.gov.uk.

Chapter 2

Proposals for consultation

2.1. The Regulations are being made under the powers conferred by the Public Service Pensions Act 2013. Under Section 3(5) of the 2013 Act, the Regulations require the consent of Treasury before being made.

Preliminary Provisions

2.2 **Regulation 1** covers the citation, commencement, interpretation and extent of the Regulations. The Regulations will apply to the Scheme in England and Wales and, for the most part, will come into operation on 1 October 2014 to allow sufficient time for the new Scheme Advisory Board and local pension boards to become operational on 1 April 2015.

2.3 **Regulation 2** amends the Principal 2013 Regulations in accordance with regulations 3 to 5.

2.4 **Regulation 3** deletes Regulation 53(4) from the Principal 2013 Regulations because that provision becomes obsolete in view of the amendments introduced by these Regulations.

2.5 **Regulation 4** amends Schedule 1 to the Principal 2013 Regulations to include definitions of “Local Government Pensions Scheme Advisory Board” and “local pension board”.

2.6 **Regulation 5** inserts new regulations 105, 106,107, 108, 109, 110, 111, 112 and 113 into the Principal 2013 Regulations. These provisions are described in detail immediately below.

Main Provisions

2.7 **New Regulation 105** confers power on the Secretary of State to delegate functions under the Principal 2013 Regulations and administering authorities to delegate their functions. It also allows for any delegated function by an administering authority to be sub-delegated.

Local pension boards : establishment

2.8 **New Regulation 106** concerns the establishment of local pension boards.

2.9. **Regulation 106(1)** provides that each administering authority must establish a local pension board no later than 1 April 2015. This would not prevent a board being established before that date.

2.10 **Regulation 106(1)(a) and (b)** sets out the role of a local pension board as being to assist the administering authority in securing compliance with (i) the Principal 2013 Regulations, (ii) any other legislation, and (iii) requirements imposed by the Pensions Regulator in relation to the Scheme. The role is further extended by **Regulation 106(1)(b)** to assist the administering authority in ensuring the effective and efficient governance and administration of the Scheme. These provisions mirror those set out in section 5(2) and (3) of the Public Service Pensions Act 2013.

2.11**. Regulation 106(2)** carries forward into the Principal 2013 Regulations, section 5(7) of the Public Service Pensions Act 2013. This provides that where the scheme manager of a Scheme under section 1 of the Act is a committee of a local authority, the scheme regulations may provide for that committee also to be the board for the purposes of this section. This is discussed in more detail in Chapter 3.

To ensure that any proposal to combine the committee and local pension board into a single, dual-function body is appropriate and practicable, **Regulation 106(2)** requires such proposals to be approved by the Secretary of State. Where appropriate, the Department may seek advice from relevant interested parties, in particular, the Scheme Advisory Board and Pensions Regulator.

2.12 **Regulation 106(3)** provides that the Secretary of State may, in giving such approval, impose any such conditions that he thinks fit.

2.13 **Regulation 106(4)** enables the Secretary of State to withdraw any approval given under Regulation 106(2) if any of the conditions given under Regulation 106(3) are not met or, more generally, that there is evidence to suggest that the combined body is no longer working as intended.

2.14 **Regulation 106(5)** sets out the means by which an administering authority establishes its local pension board but the draft offers two different alternatives of the regulations as described later in Chapter 3 (Other connected policy issues). Consultees are specifically invited to indicate and comment on their preference.

2.15. **Regulation 106(6)** provides that the costs of local pension boards are to be regarded as administration costs charged to the fund.

Local pension boards : membership

2.16. **Regulation 107(1) –** requires each administering authority to determine the membership of the local pension board; the manner in which such members may be appointed and removed and the terms of their appointment.

2.17**. Regulation 107(2)** provides that in determining membership of their local pension board, an administering authority must include employer representatives and member representatives in equal numbers, the total of which cannot be less than four.

2.18**. Regulation 107(2(a)** prevents a councillor member of a local authority being included either as an employer or member representative, but this does not prevent an administering authority from appointing councillor members of a local authority (or any other person) to the local pension board over and above the required equal number of employer and member representatives.

2.19**. Regulation 107(2)(b)** requires an administering authority to be satisfied that employer and member representatives appointed to a local pension board have the relevant experience and the capacity to perform their respective roles. There is a risk that could act as an unhelpful barrier to people putting themselves up as pension board nominees but we believe that this pre-condition is necessary to ensure that appointees to the board have the background and capacity to undertake the duties and responsibilities required of pension board members. The Department will work closely with all relevant interested parties in preparing and publishing guidance on the experience and capacity required of local pension board nominees.

(It is important to note that Regulation 107(2)(b) and the pre-condition of "relevant experience and capacity" is not to be confused with the requirement for pension boards members to acquire "knowledge and understanding" under section 248A of the Pensions Act 2004 as introduced by paragraph 19 of Schedule 4 (Regulatory oversight) to the Public Service Pensions Act 2013.

2.20**. Regulation 107(3)** ensures that the number of employer and member representatives appointed to a local board must represent a majority of total members.

Local pension boards : conflict of interest

2.21. **Regulation 108(1)** carries forward section 5(4) of the Public Service Pensions Act 2013 and requires each administering authority to be satisfied that any person appointed to a local pension board does not have a conflict of interest as defined in section 5(5) of that Act.

2.22**. Regulation 108(2)** requires an administering authority to monitor conflict of interests over time.

2.23**. Regulations 108(3) and (4)** impose requirements on persons to provide relevant information to the administering authority on nomination as a member of a local pension board and, if appointed, during membership.

Local pension boards : guidance

2.24**. Regulation 109** requires an administering authority to have regard to guidance issued by the Secretary of State in relation to local pension boards. In formulating such guidance, the Department will work closely with all relevant interested parties, including the Scheme Advisory Board and the Pensions Regulator.

Scheme advisory board : establishment

2.25**. Regulation 110(1)** provides that a scheme advisory board is established.

2.26**. Regulation 110(2)** sets out the responsibility of the scheme advisory board to provide advice to the Secretary of State on the desirability of making changes to the Scheme in accordance with section 7(1) of the Public Service Pensions Act 2013. But note that we are not proposing to carry forward the provision in the Act that such advice is to be at the Secretary of State's request. We believe that the interaction between the Department and the scheme advisory board should be open and transparent and that scheme regulations should not prevent the scheme advisory board from initiating its own advice or recommendations to the Secretary of State.

2.27**. Regulation 110(3)** extends the scope of the scheme advisory board to include advice and assistance to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and its pension funds.

2.28**. Regulation 110(4)** permits the scheme advisory board to establish its own procedures.

Scheme advisory board : membership

2.29**. Regulation 111(1)** sets out the membership requirements of the scheme advisory board. The Chair of the scheme advisory board is to be appointed by the Secretary of State and the Department will work closely with the Shadow scheme advisory board in formulating and organising the nomination and appointment process. Membership of the board must comprise at least 2 and no more than 12 persons appointed by the Chair with the approval of the Secretary of State.

2.30**. Regulation 111(2)** confers a duty on the Secretary of State to ensure that approval under Regulation 111(1)(b) is subject to consideration of how fair the Chair has been in nominating employer and scheme members to the board for approval.

2.31**. Regulation 111(3)** requires the constitution of the scheme advisory board to include details of the terms and conditions of members' appointments.

2.32. **Regulation 111(4)** permits persons who are not members of the scheme advisory board to be appointed as members of any sub-committee to the board.

2.33**. Regulation 111(5)** applies the same provision in Regulation 111(3) to members of any sub-committee to the board.

Scheme advisory board : conflict of interest

2.34**. Regulation 112** applies the provision in sections 7(4) and (5) of the Public Service Pensions Act regarding conflict of interest to nominees and members of the scheme advisory board.

Scheme advisory board : funding

2.35**. Regulation 113(1)** provides that the expenses of the scheme advisory board are to be treated as administration costs to the Scheme and recharged to administering authorities in such proportions as are determined by the board.

2.36**. Regulation 113(2)** ensures that safeguards are in place to ensure value for money. Before any monies can be levied on administering authorities by the scheme advisory board, the board's annual budget must first have been approved by the Secretary of State.

2.37**. Regulation 113(3)** requires an administering authority to pay the amount determined by the scheme advisory board under Regulation 113(2).

Chapter 3

Other connected policy issues

Combined Section 101 committee and local pension board (Regulation 106(2)).

3.1. Draft **Regulation 106(2**) enables a single, dual function body to carry out the functions of both a section 101 committee established by the administering authority to manage and administer the Scheme and those of a local pension board.

3.2. In practice, a combined body would be subject to two separate legal codes under both the Local Government Act 1972 and associated legislation, and the Public Service Pensions Act 2013. A combined body might also have difficulty in ensuring that all members had both knowledge and understanding that is currently expected of elected members and the experience and capacity required of local pension board members. There could also be difficult and different issues about conferring voting rights and compliance with local government law on the political composition of committees.

3.3. The Public Service Pensions Act 2013 does allow for this facility in scheme regulations but we are not compelled to introduce it. Comments are therefore invited on whether the Regulations should include such provision.

Establishment of local pension boards (Regulation 106(5)}

3.4. The draft regulations offer two alternatives to the way in which an administering authority could establish their local pension board.

3.5. The first version of **Regulation 106(5)** offers a simple solution by proposing that establishment of a local board should be undertaken as if it was a committee under section 101 of the Local Government Act 1972. This would automatically apply the section 101 regime to the way in which local boards are to be established. Although this option would provide administering authorities with a ready-made set of provisions to help them establish local pension boards, it is arguable that local pension boards should be established on a bespoke basis best suited to their own role and responsibilities.

3.6. The alternative version of **Regulation 106(5)** confers a wide discretion on administering authorities to establish the procedures applicable to a local pension board such as voting rights, the establishment of sub-committees, the formation of joint committees and payment of expenses. This list is not exhaustive, and could include some of the features of the section 101 regime, such as voting rights, political composition, etc. Although this option would represent more of a burden to administering authorities, it would allow greater flexibility and choice at local level in the way that local pension boards are established.

3.7. Consultees are therefore invited to state their preference for option 1, option 2, or any other proposal. Where option 2 is preferred, it would be helpful if the response could also set out those elements which should either be specifically excluded or included from the wide discretion afforded by the second version of Regulation 106(5).

Funding of the Scheme Advisory Board (Regulation 113)

3.8. It is accepted that funding the Scheme Advisory Board will be a complex and difficult matter. **Regulation 113** has been drafted on the basis of informal discussions with interested parties but we acknowledge that more work needs to be done to both ensure that the board is adequately funded to enable them to carry out their agreed work plans and that the cost of the board to each administering authority is fair and represents value for money.

3.9. Comments are therefore invited on what additional provision we need to make to Regulation 113 to achieve both objectives and regarding any other aspect of the scheme advisory board's funding.

Joint pension boards

3.10. As currently drafted, these Regulations require each administering authority to establish a local pension board. However, the extent to which administering authorities are either already sharing, or planning to share, their administration with other administrating authorities, suggests that provision ought to be made in these Regulations for a single pension board to serve more than the one administering authority.

3.11. On the other hand, it would run counter to the spirit of the primary legislation if a single board ended up serving a significant number of administering authorities. We believe therefore, that the default position must be one local pension board for each administering authority, but that exceptions where administration and management is mainly or wholly shared between two or more administering authorities should be catered for. This could be demonstrated by the management and administration being undertaken by a joint committee of the participating administering authorities.

3.12. Comments are invited on whether the Regulations need to provide for shared local pension boards and, if so, what test, if any, should be applied. For example, should provision be made for either the scheme advisory board or the Secretary of State to approve any proposal for a shared pension board?

Annual general meetings, Employer forums, etc

3.13. The staging of AGMs, employer forums, etc, is currently a recommendation in the Department's statutory guidance on governance compliance. There is evidence to suggest that a significant minority of administering authorities do neither and also that those that do, receive positive feedback from employers and scheme members alike.

3.14. Comments are invited on whether the Regulations should require administering authorities to facilitate a forum for both employers and employees on at least an annual basis.

Public Sector Equality Duty

3.15. The Equality Duty is a duty on all public bodies and others carrying out public functions to ensure that public bodies consider the needs of all individuals in their day to day work. It also encourages public bodies to ensure that their policies and services are appropriate and accessible to all and meet different people's needs.

3.16. This raises the question of whether these Regulations should extend the role of the scheme advisory board to have regard to the Equality Duty in making recommendations to the Secretary of State on the desirability of making scheme changes and extending the scrutiny/.compliance role of local pension boards to include the Equality Duty.

3.17. Comments are invited on the appropriateness and practicality of this proposal.

Knowledge and Understanding

3.18. These regulations would require members of local pension boards to have the knowledge and capacity to undertake that role. This contrasts with members of committees established by the administering authority to discharge its pension functions who, although recommended to have regard to the Knowledge and Skills Framework published by CIPFA, are under no regulatory requirement to do so. Whilst recognising that the knowledge and training needs of section 101 and local pension boards are not identical, it is open to question whether the same level of regulatory requirement ought to apply to both bodies.

3.19. Comments are invited on whether either in these Regulations or at some stage in the future, provision should be made in the Principal 2013 Regulations to require members of committees established by the administering authority to discharge its pension functions to comply with the Knowledge and Understanding Framework and other relevant training.

Annex A

STATUTORY INSTRUMENTS

2014 No. 0000

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Amendment) Regulations 2014

Made - - - -	*2014*
Laid before Parliament	*2014*
Coming into force - -	*2015*

These Regulations are made in exercise of the powers conferred by sections 1 and 3 of, and Schedule 3 to, the Public Service Pensions Act 2013(**1**).

In accordance with section 21 of that Act, the Secretary of State has consulted the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

The Secretary of State makes the following Regulations:

Citation, commencement interpretation and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Amendment) Regulations 2014.

(2) In these Regulations "the Principal Regulations" means the Local Government Pension Scheme Regulations 2013(**2**)

(3) These Regulations come in to force as follows—

(a) on 1st October 2014, regulations 2, 4 and 5—

(i) so far as they insert regulation 105 (delegation) into the Principal Regulations,

(**1**) 2013 c. 25
(**2**) S.I. 2013/2356.

(ii) so far as they insert regulation 106 (local pension boards: establishment) into the Principal Regulations for the purposes of the obtaining of approval from the Secretary of State under paragraph (2) of that regulation, and

(iii) so far as they insert regulations 107 (local pensions boards: membership), 108 (local pensions boards: conflicts of interest), 111 (scheme advisory board: membership) and 112 (scheme advisory board: conflict of interest) for the purposes of appointment of members of local pension boards and the Local Government Pension Scheme Advisory Board; and

(b) on 1st January 2015—

(i) regulations 2, 4 and 5 so far as not already commenced, and

(ii) the remainder of these Regulations.

(4) These Regulations extend to England and Wales.

Amendment of the Local Government Pension Scheme Regulations 2013

2. The Principal Regulations 2013 are amended in accordance with regulations 3 to 5.

3. Omit regulation 53(4) (scheme managers: establishment of pension board).

4. In Schedule 1 (interpretation) after the entry for "local government service" insert—

""Local Government Pensions Scheme Advisory Board" means a board established under regulation 110 (Scheme advisory board: establishment);

"local pension board" means a board established under regulation 106 (local pension boards: establishment);"

5. After regulation 104(**3**) insert—

"PART 3

Governance

Delegation

105.—(1) The Secretary of State may delegate any functions under these Regulations.

(2) Administering authorities may delegate any functions under these Regulations including this power to delegate.

Local pension boards: establishment

106.—(1) Each administering authority shall no later than 1st April 2015 establish a pension board ("a local pension board") responsible for assisting it—

(a) to secure compliance with—

(i) these Regulations,

(ii) any other legislation relating to the governance and administration of the Scheme, and

(iii) requirements imposed by the Pensions Regulator in relation to the Scheme; and

(b) to ensure the effective and efficient governance and administration of the Scheme.

(2) Where the Scheme manager is a committee of a local authority the local pension board may be the same committee if approval in writing has been obtained from the Secretary of State.

(3) Approval under paragraph (2) may be given subject to such conditions as the Secretary of State thinks fit.

(**3**) Regulation 104 was inserted by S.I. 2014/1146.

(4) The Secretary of State may withdraw an approval if such conditions are not met or if in the opinion of the Secretary of State it is no longer appropriate for the local pension board to be the same committee.

(5) [Where a local pension board is established by a local authority within the meaning of section 270 of the Local Government Act 1972(**4**), Part 6 of that Act applies to the board as if it were a committee established under section 101 of that Act].

(5) [An administering authority may determine the procedures applicable to a local pension board, including as to voting rights, the establishment of sub-committees, formation of joint committees and payment of expenses].

(6) The expenses of a local pension board are to be regarded as part of the costs of administration of the fund held by the administering authority.

Local pension boards: membership

107.—(1) Subject to paragraphs (2) and (3) each administering authority shall determine—

(a) the membership of the local pension board;

(b) the manner in which members of the local pension board may be appointed and removed;

(c) the terms of appointment of members of the local pension board.

(2) A local pension board must include an equal number, which is no less than 4 in total, of employer representatives and member representatives (**5**) and for these purposes—

(a) a member of a local authority is not to be appointed as an employer or member representative; and

(b) the administering authority must be satisfied that—

(i) a person to be appointed as an employer representative has relevant experience and the capacity to represent employers on the local pension board; and

(ii) a person to be appointed as a member representative has relevant experience and the capacity to represent members on the local pension board.

(3) The number of members appointed under paragraph (2) must exceed the number of members otherwise appointed to a local pension board.

Local pension boards: conflict of interest

108.—(1) Each administering authority must be satisfied that any person to be appointed as a member of a local pension board does not have a conflict of interest(**6**).

(2) An administering authority must be satisfied from time to time that none of the members of a local pension board has a conflict of interest.

(3) A person who is to be appointed as a member of a local pension board by an administering authority must provide that authority with such information as the authority reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of a local pension board must provide the administering authority which made the appointment with such information as that authority reasonably requires for the purposes of paragraph (2).

Local pension boards: guidance

109. An administering authority must have regard to guidance issued by the Secretary of State in relation to local pension boards.

(**4**) 1972 c. 70.
(**5**) See section 5(6) of the Public Service Pensions Act 2013 for definitions of these terms.
(**6**) See section 5(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

Scheme advisory board: establishment

110.—(1) A scheme advisory board ("the Local Government Pension Scheme Advisory Board") is established.

(2) The Local Government Pension Scheme Advisory Board is responsible for providing advice to the Secretary of State on the desirability of making changes to the Scheme.

(3) The Local Government Pension Scheme Advisory Board is also responsible for providing advice to administering authorities and local pension boards in relation to the effective and efficient administration and management of the Scheme and its pension funds.

(4) Subject to these Regulations, the Local Government Pension Scheme Advisory Board may determine its own procedures including as to voting rights, the establishment of sub-committees, formation of joint committees and the payment of remuneration and expenses.

Scheme advisory board: membership

111.—(1) The Local Government Pension Scheme Advisory Board is to consist of the following members—

(a) the Chair appointed by the Secretary of State; and

(b) at least 2, and no more than 12, persons appointed by the Chair with the approval of the Secretary of State.

(2) When deciding whether to give or withhold approval to appointments under paragraph (1)(b) the Secretary of State must have regard to the desirability of there being equal representation of persons representing the interests of Scheme employers and persons representing the interests of members.

(3) A member of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment.

(4) The Chair of the Local Government Pension Scheme Advisory Board may appoint persons who are not members of the Local Government Pension Scheme Advisory Board to be members of sub-committees of that Board.

(5) A member of a sub-committee of the Local Government Pension Scheme Advisory Board is to hold and vacate office in accordance with the terms of that member's appointment.

Scheme advisory board: conflict of interest

112.—(1) Before appointing, or approving the appointment of any person to be a member of the Local Government Pension Scheme Advisory Board, the Secretary of State must be satisfied that the person does not have a conflict of interest(**7**).

(2) The Secretary of State must be satisfied from time to time that none of the members of the Local Government Pension Scheme Advisory Board has a conflict of interest.

(3) A person who is to be appointed as a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (1).

(4) A person who is a member of the Local Government Pension Scheme Advisory Board must provide the Secretary of State with such information as the Secretary of State reasonably requires for the purposes of paragraph (2).

Scheme advisory board: funding

113.—(1) The expenses of the Local Government Pension Scheme Advisory Board are to be treated as administration costs of the Scheme and are to be defrayed by the administering authorities within the Scheme in such proportions as are determined by the Board.

(**7**) See section 7(5) of the Public Service Pensions Act 2013 for the meaning of "conflict of interest".

(2) The Local Government Pension Scheme Advisory Board must identify the amount to be paid by each administering authority towards its annual costs based on—

(a) its annual budget approved by the Secretary of State; and

(b) the number of persons for which the administering authority is the appropriate administering authority.

(3) An administering authority must pay the amount it is required to pay under this regulation at such time or times as the Local Government Pension Scheme Advisory Board may determine.".

We consent to the making of these Regulations

Names
Date Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Name
Parliamentary Under Secretary of State
Date Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations amend the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") to make provision in respect of governance of the Scheme.

Regulation 1 commences the substantive provisions from 1st January 2015 for the purposes of making appointments to local pension boards and the Scheme Advisory Board, and brings the provisions fully into force from 1st April 2015.

Regulations 3 and 4 make minor amendments to the 2013 Regulations consequential to the substantive provisions.

Regulation 5 inserts a new Part 3 into the 2013 Regulations.

New regulation 105 permits the Secretary of State to delegate functions under the 2013 Regulations. It permits administering authorities to delegate their functions and also for any delegated function to be sub-delegated.

New regulations 106 to 109 make provision for each administering authority to establish a local pension board to assist it to comply with its legal obligations relating to the Scheme. Where a local authority discharges its pension functions through a committee, it can, with the approval of the Secretary of State appoint that existing committee to be the local pensions board. Local pensions boards must have equal representation of employer representatives and member representatives who must not be councillors of the administering authority and who must constitute the majority of members of the board.

Regulations 110 to 113 establish the Local Government Pension Scheme Advisory Board to advise the Secretary of State, administering authorities and local pension boards in relation to the Scheme. Provision is made for the appointment of members to the Board and for its funding.

Tri-Borough Response to the Draft Regulations on Scheme Governance Consultation

The City of Westminster, London Borough of Hammersmith & Fulham and the Royal Borough of Kensington and Chelsea have been managing their respective pension fund investments for over two years as part of a Tri-Borough initiative, in part to reduce costs for the three councils. The current proposals for an additional layer of scrutiny and bureaucracy are, in our view, unnecessary and will simply add to the cost and administrative burden on the Authorities.

However, the Tri-borough Pension Fund Officers have considered the Consultation on the Draft Scheme Governance Regulations for the new Local Government Pension Scheme and our views are outlined below:

Combined Section 101 Committee and Local Pension Board

The draft regulations could enable a single dual function body to carry out the functions of both a section 101 committee and those of a local pension board. In practice, a combined body would be subject to two separate legal codes; must ensure that all members have the appropriate knowledge, understanding, experience and capacity required for both roles; and comply with local government law on the political composition of committees.

Tri-Borough Comments: In practice it is hard to see how one body could both make decisions and scrutinise itself at the same time. There would also be issues of representation, as the equal number of employee and employer representatives would have to apply. The overall structure of this arrangement is therefore likely to be unwieldy.

Establishment of Local Pension Boards

There are two options as to how an administering authority could establish their local pension board:

- Option 1 - Undertaken as if it was a committee under section 101 of the Local Government Act 1972. This would provide a ready-made set of provisions but it is argued that pension boards should be established on a bespoke basis best suited to their own role and responsibilities.
- Option 2 - Discretion is given to administering authorities to establish procedures such as voting rights, the establishment of sub-committees, the formation of joint committees and payments of expenses, political composition etc.

Tri-Borough Comments: Local discretion would be the preferred option, in order to provide flexibility and enable the most effective local arrangements to be put in place.

Joint Pension Boards

Some administering authorities are either already sharing or planning to share their administration with other administering authorities. Provision could be made for a single pension board to serve more than one administering authority.

Tri-Borough Comments: The Tri-Borough Pension Funds have already achieved efficiencies through its existing joint working arrangements. The establishment of a joint local Pensions Board could further enhance these benefits. This could be achieved by appointing equal employee and employer representatives across the individual Funds onto the Board. Having a joint board able to scrutinise and compare the three funds should improve governance across all three. A board responsible for three funds would be much better placed to make comparisons than one working in isolation and could help to share good practice. A single Tri-Borough board would incur lower costs than could be achieved by insisting on separate boards for each fund. There would be lower costs in expenses for members of the board and less money would be spent servicing a single board. Officers will also be required to support, manage and administer the work of just one joint pension board.

Communication Forums

The staging of AGMs, employer forums, etc, is currently a recommendation in the Department's statutory guidance on governance compliance. There is evidence to suggest that a significant minority of administering authorities do neither and also that those that do, receive positive feedback from employers and scheme members alike.

Tri-Borough Comments: Communication forums are a good idea from a governance perspective and are used to publicise the pension fund and benefits. However, the means of communication should continue to be determined locally, to maximise the benefits to scheme members and ensure that resources are targeted appropriately.

Public Sector Equality Duty

The Equality Duty is a duty on all public bodies and others carrying out public functions to ensure the needs of all individuals are considered in their day to day work. Policies and services should be appropriate and accessible to all and meet different people's needs. Should the Scheme Advisory Board have regard to the Equality Duty in making recommendations to the Secretary of State on the desirability of making scheme changes and extending the scrutiny/compliance role of local pension boards to include the Equality Duty?

Tri-Borough Comments: Yes, we do feel that the Public Sector Equality Duty is appropriate to be considered.

Knowledge and Understanding

Pension board members would be required to have the knowledge and capacity to undertake that role. In contrast, committee members are under no regulatory requirement to do so (although they are recommended to have regard to the Knowledge and Skills Framework published by CIPFA).

Tri-Borough Comments: The law will require pension board members to have knowledge and understanding of relevant pension law and a working knowledge of the LGPS regulations and documentation. Appointed representatives will require access to training resources and time to fulfil their skills and knowledge obligations which are afforded to the role. It would seem appropriate that the equivalent knowledge and understanding requirements are applied to both the main committee and the board scrutinising it.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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