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City of Westminster

Committee Agenda

Title:	**Pension Board**
Meeting Date:	**Tuesday 10th May, 2016**
Time:	**6.30 pm**
Venue:	**Rooms 3 and 4, 17th Floor, City Hall, 64 Victoria Street, London SW1E 6QP**
Members:	**Councillors:** Peter Cuthbertson (Chairman) Adnan Mohammed **Employer Representative:** Marie Holmes **Scheme Member Representatives:** Dr Norman Perry (Vice-Chairman) Susan Manning Christopher Smith

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 6.00pm. 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, Toby Howes, Senior Commitee and Governance Officer.

Tel: 020 7641 8470; Email: thowes@westminster.gov.uk
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 **(Pages 1 - 6)**

To approve the Minutes of the Pension Board meeting held on 18 January 2016.

4. MINUTES OF PENSION FUND COMMITTEE

To note the Minutes of the Pension Fund Committee meeting held on 22 March 2016.

To follow.

5. PENSION FUND 2015-16 ANNUAL ACCOUNTS AND AUDIT UPDATE **(Pages 7 - 68)**

Report of the City Treasurer.

6. RISK REGISTER REVIEW **(Pages 69 - 86)**

Report of the City Treasurer.

7. KEY PERFORMANCE INDICATORS UPDATE

Report of the Director of People Services.

8. TRAINING UPDATE AND PROPOSALS

Report of the Director of People Services.

9.	**PENSION FUND BENCHMARKING - COSTS** Report of the City Treasurer.	**(Pages 87 - 98)**
10.	**LONDON COLLECTIVE INVESTMENT VEHICLE UPDATE** Report of the City Treasurer.	**(Pages 99 - 120)**
11.	**FUTURE WORK PLAN** Report of the City Treasurer.	**(Pages 121 - 124)**
12.	**DATE OF NEXT MEETINGS** To consider dates of future Pension Board meetings.	
13.	**ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT**	
14.	**MINUTES** To approve the Confidential Minutes of the Pension Board meeting held on 18 January 2016.	
15.	**MINUTES OF PENSION FUND COMMITTEE** To note the Confidential Minutes of the Pension Fund Committee meeting held on 22 March 2016. To follow.	

Charlie Parker
Chief Executive
29 April 2016

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CITY OF WESTMINSTER

MINUTES

Pension Board

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Board** held on **Monday 18th January, 2016**, Rooms 1A, 1B & 1C - 17th Floor, City Hall.

Members Present: Councillor Peter Cuthbertson (Chairman and Employer Representative), Dr Norman Perry (Vice-Chairman and Scheme Member Representative), Councillor Adnan Mohammed (Employer Representative) and Marie Holmes (Employer Representative).

Also Present: George Bruce (Future Director of Treasury and Pensions), Nikki Parsons (Pension Fund Officer), Neil Sellstrom (Tri-Borough Pensions Team), Trevor Webster (Senior Human Resources Manager) and Toby Howes (Senior Committee and Governance Officer).

Apologies for Absence: Susan Manning (Scheme Member Representative) and Christopher Smith (Scheme Member Representative).

1 MEMBERSHIP

1.1 There were no changes to the Membership.

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

3 MINUTES AND MATTERS ARISING

3.1 **RESOLVED:**

That the Minutes of the meeting held on 19 October 2015 be signed by the Chairman as a correct record of proceedings.

3.2 Members noted the Director of Human Resource's advice following the previous meeting that Councillor Adnan Mohammed's position as Deputy Cabinet Member for Finance and Corporate Services did not constitute a conflict of interest with his membership of the Board.

3.3 Trevor Webster (Senior Human Resources Manager) advised that further results were awaited in respect of the Public Service Governance and Administration Survey and that once these had been received, the data would be collated and reported back to the next meeting of the Board.

4 MINUTES OF PENSION FUND COMMITTEE

4.1 The Board noted that the Minutes of the last Pension Fund Committee meeting held on 16 November 2015 would be circulated separately.

5 RISK REGISTER REVIEW

5.1 Neil Sellstrom (Finance Consultant) presented the report which focused on the risk relating to operational administration – failure of financial system. A tri-borough contract for a new financial system with BT had gone live in April 2015, however a number of challenges had arisen during its implementation, both in terms of Finance and Human Resources (HR) functions. The main issues had been concerning problems experienced in respect of payment of lump sum payments for Pension Scheme members and payment to suppliers for services provided. These issues were particularly apparent in April and May 2015 when the new financial system had just gone live. Neil Sellstrom advised that there had not been a failure of a financial system, but the risk posed was the possibility of not being able to use the financial system which also impacted upon a number of other financial functions beyond pensions. He stated that initially costs had not been seen to be coming in, which also raised issues in respect of completing end of year accounts. Since then, a comprehensive testing of information had been undertaken and significant progress had been made in resolving issues on the financial side.

5.2 Nikki Parsons (Pension Fund Officer) advised that a ‘workaround’ solution had been put in place to ensure that payments to Pension Scheme Members and suppliers were being made as steps were being taken to resolve the issue.

5.3 Trevor Webster (Senior Human Resources Manager) added that officers’ functionality at the Council had improved since the introduction of the new financial system, however the pension administrator, Surrey County Council, was still experiencing problems as a result of the continuing issues with the functionality of the BT interface. As a result, Council officers were having to provide Surrey County Council with information on matters such as leavers and new employees.

5.4 Members enquired about the cost implications of the additional work being undertaken by the Council because of the problems encountered and whether the Council would be compensated. Members also asked whether additional work would be required in terms of completing annual accounts. In terms of risk rating, it was queried whether this took account of the mitigating actions being taken, or whether these mitigating actions were put in place in response to the risk rating.

5.5 In reply to issues raised by the Board, Nikki Parsons advised that the problems experienced had meant more work for the Council in completing

end of year accounts. She advised that the auditors were analysing the accounts more thoroughly than last year and were looking at areas such as contributions, payments and reconciliations, however they had been satisfied with what they had looked at so far. Nikki Parsons informed Members that she had visited the BT offices in Jarrow with Finance colleagues to discuss the issues involved and although there had already been some significant improvements, the Council was still taking on more work and two contractors had been brought in to assist in data testing. Weekly conference calls with BT were also taking place and an issue log had been produced recording all the problems encountered. Nikki Parsons advised that the risk rating reflected the residual risk, however only a small number of officers dealt with pensions, although it did benefit from tri-borough support. The risk had increased as the end of the financial year neared.

5.6 Trevor Webster added that the risk rating also depended on how fragile the work around is and if existing staff left the Council, the loss of experience would increase the risk. He advised that commercial discussions were taking place with BT concerning possible compensation because of the problems experienced and the additional work required to be undertaken by Council officers as a result.

5.7 A Member commented that he was satisfied with the remedial action being taken to date and noted that most risks were rated as either low or medium risk. Another Member asked if the Council was confident that BT could resolve the issues satisfactorily and remarked that other local authorities' experience of working with BT had been patchy. The question was also raised about whether schools could give notice to opt out of the BT contract. The Board also sought further information in respect of how any compensation from BT would be pursued.

5.8 In response, Nikki Parsons stated that initially officers did not think BT had the resources or knowledge to resolve the issues, so visits to BT offices had taken place for knowledge sharing so that BT had a greater appreciation and understanding of the issues and the resulting implications of them. Neil Sellstrom added that the pensions interface with BT and Surrey County Council had now been identified as the main priority to resolve.

5.9 Trevor Webster informed the Board that it had been recognised that BT had not initially allocated sufficient staff to support work around pensions and also to the Council in general. However, the Council had convinced them of the need for more staff and BT were now in the process of undertaking this. The Board was advised that schools did have the right to opt out of the BT contract, provided they gave sufficient months notice. However, the payroll providers still needed to interact with BT in order to ensure that information was accurately recorded and providing they updated the pensions portal accordingly, then no problems with payments would occur. Trevor Webster confirmed that the Council would undertake any pursuit of compensation from BT as the issues experienced had created a host of in-house costs. This would involve high level commercial discussions between BT and the Council. He added that Surrey County Council was considering introducing charges for IT costs.

5.10 The Board requested an update on progress with BT and Surrey County Council in addressing the problems in respect of lump sum and supplier payments, including identification of additional potential costs to the Pension Fund driven by the BT interface issue, at the next meeting. The Board also requested that the next Risk Register Review report focus on two risks, pension legislation and regulation changes and the introduction of European Directive MiFID II at the next meeting.

6 PENSION ADMINISTRATION - COSTS UPDATE

6.1 The Board considered a confidential report providing an update on pension administration costs.

7 TRAINING UPDATE

7.1 The Board considered a confidential report on training to date and future training that would be available to Members.

8 PENSION FUND BENCHMARKING - COSTS

8.1 Neil Sellstrom gave a verbal update on this item whilst further data was awaited to enable a report to be produced and considered at a future meeting. He advised that the Pension Fund sustained costs both in terms of investments and in administration. The brunt of the costs were on the investment side and it was important that local authorities identified all of these in order to be able to make meaningful comparisons with each other. Neil Sellstrom stated that the Scheme Advisory Board had provided guidance on what data to provide, however whilst some local authorities had provided comprehensive information on investment costs, other had not done so. As a result, some funds had appeared more costly than others because they had included more costs, such as transactional costs. Neil Sellstrom confirmed that all tri-boroughs had fully complied in providing cost details.

8.2 Members asked if any meaningful comparisons with other funds could be made at this stage and whether there would be sufficient information by April to undertake a more comprehensive analysis comparing funds.

8.3 In reply, Neil Sellstrom advised that the size of funds varied considerably, with some such as Greater Manchester and West Midlands local authorities' funds huge by comparison with others. As a result, costs would be much greater for such funds and so this complicated the ability to make direct comparisons. The Board noted that the Council appointed a Performance Manager to monitor performance of its Fund, although not every local authority used one. Neil Sellstrom advised that there would be more information available to compare funds in April, although possibly not enough to undertake a thorough comparison. He added that data from 2014-15 could be used for the comparison analysis. Members noted that Finance would also be under pressure to complete accounts for 2015-16 that closed on 31 March 2016.

8.4 The Chairman welcomed the opportunity at the next meeting to consider a report comparing data from 2014-15 which would provide a bigger picture in providing comparisons of costs with other funds and allow for some interim conclusions to be drawn. Neil Sellstrom added that the report would also include details of the London Collective Investment Vehicle's (CIV) response to the consultation on asset pooling.

8.5 Members raised the issue of local authorities investing in local regeneration schemes and the risks that can be associated with it. Members asked whether investing in infrastructure stock was rising and was this becoming a more attractive investment.

8.6 In reply, Neil Sellstrom advised that providing there was a sound business case in investing in local regeneration and infrastructure schemes, there was no harm in doing so, however careful consideration was needed in respect of issues such as potential conflict of interest. He added that infrastructure stocks would rise if local authorities found such investments easier to access and the London CIV may consider such investments in the future.

9 AUDIT ARRANGEMENTS

9.1 Neil Sellstrom presented the report and advised that the Board's Terms of Reference stated that a key element of its role was to ensure effective and efficient governance and administration of the pension scheme. Both internal and external auditing played a key role in providing assurance that the Fund operated soundly. Members heard that an internal audit had been carried out in October 2014 which had resulted in five recommendations being made. A follow up review in June 2015 had concluded that four of these recommendations had been fully addressed and the other one was in progress. The Board noted that the pension administrative arrangements were due to be internally audited as part of the 2016/2017 Audit Plan.

10 DATA FOR THE TRIENNIAL VALUATION UPDATE

10.1 Members considered a confidential paper on the triennial valuation update. The Board noted that it would receive an update on this item at the next meeting.

11 PENSION BOARD FORWARD PLAN 2016-2017

11.1 Nikki Parsons presented a suggested Forward Plan 2016-17 for the Board that included items Members may wish to consider. Members noted that the Risk Register was a standing item and that a report showing comparisons of costs with other local authorities and including the London CIV's response to the asset pooling consultation would be considered at the next meeting. It was also noted that the next meeting of the Pension Fund Committee would take place on 22 March, and not 16 March as listed on the Forward Plan. Nikki Parsons suggested that the Board next meet in early May to ensure that the relevant data was available to consider the items suggested and also taking

into account the dates for the Pension Fund Committee. The Chairman added that other items would be added during the course of the year.

12 DATE OF NEXT MEETING

12.1 Members agreed that the next meeting of the Board take place on Tuesday, 10 May 2016 at 6.30pm.

13 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

13.1 There was no additional business for the Board to consider.

14 MINUTES

14.1 **RESOLVED:**

That the confidential Minutes of the meeting held on 19 October 2015 be signed by the Chairman as a correct record of proceedings.

15 MINUTES OF THE PENSION FUND COMMITTEE

15.1 The Board noted that the confidential Minutes of the last Pension Fund Committee meeting held on 16 November 2015 would be circulated separately.

The Meeting ended at 8.09 pm.

CHAIRMAN: _____ **DATE** _____

City of Westminster

Pension Board

Date:	**10 May 2016**
Classification:	**General Release**
Title:	**Pension Fund 2015-16 Annual Accounts and Audit Update**
Report of:	**Steven Mair** ***City Treasurer***
Wards Involved:	**All**
Policy Context:	**Effective Control over Council Activities**
Financial Summary:	**There are no financial implications arising from this report**

1. Executive Summary

1.1 This report presents the draft Pension Fund Annual Accounts and the external audit plan for 2015-16.

2. Key Matters for the Board

2.1 The Board note the contents of this paper.

2.2 The lead Pension Fund auditor from Grant Thornton will be attending the meeting and provide a verbal update on the audit of 2015/16 Pension Fund Accounts.

3. Background

3.1 The Council is required to prepare annual accounts for the pension fund which must be audited. The annual accounts follow a standard layout that meets both legislative requirements and best practice guidance. The attached accounts cover the year to 31st March 2016 and record transactions in the year and assets held at the year end, with additional supporting information.

3.2 The Accounts and Audit Regulations 2015 set out the requirements for the production and publication of the annual Statement of Accounts. Regulations state that the Council should submit its accounts for audit by 30 June 2016 and that a committee should approve the final, audited 2015-16 Statements for both the Council and the Pension Fund by 30th September 2016. In accordance with the Council's considerably enhanced closure programme (quality and pace) these accounts:

- were submitted to Grant Thornton for external audit on the 9th April 2016. Thus the Council has achieved in 9 days what most local government bodies take 3 months to complete,
- are the earliest public sector accounts ever issued,
- have exceeded the performance of 94% of the FTSE 100, including the 9 largest companies, and
- will be reported to the Audit and Performance Committee on the 12th May (subject to completion of the audit), four and half months before the statutory deadline

3.3 At time of writing this report (28th April), the audit is substantially complete. The audit plan is attached for information. This sets out the work that the auditor expected to undertake and the risks that will be addressed during the audit.

3.4 In verifying the annual accounts, the auditor will selectively test the controls and procedures operated by the Council. These reviews may result in improvement recommendations. The auditor will highlight those recommendations to the Committee, who will be able to seek assurance from the auditor on the adequacy of the control environment for the pension fund.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

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

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Draft Pension Fund Accounts 2015-16

Appendix 2 – Grant Thornton - Annual Audit plan for City of Westminster Pension Fund 2015-16

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Pension Fund Accounts and Explanatory Notes

FUND ACCOUNT

2014/15		Notes	2015/16
£'000			£'000
	Dealings with members, employers and others directly involved in the fund		
	Contributions		
(24,717)	From Employers	6	(27,244)
(8,777)	From Members	6	(8,700)
(1,513)	Individual Transfers in from Other Pension Funds		(2,157)
(35,007)			(38,101)
	Benefits		
39,894	Pensions	7	41,141
5,060	Commutation, Lump Sum Retirement and Death Benefits	7	7,274
	Payments to and on Account of Leavers		
2,049	Individual Transfers Out to Other Pension Funds		2,962
4,243	Bulk transfers		-
43	Refunds to Members Leaving Service		96
51,289			51,473

Pension Fund Accounts and Explanatory Notes (continued)

2014/15		Notes	2015/16
£'000			£'000
16,282	Net (Additions)/Withdrawals from Dealings with Members		13,372
7,047	Management Expenses	8	7,791
	Returns on Investments		
(8,726)	Investment Income	9	(8,558)
(9)	Other Income		-
10	Taxes on Income (Irrecoverable Withholding Tax)	9	-
(8,725)			(8,558)
(117,879)	Profit and loss on disposal of investments and changes in the market value of investments	11	20,024
(126,604)	Net return on investments		11,466
(103,275)	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		32,629
(995,697)	Opening Net Assets of the Scheme		(1,098,972)
(1,098,972)	Closing Net Assets of the Scheme		(1,066,343)

Net Assets Statement for the year ended 31 March 2016*

2014/15		Notes	2015/16
£'000			£'000
	Investment assets		
145,426	Fixed Interest Securities	14	157,123
-	Equities	14	-
948,674	Pooled Investment Vehicles	14	896,184
	Derivative Contracts:		
318	Futures	14	101
97	Forward Foreign Exchange	14	148
	Other Investment Balances:		
2,689	Income Due	14	2,440
49	Debtors	14	3
1,071	Cash Deposits	14	2,598
1,098,324			1,058,597
	Investment Liabilities		
	Derivative Contracts:		
(87)	Futures	14	(81)
(164)	Forward Foreign Exchange	14	(252)
(50)	Other investment balances	14	-
(301)			(333)

Net Assets Statement
for the year ended 31 March 2016

2014/15		Notes	2015/16
£'000			£'000
(1,107)	Amounts payable for purchases of investments	11	(329)
1,096,916	Net Value of Investment Assets		1,057,935
3,104	Current Assets	18	9,677
(1,048)	Current Liabilities	19	(1,269)
1,098,972	**Net Assets of the Fund Available to Fund Benefits at the Period End**		**1,066,343**

* The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 17.

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 Council. 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. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

The Fund is governed by the Public Service Pensions Act 2013 and the following secondary legislation:

- The LGPS Regulations 2013 (as amended)
- The LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- The LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

b) Funding

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. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2016. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was as at 31 March 2013. Currently employer contribution rates range from 8.1% to 27.5% of pensionable pay.

Note 1 Description of the City of Westminster Pension Fund (continued)

c) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised in the following table:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final pensionable pay	Each year worked is worth 1/60 x final pensionable pay
Lump Sum	Automatic lump sum of 3 x pension. In addition, part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions, and death benefits.

Westminster Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from the pension fund. The Fund has used Aegon as its appointed AVC provider for the past 14 years and Equitable Life before. AVCs are paid to the AVC providers by employers and specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

d) Governance

The Council has delegated management of the fund to the Pension Fund 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 four Members of the Council 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 Tri-Borough Director of Pensions and Treasury, and obtains, as necessary, advice from the Fund's appointed investment advisors, fund managers and actuary.

In line with the provisions of the Public Service Pensions Act 2013 the Council has set up a Local Pension Board to oversee the governance arrangements of the Pension Fund. The Board meets quarterly and has its own Terms of Reference. Board members are independent of the Pension Fund Committee.

Note 1 Description of the City of Westminster Pension Fund (continued)

e) Investment Principles

The LGPS (Management and Investment of Funds) Regulations 2009 requires administering authorities to prepare and review from time to time a written statement recording the investment policy of the Pension Fund. The Committee approved a Statement of Investment Principles in 2015 and this is available on the Council's website at the link below. The Statement shows the Authority's compliance with the Myners principles of investment management.

https://www.westminster.gov.uk/council-pension-fund

The Committee has delegated the management of the Fund's investments to external investment managers (see Note 10) appointed in accordance with the above Regulations, and whose activities are specified in detailed investment management agreements and monitored on a quarterly basis.

f) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the City of Westminster Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund
- 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:

31 March 2015		31 March 2016
28	Number of employers with active members	30
4,232	Active members	4,252
5,433	Pensioners receiving benefits	5,563
6,395	Deferred Pensioners	6,306
16,060		**16,121**

Note 2 Basis of Preparation of Financial Statements

The Statement of Accounts summarises the Fund's transactions for 2015/16 and its position at year end as at 31 March 2016. The accounts been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on an accruals basis, apart from transfer values which have been accounted for on a cash basis (see Note 3(b) below).

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.

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 at the percentage rate recommended by the actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date.

Employer's augmentation and pension strain contributions are accounted for in the period in which the liability arises. Any amount due in year but unpaid is classed as a current financial asset.

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 LGPS Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

c) Investment Income

Dividends from quoted securities are accounted for when the security is declared ex-dividend.

Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. 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.

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is recognised as a current financial asset.

Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset. Where the amount of an income distribution has not been received from an investment manager by the balance sheet date, an estimate based upon the market value of their mandate at the end of the year is used.

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 section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. 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.

Note 3 Summary of Significant Accounting Policies (continued)

f) Management Expenses

The Code does not require any breakdown of pension fund administration expenses. However in the interests of greater transparency, the Council accounts for pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

ADMINISTRATIVE EXPENSES

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension administration team are charged direct to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

OVERSIGHT AND GOVERNANCE COSTS

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged to the Fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the Fund.

The cost of obtaining investment advice from the external advisor is included in oversight and governance costs.

INVESTMENT MANAGEMENT EXPENSES

All investment management expenses are accounted for on an accruals basis.

The Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee based on the market value of the investments they manage and/or a fee based on performance. Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the fund account.

NET ASSETS STATEMENT

g) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. Quoted Securities and Pooled Investment Vehicles have been valued at the bid price and fixed interest securities are recorded at net market value based on their current yields at the balance sheet date. Quoted securities are valued by the Fund's custodian and Pooled Investment Vehicles at the published bid prices or those quoted by their managers.

h) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

Derivatives are valued at fair value on the following bases: assets at bid price, and liabilities at offer price. Changes in the fair value are included in the change in market value in the Fund Account.

Note 3 Summary of Significant Accounting Policies (continued)

The value of open futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The value of forward foreign exchange contracts is based on market forward exchange rates at the year-end and determined as the gain or loss that would arise if the contract were matched at the year-end with an equal and opposite contract.

i) Foreign Currency Transactions
Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of the transaction. End of year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

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

k) 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.

l) Actuarial present value of promised retirement benefits
The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS 19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the financial statements include a note disclosing the actuarial present value of retirement benefits (see Note 17).

m) Additional Voluntary Contributions
AVCs are not included in the accounts in accordance with Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, but are disclosed as a note only (Note 20).

n) Recharges from the General Fund
The LGPS (Management and Investment of Funds) Regulations 2009 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 administration and the oversight and governance of the Fund are set out separately in Note 21.

Note 4 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 3 above, the Council has had to make certain critical judgements about complex transactions or those involving uncertainty about future events.

PENSION FUND LIABILITY

The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The methodology used in the intervening years follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in Note 17. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

Note 5 Assumptions made about the future and other major sources of uncertainty

Preparing financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the year-end and the amounts reported for income and expenditure during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However the nature of estimation means that the actual results could differ from the assumptions and estimates.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £126m. A 0.2% increase in assumed earnings would increase the value of liabilities by approximately £5m, a 0.2% increase in pension increases would increase the liability by about £49m and a one year increase in life expectancy would increase the liability by about £48m.

Note 6 Contributions receivable

Employees contributions are calculated on a sliding scale based on a percentage of their gross pay. The Council, scheduled and admitted bodies are required to make contributions determined by the Fund's actuary to maintain the solvency of the Fund. The table below shows a breakdown of the total amount of employers' and employees contributions.

BY AUTHORITY

2014/15		2015/16
£'000		£'000
24,310	Administering Authority	26,372
2,447	Scheduled bodies	2,417
6,737	Admitted bodies	7,155
33,494		**35,944**

BY TYPE

2014/15		2015/16
£'000		£'000
8,777	Employees' normal contributions	8,700
	Employer's contributions:	
17,181	Normal contributions	16,811
6,637	Deficit recovery contributions	8,040
899	Augmentation contributions	2,393
33,494		**35,944**

Note 7 Benefits Payable

The table below shows a breakdown of the total amount of benefits payable by category.

BY TYPE

2014/15		2015/16
£'000		£'000
39,894	Pensions	41,141
4,852	Commutation and lump sum retirement benefits	6,888
208	Lump sum death benefits	386
44,954		**48,415**

BY AUTHORITY

2014/15		2015/16
£'000		£'000
39,710	Administering Authority	40,003
124	Scheduled Bodies	352
5,120	Admitted Bodies	8,060
44,954		**48,415**

Note 8 Management Expenses

The table below shows a breakdown of the management expenses incurred during the year.

2014/15		2015/16
£'000		£'000
534	Administration Expenses	441
318	Oversight and Governance	282
6,195	Investment Management Expenses	7,068
7,047		**7,791**

Investment management expenses are further analysed below in line with the CIPFA Guidance on Accounting for Management Costs in the LGPS.

2014/15		2015/16
£'000		£'000
2,798	Management fees	3,260
2,176	Performance fees	2,550
61	Custody fees	76
1,160	Transaction costs	1,182
6,195		**7,068**

Note 9 Investment Income

The table below shows a breakdown of the investment income for the year:

2014/15		2015/16
£'000		£'000
6,249	Fixed interest securities	6,510
141	Equity dividends	2
932	Pooled investments - unit trust and other managed funds	2,000
838	Pooled property investments	29
566	Interest and cash deposits	17
8,726	Total before taxes	8,558
(10)	Taxes on income	-
8,716	**Total**	**8,558**

Note 10 Investment Management Arrangements

The table below shows a breakdown of the investment income for the year

- UK property portfolios are split between Hermes Investment Managers and Standard Life
- Fixed income mandates are managed by Insight Investment Managers
- Equity portfolios are split between Majedie Investment Managers (active UK), Baillie Gifford (active global), Legal and General Investment Management (passive global) and Longview Partners (active global).

All managers have discretion to buy and sell investments within the constraints set by the Committee and their respective Investment Management Agreements. Each manager has been appointed with clear strategic benchmarks which place maximum accountability for performance against that benchmark on the investment manager.

As shareholders of London LGPS CIV Ltd (the organisation set up to run pooled LGPS investments in London), the Fund has purchased £150,000 of regulatory capital. This is in the form of unlisted UK equity shares. It is anticipated that some of the existing investment portfolios will be transferred into the London Collective Investment Vehicle (CIV) in 2016/17.

Northern Trust acts as the Fund's global custodian. They are responsible for safe custody and settlement of all investment transactions and collection of income. The bank account for the Fund is held with Lloyds Bank.

The market value and proportion of investments managed by each fund manager at 31 March 2016 was as follows:

31 March 20 15 Market Value	%	Fund Manager	Mandate	31 March 2016 Market Value	%
£'000				£'000	
256,513	23.4%	Majedie	UK Equity (Active)	241,521	22.8%
-	0.0%	London CIV	UK Equity (Passive)	150	0.0%
256,513	**23.4%**	**UK Equity**	**Sub-Total**	**241,671**	**22.8%**
180,729	16.5%	Baillie Gifford	Global Equity (Active)	178,427	16.9%
281,978	25.7%	LGIM	World Equity (Passive)	239,635	22.7%
109,569	10.0%	Longview	Global Equity (Active)	113,894	10.8%
572,276	**52.2%**	**Global Equity**	**Sub-Total**	**531,956**	**50.3%**
17,871	1.6%	Insight	Fixed Interest Gilts	18,356	1.7%
156,329	14.3%	Insight	Sterling non-Gilts	158,105	14.9%
174,200	**15.9%**	**Bonds**	**Sub-Total**	**176,461**	**16.7%**

Note 10 Investment Management Arrangements (continued)

31 March 2015 Market Value	%	Fund Manager	Mandate	31 March 2016 Market Value	%
£'000				£'000	
45,712	4.2%	Hermes	Property	56,511	5.3%
47,913	4.4%	Standard Life	Property	51,150	4.8%
93,625	8.5%	Property	Sub-Total	107,661	10.2%
1,096,614	100.0%		Total (exc. cash)	1,057,749	100.0%
302		Other (cash deposits)		186	
1,096,916			Total	1,057,935	

Note 11 Reconciliation in Movement in Investments

2015/16	Market value 1 April 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2016
	£'000	£'000	£'000	£'000	£'000
Fixed interest securities	145,426	56,492	(41,585)	(3,210)	157,123
Equities	-	-	-	-	-
Pooled equity investments	855,659	34,208	(75,801)	(23,693)	790,373
Pooled property investments	93,015	5,817	(531)	7,510	105,811
Derivatives:					
Futures	231	4	(174)	(41)	20
Forward foreign exchange	(67)	1,656	(805)	(888)	(104)
Cash Instruments	-	-	-	-	-
Total	**1,094,264**	**98,177**	**(118,896)**	**(20,322)**	**1,053,223**
Cash deposits	1,071	-	-	163	2,598
Amounts receivable for sales of investments	216	-	-	2	-
Investment income due	2,473	-	-	1	2,440
Spot FX contracts	(1)	-	-	132	3
Amounts payable for purchases of investments	(1,107)	-	-	-	(329)
Net investment assets	**1,096,916**	**-**	**-**	**(20,024)**	**1,057,935**

Note 11 Reconciliation in Movement in Investments (continued)

2014/15	Market value 1 April 2014	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Asset reclassification	Change in market value during the year	Market value 31 March 2015
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed interest securities	128,343	67,637	(59,212)	485	8,173	145,426
Equities	208,296	182,564	(232,330)	(160,861)	2,331	-
Pooled equity investments	585,990	568,945	(481,080)	80,742	101,062	855,659
Pooled property investments	-	870	(438)	87,409	5,174	93,015
Derivatives:						
Futures	137	421	(859)	-	532	231
Forward foreign exchange	90	735	(1,640)	-	748	(67)
Cash Instruments	23,979	33,441	(49,379)	(8,041)	-	-
Total	**946,835**	**854,613**	**(824,938)**	**(266)**	**118,020**	**1,094,264**
Cash deposits	14,604	-	-	(350)	(19)	1,071
Amounts receivable for sales of investments	2,981	-	-	(1,754)	(11)	216
Investment income due	-	-	-	2,435	-	2,473
Spot FX contracts	-	-	-	-	(111)	(1)
Amounts payable for purchases of investments	-	-	-	(65)	-	(1,107)
Net investment assets	**964,420**	**-**	**-**	**-**	**117,879**	**1,096,916**

During the 2014/15 financial year, the Fund changed custodian which prompted a reclassification of some categories of financial instrument.

Note 12 Investments exceeding 5% of Net Assets

The table below shows the Fund's investments which exceed 5% of net assets. These are all pooled investment vehicles, which are made up of underlying investments, each of which represent substantially less than 5%.

31 March 2015 Market Value		Holding	31 March 2016 Market Value	
£'000	% Holding		£'000	% Holding
256,511	23.4%	Majedie - Institutional Trust Class B Shares	241,518	22.8%
282,340	25.7%	L&G - World Equity Index - GBP Hedged	239,628	22.7%
180,729	16.5%	Baillie Gifford - Life Global Alpha Pension Fund	178,427	16.9%
109,569	10.0%	Longview - Conventum Asset Management	113,894	10.8%
		Hermes Property UT	54,660	5.2%
829,149	75.6%	Total Top Holdings	828,127	78.3%
1,096,916		Total Value of Investments	1,057,935	

Note 13 Analysis of Derivatives

OBJECTIVES AND POLICIES FOR HOLDING DERIVATIVES

The Committee has 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 external asset managers which must adhere to the detailed requirements set out in their investment management agreements.

a) Liquidity

The Fund uses interest rate futures to hedge some of the non-Sterling interest rate risk, subject to the restrictions in the investment guidelines (not more than 30% of the portfolio's value may be exposed to non-Sterling bond risk).

b) Forward foreign currency

The Fund uses forward foreign exchange contracts to reduce the foreign currency exposure from overseas bond holdings that are within the portfolio (foreign currency exposure is fully hedged into Sterling).

FUTURES

Outstanding exchange traded futures contracts are as follows.

Economic Exposure	Market Value 31 March 2015	Type	Expires	Economic Exposure	Market Value 31 March 2016
£'000	£'000			£'000	£'000
		Assets			
17,509	318	UK Fixed Income	less than 1 year	17,577	92
-	-	Overseas fixed income	less than 1 year	(5,870)	9
	318	Total Assets			101
		Liabilities			
(11,023)	(87)	Overseas Fixed Income	less than 1 year	(15,976)	(81)
	(87)	Total Liabilities			(81)
	231	Net futures			20

Note 13 Analysis of Derivatives (continued)

FORWARD CURRENCY CONTRACTS

Outstanding exchange traded futures contracts are as follows:

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
		000		000	£'000	£'000
Up to one month	GBP	4,346	USD	(6,147)	72	(4)
Up to one month	GBP	7,311	EUR	(9,399)	-	(142)
One to six months	GBP	7,298	USD	(10,404)	64	(3)
One to one months	EUR	1,764	GBP	(1,386)	12	-
One to six months	GBP	5,273	EUR	(6,769)	-	(99)
Up to one month	USD	532	GBP	(374)	-	(4)
Net forward currency contracts at 31 March 2016					148	(252)
Prior year comparative						
Open forward currency contracts at 31 March 2015					97	(164)
Net forward currency contracts at 31 March 2015						**(67)**

Notes 14a Classification of Financial Instruments

The following table shows the classification of the Fund's financial instruments and also shows the split by UK and overseas. All investments are quoted unless stated.

31 March 2015				31 March 2016		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
			Fixed interest securities			
			Quoted:			
26,056	-	-	UK Public sector	25,954	-	-
59,549	-	-	UK Corporate	64,917	-	-
804	-	-	Overseas Public sector	779	-	-
59,017	-	-	Overseas Corporate	65,473	-	-
			Equities			
			Unquoted:			
-	-	-	UK	-	-	-
-	-	-	Overseas	-	-	-
			Pooled funds - investment vehicles			
719,208	-	-	UK Managed Funds Other	659,722	-	-
93,014	-	-	UK Unit Trusts Property	105,811	-	-
136,452	-	-	Overseas Managed	130,651	-	-

Notes 14a Classification of Financial Instruments (continued)

31 March 2015				31 March 2016		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Derivative Contracts			
318	-	-	Futures	101	-	-
97	-	-	Forward Foreign Exchange	148	-	-
			Cash Instruments			
-	-	-	UK	-	-	-
-	-	-	Overseas	-	-	-
-	1,995	-	Cash Balances (held directly by Fund)	-	8,658	-
2,689	-	-	Other investment balances	2,440	-	-
-	1,071	-	Cash Deposits	-	2,598	-
49	1,109	-	Debtors	3	1,019	-
1,097,253	**4,175**	**-**		**1,055,999**	**12,275**	**-**

Notes 14a Classification of Financial Instruments (continued)

31 March 2015				31 March 2016		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Liabilities			
			Derivative Contracts			
(87)	-	-	Futures	(81)	-	-
(164)	-	-	Forward Foreign Exchange	(252)	-	-
(50)	-	-	Other Investment Balances	-	-	-
-	(542)	(1,107)	Creditors	-	(732)	(329)
(301)	(542)	(1,107)		(333)	(732)	(329)
1,096,952	3,633	(1,107)	Total	1,055,666	11,543	(329)
		1,099,478	Grand Total			1,066,880

14b Net Gains and Losses on Financial Instruments

This table summarises the net gains and losses on financial instruments classified by type of instrument.

31 March 2015		31 March 2016
£'000		£'000
	Financial Assets	
118,020	Designated at fair value through profit and loss	(20,322)
(19)	Loans and receivables	163
118,001		(20,159)
	Financial Liabilities	
(122)	Designated at fair value through profit and loss	135
-	Financial liabilities at amortised cost	-
(122)		135
117,879	**Total**	**(20,024)**

Note 14c Valuation of Financial Instruments carried at Fair Value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1 - where fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities (quoted equities, quoted fixed securities, quoted index linked securities and unit trusts). Listed investments are shown at bid prices. The bid value of the investment is based on the market quotation of the relevant stock exchange.

Level 2 - where market prices are not available, for example, where an instrument is traded in a market that is not considered to be active or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3 – where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments would include unquoted equity investments and hedge fund of funds, neither of which the Fund currently invests in.

The following table provides an analysis of the financial assets and liabilities of the Fund grouped into the level at which fair value is observable:

31 March 2015				31 March 2016		
Quoted market price	**Using observable inputs**	**With significant unobservable inputs**		**Quoted market price**	**Using observable inputs**	**With significant unobservable inputs**
Level 1	Level 2	Level 3		Level 1	Level 2	Level 3
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
			Financial Assets			
843,760	253,493	-	Designated at fair value through profit and loss	947,855	108,144	-
			Financial Liabilities			
-	(301)	-	Designated at fair value through profit and loss	-	(333)	-
843,760	**253,192**	**-**		**947,855**	**107,811**	**-**
		1,096,952	**Grand Total**			**1,055,666**

Note 15 Nature and extent of risks arising from Financial Instruments

RISK AND RISK MANAGEMENT

The Fund's primary long-term risk is that its assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

Responsibility for the Fund's risk-management strategy rests with the Committee. Risk management policies are established that aim to identify and analyse the investment risks faced by the Fund and these are regularly reviewed in the light of changing market and other conditions.

a) Market Risk

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 investment activities. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. To mitigate market risk, the Committee and its investment advisors undertake regular monitoring of market conditions and benchmark analysis.

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 i

nstrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share and derivative 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.

The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased by 10%. The analysis excludes cash, debtors, creditors, other investment balances and forward foreign exchange, as these financial instruments are not subject to price risk.

Assets exposed to price risk	Value	Value on 10% price increase	Value on 10% price decrease
	£'000	£'000	£'000
As at 31 March 2015	1,094,418	1,203,860	984,976
As at 31 March 2016	**1,053,408**	**1,158,749**	**948,067**

Note 15 Nature and extent of risks arising from Financial Instruments (continued)

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 Committee and its investment advisors regularly monitor the Fund's interest rate risk exposure during the year. The Fund manages its interest risk exposure through the use of futures derivatives (see Note 13).

Fixed interest securities, cash and cash equivalents are exposed to interest rate risk. The table below demonstrates the change in value of these assets had the interest rate increased or decreased by 1%.

Assets exposed to interest rate risk	Value	Value on 1% price increase	Value on 1% price decrease
	£'000	£'000	£'000
As at 31 March 2015	148,492	149,977	147,007
As at 31 March 2016	**168,379**	**170,063**	**166,695**

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 Sterling. The Fund aims to mitigate this risk through the use of derivatives (see Note 13). The 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.

Overseas equities, fixed interest securities and futures, cash in foreign currencies, forward foreign exchange contracts and some elements of the pooled investment vehicles are exposed to currency risk. The following table demonstrates the change in value of these assets had there been a 10% strengthening/weakening of the pound against foreign currencies.

Note 15 Nature and extent of risks arising from Financial Instruments (continued)

Assets exposed to currency risk	Value	Value on 10% foreign exchange rate increase	Value on 10% foreign exchange rate decrease
	£'000	£'000	£'000
As at 31 March 2015	678,339	746,173	610,505
As at 31 March 2016	**666,743**	**733,417**	**600,069**

b) Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss.

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 high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

There is a risk that some admitted bodies may not honour their pension obligations with the result that any ensuing deficit might fall upon the Fund. To mitigate this risk, the Fund regularly monitors the state of its admitted bodies.

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 Committee monitors cash flows and takes steps to ensure that there are adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions. As at 31 March 2016, liquid assets were £961m representing 90% of total fund assets (£1,003m at 31 March 2015 representing 91% of the fund at that date). The majority of these investments can be liquidated within a matter of days.

The Fund also has an overdraft facility of £1m for short-term cash needs (up to 90 days). This facility is only for meeting timing differences on pension payments; however it was not used in the year.

Note 16 Funding Arrangements

The LGPS Regulations require that a full actuarial valuation of the Fund is carried out every three years. The purpose of this is to establish that the City of Westminster Pension Fund is able to meet its liabilities to past and present contributors and to review the employer contribution rates.

The latest full triennial valuation of the Fund was carried out by Barnett Waddingham, the Fund's actuary, as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund and Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. The results were published in the triennial valuation report dated 28 March 2014. The report and Funding Strategy Statement are both available on the Council's website at:

https://www.westminster.gov.uk/council-pension-fund

The actuary's smoothed 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. This indicates a net liability of £297.3m, which equates to a funding position of 74% (2010: £238.1m and 74%).

The actuarial valuation, carried out using the projected unit method, is based on economic and statistical assumptions, the main ones being:

Future assumed returns at 2013	Assumed returns %	Risk adjusted assumed returns %
Gilts	3.3	6
Cash	3.1	4
Bonds	3.9	13
Equities	6.9	74
Property	6.0	4

Financial assumptions	2013 %	2010 %
Discount rate - scheduled bodies	5.9	7.5
Discount rate - admitted bodies	4.9	6.3
RPI	3.5	3.8
CPI	2.7	3.3
Pension increases	2.7	3.3
Short-term pay increases	1.0	n/a
Long-term pay increases	4.5	5.3

The 2013 valuation certified an aggregate employer contribution rate of 29.8% of pensionable pay (2010: 20.4%). The contribution rate is set on the basis of the cost of future benefit accrual, increased to bring the funding level back to 100% over a period of 25 years, as set out in the Funding Strategy Statement (2010: 30 years). 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 1 April 2014 depending on the demographic and actuarial factors particular to each employer. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

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

Note 17 Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2016. The figures have been prepared by Barnett Waddingham, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

In calculating the required numbers, the actuary adopted methods and assumptions that are consistent with IAS19.

31 March 2015		31 March 2016
£'000		£'000
(1,605,955)	Present Value of Promised Retirement Benefits	(1,562,637)
1,089,091	Fair Value of Scheme Assets (bid value)	1,061,424
(516,864)	**Net Liability**	**(501,213)**

Present Value of Promised Retirement Benefits comprise of £1,520.8m (2014/15: £1,479.5m) and £41.817m (2014/15: £126.5m) in respect of vested benefits and non-vested benefits respectively as at 31 March 2016.

ASSUMPTIONS

To assess the value of the Fund's liabilities at 31 March 2016, the value of Fund's liabilities calculated for the funding valuation as at 31 March 2013 have been rolled forward, using financial assumptions that comply with IAS19.

DEMOGRAPHIC ASSUMPTIONS

The demographic assumptions used are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2013. The post retirement mortality tables adopted are the S1PA tables with a multiplier of 110%, for males and 100% for females. These base tables are then projected using the CMI 2012 Model, allowing for a long-term rate of improvement of 1.5% p.a.

Assumed life expectancy from age 65 is:

Life expectancy from age 65 years		31 March 2016	31 March 2015
Retiring today	Males	22.1	22.1
	Females	25.3	25.2
Retiring in 20 years	Males	24.4	24.2
	Females	27.7	27.6

FINANCIAL ASSUMPTIONS

The main financial assumptions are:

	31 March 2016 %	31 March 2015 %
RPI increases	3.2	3.1
CPI increases	2.3	2.3
Salary increases	4.1	4.1
Pension increases	2.3	2.3
Discount rate	3.5	3.2

Note 18 Current Assets

31 March 2015		31 March 2016
£'000		£'000
	Debtors:	
853	Contributions due - employers	635
228	Contributions due - employees	200
28	Sundry debtors	184
1,995	Cash balances	8,658
3,104		**9,677**

ANALYSIS OF DEBTORS

31 March 2015		31 March 2016
£'000		£'000
1,109	Other entities and individuals	1,019
1,109		**1,019**

Note 19 Current Liabilities

31 March 2015		31 March 2016
£'000		£'000
(1,048)	Sundry creditors	(1,269)
(1,048)	**Total**	**(1,269)**

ANALYSIS OF CREDITORS

31 March 2015		31 March 2016
£'000		£'000
(506)	Central government bodies	(537)
(542)	Other entities and individuals	(732)
(1,048)	**Total**	**(1,269)**

Note 20 Additional Voluntary Contributions

The Pension Fund's Additional Voluntary Contributions (AVC) providers are Aegon and Equitable Life Assurance Society. The table below shows information about these separately invested AVCs.

31 March 2015 Market Value		31 March 2016 Market Value
£'000		**£'000**
1,358	Aegon	1,255
474	Equitable Life	474
1,832	**Total**	**1,729**

Additional voluntary contributions of £0.2m were paid directly to Aegon during the year (2014/15: £0.2m).

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 Fund's Accounts.

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. The Fund relies on individual contributors to check that deductions are accurately reflected in the statements provided by the AVC provider.

Note 21 Related Party Transactions

The Fund is administered by Westminster City Council. The Council incurred costs of £0.34m in the period 2015/16 (2014/15: £0.31m) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses. The Fund uses the same Banking and Control Service provider as WCC and no charge is made in respect of this.

The Council has a significant interest in one employer (CityWest Homes) who are within the Pension Fund and the Fund received £2.4m in employer contributions, deficit and early retirement costs from this body (2014/15: £2.3m).

KEY MANAGEMENT PERSONNEL REMUNERATION

The key management personnel of the Fund are the members of the Pension Fund Committee, the City Treasurer, the Tri-Borough Director of Pensions & Treasury and the Acting Director of Human Resources. Total remuneration payable to key management personnel is set out below:

31 March 2015		31 March 2016
£'000		**£'000**
51	Short-term benefits	43
43	Post-employment benefits	131
94	**Total**	**174**

The Audit Plan
for the City of Westminster Pension Fund

Year ending 31 March 2016

March 2016

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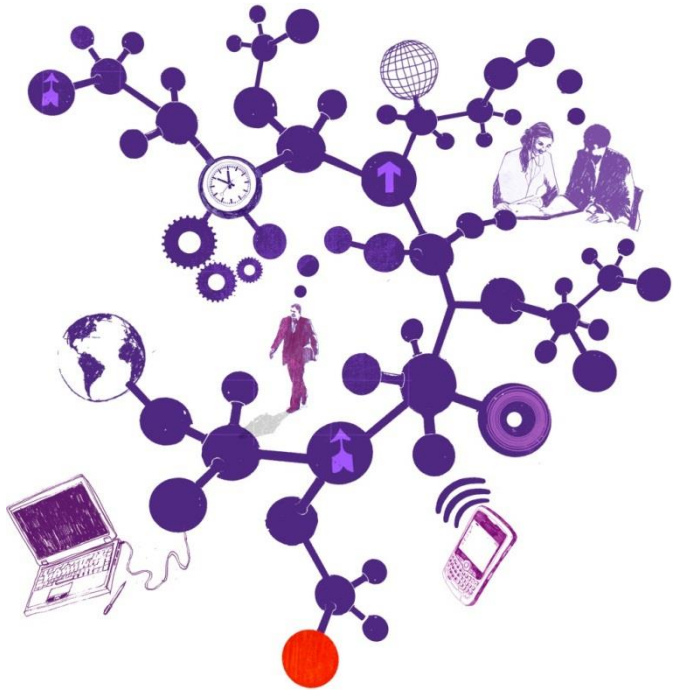

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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22 March 2016

Dear Members of the Pension Fund Committee

Audit Plan for City of Westminster Pension Fund for the year ending 31 March 2016

This Audit Plan sets out for the benefit of those charged with governance (in the case of City of Westminster Pension Fund, the Audit & Performance Committee), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Pension Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with the Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015.

Our responsibilities under the Code are to:

- give an opinion on the Fund's financial statements
- give an opinion on the Pension Fund Annual Report.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Yours sincerely

Elizabeth Olive

Engagement Lead

Contents

Section

Understanding your business

In planning our audit we need to understand the challenges and opportunities the Pension Fund is facing. We set out a summary of our understanding below.

Challenges/opportunities

1. Pooling of Investments

- As part of the summer budget 2015 the government has invited LGPS administering authorities to submit proposals for investing their assets through pools of at least £25 billion, with the intention of reducing investment management costs and potentially improving returns.
- The government anticipates that this will improve both capacity and capability to invest in large scale infrastructure projects.
- Initial proposals were to be submitted to DCLG by mid February, with final plans agreed by 15 July 2016.

2. Changes to the investment regulations

- In November 2015 DCLG published draft proposals in relation to the investment regulations governing LGPS funds.
- The proposals seek to remove some of the existing prescribed means of securing a diversified investment strategy and instead give funds greater responsibility to determine the balance of their investments and take account of risk.

3. Governance arrangements

- Local pension boards have been in place since April 2015, and were introduced to assist with compliance and effective governance and administration of the scheme.
- There remains a continued focus on the affordability, cost and management of the scheme, and as such it remains critical that appropriate governance arrangements are in place for the fund.

4. Local Government Outsourcing

- As many Council's look to outsourcing and the set up of external companies as a more cost effective way to provide services, the impact on the LGPS fund needs to be considered.
- Funds need to carefully consider requests for admission to the scheme and where possible mitigate any risks to the fund.
- An increased number of admitted bodies may increase the risks for the fund in the event of those bodies failing. it is also likely to increase the administration costs of the scheme overall.

Our response

- We will continue to discuss with officers their plans for asset pooling in the London CIV and the implications that this will have on both the investment policy and governance arrangements of the fund.

- We will discuss with officers their plans to respond to these changes and consider the impact on the fund's investment strategy and its risk management approach to investments.

- We will continue our on-going dialogue with officers around their governance arrangements, particularly in light of their proposals for pooling investments.
- We will continue to share emerging good practice with officers.

- Through our regular liaison with officers we will consider the impact of any planned large scale TUPE transfers of staff and the effect on the fund.

Developments and other requirements relevant to your audit

In planning our audit we also consider the impact of key developments in the sector and take account of national audit requirements as set out in the Code of Audit Practice and associated guidance.

Developments and other requirements

1. Financial Pressures

- There is increasing pressure on pension funds to have an investment strategy that pays benefits and this may lead to disinvestment decisions from investment assets. There is a need to fund cash flow demands on benefit and leaver payments that are not covered by contributions and investment income as the fund matures and there are fewer active contributors.
- Pension fund investment strategies need to be able to respond to these demands as well as the changing nature of the investment markets

2. Financial Reporting

- There are no significant changes to the Pension Fund financial reporting framework as set out in the CIPFA Code of Practice for Local Authority Accounting (the Code) for the year ending 31 March 2016, however the Pension Fund needs to ensure on going compliance with the Code.

3. LGPS 2014

- Funds have implemented the requirements of LGPS 2014 and moved to a career average scheme.
- This will continue to increase the complexity of the benefit calculations and the arrangements needed to ensure the correct payment of contributions.
- In addition, this places greater emphasis on the employer providing detailed information to the scheme administrator, while also requiring the scheme to have enhanced information systems In place to maintain and report on this data.

4. Accounting for Fund management costs

- There continues to be a spotlight on the costs of managing the LGPS, and in particular investment management costs.
- CIPFA produced guidance in 2014 aimed at improving the transparency of management cost data. This suggested that funds should include a note to the accounts with a breakdown of management costs that they are contractually liable for across the areas of investment management expenses, administration expenses and oversight and governance costs.
- This guidance is currently being updated.

Our response

- We will monitor any changes to the Pension Fund investment strategy through our regular meetings with management.
- We will consider the impact of changes on the nature of investments held by the Pension Fund and adjust our testing strategy as appropriate.

- We will ensure that the Pension Fund financial statements materially comply with the requirements of the Code through our substantive testing.

- We will continue to review the arrangements that the fund has in place for the quality of its' membership data.

- We will continue to discuss with officers their plans for increasing the level of transparency associated with the costs of managing the fund.

Our audit approach

Global audit technology

Ensures compliance with International Standards on Auditing (ISAs)

- Understanding the environment and the entity
- Understanding the business
- Understanding management's focus
- Evaluating the year's results

→

- Inherent risks
- Significant risks
- Other risks
- Material balances

→

Develop audit plan to obtain reasonable assurance that the Financial Statements as a whole are free from material misstatement and prepared in all material respects with the CIPFA Code of Practice on Local Authority Accounting using our global methodology and audit software

Note:
a. An item would be considered material to the financial statements if, through its omission or non-disclosure, the financial statements would no longer show a true and fair view.

Devise audit strategy (planned control reliance?)

Yes
- Test controls
- Substantive analytical review
- Tests of detail

No
- Tests of detail
- Substantive analytical review

IDEA: Extract your data → Analyse data using relevant parameters → Report output to teams

General audit procedures

Financial statements

Conclude and report

Voyager

Creates and tailors audit programs

Stores audit evidence

Documents processes and controls

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit.

The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As is usual in pension schemes, we have determined materiality for the statements as a whole as a proportion of net assets for the fund. For purposes of planning the audit, we have determined overall materiality in the context of a reader of the whole statement of accounts to be £9,891k (being 0.9% of net assets). We will consider whether this level is appropriate during the course of the audit and will advise you if we revise this. Our reason for selecting this level of materiality is based on the risks associated with the new financial ledger system which was implemented from 1 April 2015 under the Managed Services programme. This programme has resulted in significant risk to the Council and impacts on the Pension Fund as the journals processed during the year and for accounts preparation are through the system.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial in the context of a reader of the whole statement of accounts and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £494k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'.

We have not identified any items where separate materiality levels are appropriate.

Significant risks identified

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA 315). In this section we outline the significant risks of material misstatement which we have identified. There are two presumed significant risks which are applicable to all audits under auditing standards (International Standards on Auditing - ISAs) which are listed below:

Significant risk	Description	Substantive audit procedures
The revenue cycle includes fraudulent transactions	Under ISA 240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Westminster City Council Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • There is little incentive to manipulate revenue recognition • Opportunities to manipulate revenue recognition are very limited • The culture and ethical frameworks of local authorities, including Westminster City Council who act as the administrators of the pension fund, mean that all forms of fraud are seen as unacceptable • The split of responsibilities between the Authority, the Custodian and its Fund Managers provide a very strong separation of duties reducing the risk around investment income • Transfers into the scheme are all supported by an independent actuarial valuation of the amount which should be transferred and which is subject to agreement between the transferring and receiving funds.
Management over-ride of controls	Under ISA 240 it is presumed that the risk of management over-ride of controls is present in all entities.	**Work planned:** • Review of accounting estimates, judgments and decisions made by management • Testing of journal entries • Review of unusual significant transactions

Significant risks identified (continued)

Significant risk	Description	Substantive audit procedures
Managed services partnership (*risk of incomplete transfer of data from the old system to the new system)*	The tri-borough councils implemented a new financial ledger through a managed services partnership with BT from 1 April 2015. There have been a number of difficulties with the implementation which give rise to a significant risk of completeness of the balances in the financial statements, including: • Reconciliations are not carried out timely and there are a large number of unreconciled items in the income and cash balances • Expenditure payments are not being made correctly • Some income received by the council is unallocated and being held in a suspense account • Payroll information is not up to date and not all employees are being routinely paid The Council is proactively managing the service problems and is in regular contact with BT, including finance officers visiting the BT office on a monthly basis. Improvements are being made in the transactional processing every month but there remains a risk to the audit opinion.	**Work completed to date:** • We have gained an understanding of the Council's relationship with the managed service provider, including the position as at December 2015 for the service issues currently being faced in delivering the expected contractual commitments for the council • Review of the testing carried out by the finance team to date to gain assurance over the accuracy of transactions being made by BT. **Further work planned:** • We will review the latest service provision arrangements to ensure that the Council has sufficient information to prepare the financial statements in line with the planned closedown and audit timetable of April and May 2016 • Discussions with Internal Audit to review the work completed and assurance level planned for the Head of Internal Audit opinion • IT audit review of the general controls in operation in the financial ledger and overall IT control environment • We will carry out substantive testing of all items in the financial statements that are greater than tolerable error set for the Pension Fund accounts. The main focus will be on the journal testing and contributions.

Other risks identified

"The auditor should evaluate the design and determine the implementation of the entity's controls, including relevant control activities, over those risks for which, in the auditor's judgment, it is not possible or practicable to reduce the risks of material misstatement at the assertion level to an acceptably low level with audit evidence obtained only from substantive procedures"(ISA (UK & Ireland) 315).

In this section we outline the other risks of material misstatement which we have identified as a result of our planning.

Other risks	Description	Audit approach
Investment values – Level 2 investments	Valuation is incorrect – fair value measurements priced using inputs that are observable either directly or indirectly (Valuation net)	**Work completed to date:** • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No material issues were arising from this work • We have sent letters to the custodian and fund managers requesting direct confirmation of ownership, existence and valuation of investment balances at 31st March 2016 and of income receivable throughout the year **Work planned:** • We will review the latest AAF 01/06 or ISAE 3402 audited reports on internal controls, published by the respective investment managers and Custodian, where available • We will review the reconciliation between information provided by the custodian, fund managers and the Fund's own records and seek explanations for any variances • We will select a sample of the individual investments held by the fund at the year end and then test the valuation of the sample by agreeing prices to third party sources where published (quoted investments) and an overall unit reconciliation for all material unitised pooled investment vehicles
Investment Income	Investment activity not valid / Investment income not accurate (Valuation Gross)	**Work completed to date:** • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No material issues were arising from this work **Work planned:** • We will test a sample of investment income back to fund manager reports to ensure it is appropriate • We will complete a predictive analytical review for different types of investments
Investment purchases and sales	Investment activity not valid (Valuation Gross)	**Work completed to date:** • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No material issues were arising from this work **Work planned:** • We will test a sample of purchases and sales to fund manager records to ensure they are appropriate

Other risks identified (continued)

Other risks	Description	Audit approach
Contributions	Recorded contributions not correct (Existence, Occurrence)	**Work completed to date:** • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No material issues were arising from this work **Work planned:** • We will test a sample of contributions to source data to gain assurance over their accuracy and occurrence. • We will rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness)	**Work completed to date:** • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No material issues were arising from this work **Work planned:** • We will test a sample of individual pensions in payment by reference to member files. • We will perform controls testing over, completeness, accuracy and occurrence of benefit payments, • We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.
Member Data	Member data not correct. (Rights and Obligations)	**Work completed to date:** • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. No material issues were arising from this work **Work planned:** • We will document the existence of key controls and reconciliations covering the determination of member eligibility, the input of evidence onto the Pensions Administration System and the maintenance of member records. With a view to reducing the level of substantive testing required, we will therefore test the key controls identified in these areas. • We will perform sample testing of changes to member data made during the year to source documentation

Other risks identified (continued)

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous section but will include:

- Cash deposits
- Current Assets
- Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits
- Financial Instruments
- Level 1 investments

Other audit responsibilities

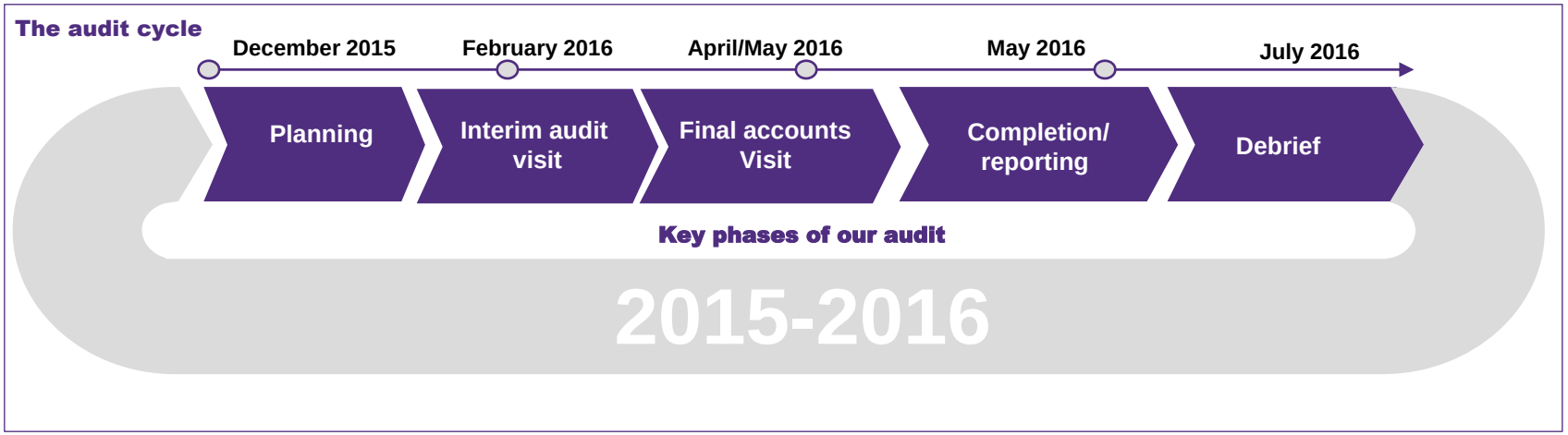
- We will read the Narrative Statement and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice. Westminster City Council will provide a statement that covers both the Council and Pension Fund.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.	Our review of internal audit work has not identified any material weaknesses which impact on our audit approach.
Entity level controls	We are obtaining an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices	Our work to date has identified no material weaknesses which are likely to adversely impact on the fund's financial statements.
Walkthrough testing	We have completed walkthrough tests of the Fund's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements. Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Fund in accordance with our documented understanding.	Our work has not identified any material weaknesses which impact on our audit approach.

Key dates



Date	Activity
December 2015	Planning
February 2016	Interim site visit
22 March 2016 / (3 February 2016)	Presentation of audit plan to Pension Fund Committee / (Risks presented to those charged with governance – Audit & Performance Committee)
11 April - 6 May 2016	Year end fieldwork
3 May 2016	Audit findings clearance meeting with the City Treasurer
12 May 2016	Report audit findings to those charged with governance (Audit and Performance Committee)
21 June 2016	Report audit findings to the Pension Fund Committee

Fees and independence

Fees

	£
Pension Fund Scale Fee (excluding VAT)	21,000

Fees for other services

Service	Fees £
Audit related services:	Nil
Non-audit services	Nil

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list.
- The scope of the audit, and the Fund and its activities, have not changed significantly.
- The Fund will make available management and accounting staff to help us locate information and to provide explanations.
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Fees for other services reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and the Annual Audit Letter of the Administering Authority.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

Full details of all fees charged for audit and non-audit services will be included in our Audit Findings Report at the conclusion of the audit.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Communication of audit matters with those charged with governance

International Standards on Auditing (UK & Ireland) (ISA) 260, as well as other ISAs, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings Report will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to those charged with governance.

Respective responsibilities

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Administering Authority's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the fund's key risks when reaching our conclusions under the Code.

It is the responsibility of the fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

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City of Westminster

Pension Board

Date:	**10 May 2016**
Classification:	**General Release**
Title:	**Risk Register Review**
Report of:	**Steven Mair** ***City Treasurer***
Wards Involved:	**All**
Policy Context:	**Effective Control over Council Activities**
Financial Summary:	**There are no financial implications arising from this report**

1. Executive Summary

1.1 This report gives an overview of the risk management arrangements for the Westminster Pension Fund.

1.2 This report focuses on two strategic risks to the Pension Fund, resulting from a change in pension legislation or regulation and the introduction of the European Directive MiiFID II.

2. Key Matters for the Board

2.1 The Board note the contents of this paper.

2.2 The Board members consider an area of the Risk Register to focus on for the next meeting.

3. Background

3.1 As previously reported to the Pensions Board, it is best practice for Pension Funds to maintain a risk register to ensure that the risks they face are properly understood and where appropriate action is needed to mitigate them.

3.2 Risk management is an issue for all those involved in the management of an LGPS fund, including members of the Pension Fund Committee, officers managing the Fund and the fund administrator. The Pension Board's role is to assist the administering authority in such activities to ensure effective and efficient governance and administration of the Scheme, as outlined in its Terms of Reference. This includes making recommendations to the Committee concerning good governance.

3.3 Attached at Appendix 1 is the updated Pension Fund Risk Register, which was reported to the Pension Fund Committee (the 'Committee') in March 2016. This supersedes the version which was previously presented to the Pension Board. The risk register is a 'live' document and risks will change due to management action and the external environment.

3.4 The Pension Board members agreed at the preceding meeting which sections of the Risk Register they wish to focus on in future meetings.

4. Focus Area: Strategic: Regulation – Pensions Legislation or Regulation Changes

4.1 "*Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.*" is one of the risk areas which Board members have decided to focus on. This is referenced as Risk 8 in Appendix 1.

4.2 This risk has a medium risk classification. Strategic risks are generally inherent and cannot be mitigated against although the Pension Fund Committee needs to be aware of these risks particularly when making strategic decisions.

4.3 The Local Government Pension Scheme (LGPS) is governed by key legislation, namely:

- The LGPS Regulations 2013
- The LGPS (Transitional provisions, Savings & Amendment) Regulations 2014
- The LGPS (Management & Investment of Funds) Regulations 2009

4.4 The Department of Communities and Local Government is the responsible authority appointed by the Secretary of State for Pensions and they must consult with the scheme managers on any proposed changes to the legislation. Westminster City Council is the administering authority for the Scheme and therefore receives all consultations directly.

4.5 Officers receive briefings on any proposed changes from various bodies including the Local Government Authority (LGA) and also from the Chartered Institute of

Public Finance & Accountancy (CIPFA) and the Pensions & Lifetime Savings Association.

4.6 Draft responses to consultations are prepared by officers when it is considered in the interest of the Pension Fund to do so. The proposed changes to legislation and any consultation responses are reported to the Pension Fund Committee.

4.7 Recent changes in legislation and regulations, including consultations, are discussed below:

Draft Investment Regulations

The Government consulted in Quarter 3, 2015 on relaxing the statutory limits placed on investing in asset types and requiring schemes to develop their own risk controls. Each scheme will be required to publish an Investment Strategy Statement (ISS) that will be scrutinised by Government. Westminster's draft ISS will be presented to the Pension Committee next September.

The draft investment regulations provide the Government with new powers to direct investment policy. These are mainly aimed at enforcing pooling (see below).

Pooling Criteria

At the same time as the draft investment regulations were issued, the Government set out its criteria for pooling LGPS investments, into collective pools of £25 billion. The Government consider that collective investment will save costs, improve performance and enable greater investment in infrastructure. Initial plans for pooling were required by February 2016 with more detailed plans and savings by July 2016.

The Council has responded to the criteria by setting out its plans to participate in the London CIV (separate paper on the agenda), which is compliant with the pooling criteria. We are working with the London CIV to prepare the July submission.

The impact of pooling is that the responsibility for appointing and monitoring fund managers will pass from the Pension Fund Committee to the London CIV. The Committee will retain responsibility for setting investment strategy.

Local Government Pension Scheme Regulations 2013

These regulations changed the pension fund benefit structure from final salary to career average from April 2014. This change had a major impact on the recording of benefit entitlement and consequently required changes to pension

administration systems and calculations. The Pension Fund Auditor will be able to discuss any issues identified in their testing.

LGPS (Amendment) (Governance) Regulations 2015

These regulations introduced Pension Boards from April 2015. Westminster's Board has operated in line with these regulations.

4.8 The Pension Fund has complied with the various changes in regulations and matters have been discussed with the Committee as they arise.

5. Focus Area: Strategic: Regulation – Introduction of European Directive MiFID II

5.1 "**I**ntroduction of European Directive MiFID II results is a restriction of Fund's investment options and an increase in costs" is the other area which Board members have decided to focus on. This is referenced as Risk 9 in Appendix 1.

5.2 This risk has a medium risk classification.

5.3 The Markets in Financial Instruments Directive (MiFID) is the EU legislation regulating firms providing services to clients linked to 'financial instruments' (shares, bonds, units in collective investment schemes and derivatives), and the venues where those instruments are traded.

5.4 Under MiFID II, local authorities will be defaulted to retail client status – currently they are professional clients. There will be the opportunity to elect for professional client status, where Funds have to demonstrate to each manager they meet certain qualitative and quantitative criteria.

5.5 When the directive comes into force there is a risk that a manager could eject a Fund from holding a product outside of their scope, thus resulting in a 'fire sale' of assets.

5.6 Recent indications are that MiFID II will not proceed in its current form and completion has been delayed. Should the directive continue in its current form, Governments have implementation options, including the classification of Local Authorities. In addition, fund managers and Local Authorities can agree to move their status to professional clients. Fund Managers will wish to continue existing relationships and officers believe the revised regulations will not impact on the investment opportunities.

6. Next Meeting

6.1 The Board members are asked to consider the Risk Register focus area for the next meeting.

If you have any queries about this report please contact the author:

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BACKGROUND PAPERS:

- Markets in Financial Instruments Directive II Implementation – Consultation Paper I
  http://www.fca.org.uk/static/documents/consultation-papers/cp15-43.pdf

APPENDICES

Appendix 1 - Pension Fund Risk Register, reviewed March 2016

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Appendix 1: Pension Fund Risk Register, March 2016

Changes to the risk register since previous quarter

Type	Ref	Risk	Rationale
New	24	**Operational: Administration** BT unable to provide an interface file in a format suitable for Surrey CC to update service records and undertake day to day operations.	Inaccuracies in service records held on the pensions administration system may impact on the triennial funding valuation at March 2016 and notifications to starters and leavers.

Pension Fund risk register, March 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
1	**STRATEGIC: INVESTMENT** That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	• Investment strategy in place and reviewed periodically. • Performance is measured against a liability based benchmark. • Fund performance is reviewed quarterly.	2	3	Low 6	City Treasurer	June 2016
2	**STRATEGIC: INVESTMENT** Fund managers fail to achieve the returns agreed in their management agreements.	• Independent monitoring of fund manager performance by custodian against targets. • Investment adviser retained to keep watching brief. • Fund manager performance is reviewed quarterly.	3	3	Low 9	City Treasurer	June 2016
3	**STRATEGIC: INVESTMENT** Failure of custodian or counterparty.	• At time of appointment, ensure assets are separately registered and segregated by owner. • Review of internal control reports on an annual basis. • Credit rating kept under review.	2	5	Low 10	City Treasurer	June 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
4	**STRATEGIC: FUNDING** The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required. • Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	4	3	Medium 12	City Treasurer	June 2016
5	**STRATEGIC: FUNDING** There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	• Cashflow forecast maintained and monitored. • Cashflow position reported to sub-committee quarterly. • Cashflow requirement is a factor in current investment strategy review.	2	1	Very Low 2	City Treasurer	June 2016
6	**STRATEGIC: FUNDING** Scheme members live longer than expected leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required.	4	2	Low 8	City Treasurer	June 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
7	**STRATEGIC: FUNDING** Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	• Review maturity of scheme at each triennial valuation. • Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. • Cashflow position monitored monthly.	2	3	Low 6	City Treasurer	June 2016
8	**STRATEGIC: REGULATION** Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	• Maintain links with central government and national bodies to keep abreast of national issues. • Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	3	4	Medium 12	City Treasurer and Acting Director of HR	June 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
9	**STRATEGIC: REGULATION** Introduction of European Directive MiFID II results is a restriction of Fund's investment options and an increase in costs	• Officers are engaging with Fund Managers to understand the position better • Knowledge and Skills Policy in place for Officers and Members of the Committee • Maintain links with central government and national bodies to keep abreast of national issues.	4	3	Medium 12	City Treasurer	June 2016
10	**OPERATIONAL: GOVERNANCE** Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	• Officers maintain knowledge of legal framework for routine decisions. • Eversheds retained for consultation on non-routine matters.	2	2	Very Low 4	City Treasurer	June 2016
11	**OPERATIONAL: GOVERNANCE** Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	• External professional advice is sought where required • Knowledge and skills policy in place (subject to Committee Approval)	3	3	Low 9	City Treasurer	June 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
12	**OPERATIONAL: GOVERNANCE** Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	• Person specifications are used at recruitment to appoint officers with relevant skills and experience. • Training plans are in place for all officers as part of the performance appraisal arrangements. • Shared service nature of the pensions team provides resilience and sharing of knowledge.	3	3	Low 9	City Treasurer and Acting Director of HR	June 2016
13	**OPERATIONAL: GOVERNANCE** Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	• At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. • Committee and officers scrutinise and challenge advice provided.	2	2	Very Low 4	City Treasurer	June 2016
14	**OPERATIONAL: FUNDING** Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	• Transferee admission bodies required to have bonds in place at time of signing the admission agreement. • Regular monitoring of employers and follow up of expiring bonds.	3	2	Low 6	City Treasurer and Acting Director of HR	June 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
15	**OPERATIONAL: FUNDING** Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	• Review "budgets" at each triennial valuation and challenge actuary as required. • Charge capital cost of ill health retirements to admitted bodies at the time of occurring. • Occupational health services provided by the Council and other large employers to address potential ill health issues early.	3	2	Low 6	City Treasurer and Acting Director of HR	June 2016
16	**OPERATIONAL: FUNDING** Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	• Monitor numbers and values of transfers out being processed. • If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values.	2	3	Low 6	City Treasurer and Acting Director of HR	June 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
17	**OPERATIONAL: ADMINISTRATION** Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	• Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place. • Review of third party internal control reports. • Regular reconciliations of pension payments undertaken by Pensions Finance Team. • Periodic internal audits of Pensions Finance and HR teams.	4	2	Low 8	City Treasurer and Acting Director of HR	June 2016
18	**OPERATIONAL: ADMINISTRATION** Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	• Contract monitoring in place with all providers. • Procurement team send alerts whenever credit scoring for any provider changes for follow up action.	3	1	Very Low 3	City Treasurer and Acting Director of HR	June 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
19	**OPERATIONAL: ADMINISTRATION** Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	• Contract in place with BT to provide service enabling smooth processing of supplier payments • Process in place for Surrey CC to generate lump sum payments to members as they are due. • Officers undertaking additional testing and reconciliation work to verify accounting transactions	4	4	High 16	City Treasurer	June 2016
20	**OPERATIONAL: ADMINISTRATION** Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	• In the event of a pension payroll failure we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers.	1	5	Very Low 5	Acting Director of HR	June 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
21	**OPERATIONAL: ADMINISTRATION** Failure to pay pension benefits accurately leading to under or over payments.	• There are occasional circumstances where under or over payments are identified. Where under payments occur arrears are paid as soon as possible usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months.	2	3	Low 6	Acting Director of HR	June 2016
22	**OPERATIONAL: ADMINISTRATION** Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	• Pension administration records are stored on the surrey servers they have a disaster recovery system in place and records should be restored within 24 hours of any issue, files are backed up daily.	1	5	Very Low 5	Acting Director of HR	June 2016

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
23	**OPERATIONAL: ADMINISTRATION** Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	• Surrey CC administers pensions for Surrey, East Sussex and is taking on our Triborough partners. They have a number of very experienced administrators two of whom tuped to them from LPFA with our contract. Where issues arise the Pensions Liaison Officer reviews directly with the Pensions Manager at Surrey. More detailed performance reports are being developed.	2	3	Low 6	Acting Director of HR	June 2016
24	**Operational: Administration** BT unable to provide monthly or end of year interface files in a format suitable for Surrey CC to update service records and undertake day to day operations. Inaccuracies in service records held on the pensions administration system may impact on the triennial funding valuation at March 2016 and notifications to starters and leavers.	• Issue has been escalated by the Chief Executive for high level resolution with BT • Test files are currently with SCC • Actuary undertakes data cleansing on the service records and is confident this will mitigate the inaccuracies in service records	4	3	Medium 12	Acting Director of HR	June 2016

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City of Westminster

Pension Board

Date:	**10 May 2016**
Classification:	**General Release**
Title:	**Pension Fund Benchmarking Costs**
Report of:	**Steven Mair** ***City Treasurer***
Wards Involved:	**All**
Policy Context:	**Effective Control over Council Activities**
Financial Summary:	**There are no financial implications arising from this report**

1. Executive Summary

1.1 This report advises the Board of the current position with regard to performance benchmarking of the Fund and in particular the Scheme Advisory Board Key Performance Indicator (KPI) Benchmarking exercise.

2. Key Matters for the Board

2.1 The Board note the contents of this paper

3. Background

3.1 At the November meeting of the Westminster Local Pension Board members asked for more information on the benchmarking arrangements for the Funds' investments and costs.

3.2 This report will cover the response to the Scheme Advisory Board KPI Benchmarking exercise and provide further analysis of the investment returns and scheme costs.

4. Scheme Advisory Board KPI's

4.1 As part of its work over the last two years the LGPS Scheme Advisory Board (in shadow prior to April 2015) has sought to improve the quality and comparability of data associated with the LGPS following criticism from the Hutton Commission Final Report in 2012.

4.2 There has also been considerable discussion around the ability to identify and compare the financial health of individual LGPS Funds. This led to the establishment of a working party which was tasked with creating a range of meaningful performance indicators to show those funds who were in a stronger or weaker position. This assessment is not necessarily a reflection of the current governance and administration arrangements but will highlight where improvements are required following decisions made over a number of years.

4.3 The Guidance issued by Scheme Advisory Board which sets out the rationale for the exercise and explains the range of KPI's was reported to the Board in October 2015. The KPI's are split into 4 core and 14 supplementary indicators where the core KPI's are classed as "alarm bells" to identify under-performing funds.

4.4 Officers have completed the KPI Proforma attached at Appendix 1 which was reported to the Pension Fund Committee meeting in November 2015.

4.5 A summary of all responses is expected in early 2016. The 2015 exercise was mainly a feasibility study and the intention in future years is that those funds identified with significant issues are likely to be contacted directly regarding establishing an action plan to make the necessary improvements.

5. Investment Performance Benchmarking

5.1 The Pension Fund Committee receive reports every quarter which analyse the investment performance between asset classes, fund managers and various time periods all against pre-determined benchmarks. These benchmarks are largely market related i.e. FTSE indices' and give an indication of the success of the investment strategy and individual mandates/fund managers.

5.2 Due to the long term nature of the Fund's liabilities the Pension Fund Committee is able to take a long term approach in its investment strategy and will make strategic allocations to different asset classes such as equities and bonds based upon the expected returns and risk appetite and will have less regard for short-term market fluctuations. Table 1 below shows the Fund's investment returns at

March 2015 over one and three year periods and compares them to the benchmark target.

Fund Manager	Asset Type	Value at 31/03/15	Asset allocation 31/03/15	One Year Net Return	One Year Benchmark	Three Year Annualised Net Return	Three Year Annualised Benchmark
		£m	**%**	**%**	**%**	**%**	**%**
Majedie	UK Equity	£256.5	23.5	6.9	6.6	16.0	10.6
Legal & General	Passive Global Equity	£277.3	25.4	13.7	13.9	n/a	n/a
Baillie Gifford	Global Equity	£179.2	16.4	18.9	19.0	n/a	n/a
Longview	Global Equity	£109.6	10.0	n/a	n/a	n/a	n/a
Insight	Index Linked Gilts	£17.9	1.7	6.6	6.8	2.6	2.7
Insight	Bonds	£156.6	14.4	9.8	9.8	8.1	7.5
Hermes	Property	£45.7	4.2	19.1	16.9	12.1	9.5
Standard Life	Property	£47.9	4.4	9.4	16.2	n/a	n/a
TOTAL		**£1,090.7**	**100.0**	**12.5**	**12.9**	**13.3**	**12.0**

Table 1: Westminster Pension Fund Investment Returns

5.3 In order to better understand the performance of the fund relative to other LGPS funds, officers have recently subscribed to the WM Local Authority Performance League tables. These tables are produced annually and provide comparisons on the level of returns across asset classes as well as overall returns achieved by individual funds. The results from the 2014/15 Local Authority Universe are shown at Appendix 2.

5.4 Whilst there may well be particular circumstances which determine individual fund returns, such as level of risk taken, this remains a helpful indication of where an individual fund's returns sit when compared to their peers and the overall range of results achieved. It also provides an insight into the drivers for success such as the investment strategy adopted and the success or otherwise of particular fund managers.

5.5 Compiling data from almost all LGPS Funds also provides the opportunity to carry out wider analysis and hence the ability to draw out specific conclusions. Each year an Annual Review of Local Authority Funds is produced which

discusses a range of topical issues in relation to LGPS investments such as asset allocation, individual asset classes and comparisons to corporate funds.

5.6 In March 2016, State Street Bank (formerly the WM Company) announced that they were to discontinue the provision of the performance measurement services provided to third party clients from 30 June 2016. Work is on-going to find an alternative provider for this service and the Pension Board will be kept inform

5.7 ed of any developments.

6. Fund Management Costs

6.1 The focus on the costs of operating the LGPS has increased significantly over recent years with a number of commentators offering views on the comparability and potential savings that could be achieved through greater collaboration. In particular Michael Jonson at the Centre for Policy Studies (CPS) has recently published a report titled LGPS: Unsustainable : http://www.cps.org.uk/files/reports/original/151215155124-LGPSUnsustainable.pdf

6.2 The management costs for the Westminster Pension Fund have been analysed over the last 5 years and this is included at Appendix 3 (exempt). It is important to note there have been a number of changes during the period which limit the comparability of the figures such as changes in investment strategy and fund managers.

6.3 For the first time in 2014/15 CIPFA introduced guidance on accounting for the costs of running pension funds. This included reporting transaction costs in the accounts for the first time (transaction costs are costs associated with the purchase and sale of assets such as stamp duty and Broker commissions). As these costs exceed £1M pa the annual reported costs have increased significantly from 2013/14 onwards.

6.4 In order to provide some perspective to these figures and to consider how the Fund compares to other LGPS Funds an independent consultant has carried out a review of management costs. This highlights the degree of compliance with the CIPFA Guidance and shows how Westminster Pension Fund compares across a number of categories. This analysis is included at Appendix 4.

6.5 The analysis has been prepared in the context of the CPS report mentioned above and seeks to clarify some of the points raised and challenges a number of the conclusions drawn. In particular, the new CIPFA guidance and the inclusion of transaction costs is an attempt to improve the transparency around costs but has been interpreted as an increase in costs which is simply not the case.

6.6 Clearly the size of the Pension Fund will have a major influence on the costs as a percentage of assets and as Westminster is a smaller Fund this will result in a higher figure. In addition, the choice and number of fund managers will have a significant impact and needs to be considered alongside the investment returns achieved.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

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BACKGROUND PAPERS:

None

APPENDIX 1:

Westminster Response to the Scheme Advisory Board KPI Exercise

APPENDIX 2:

WM UK Local Authority Universe Results 2014/15

LOCAL AUTHORITY

ANNUAL 2014/2015

The following summary is based on 85 funds with a total Market Value of £199,896m.

FINAL RESULTS

CATEGORY	ASSET MIX (%)		RETURNS (%)					
	Latest Year		Last 12 Months		3 Year Annualised		5 Year Annualised	
	31/03/2014	31/03/2015	Average	Index	Average	Index	Average	Index
TOTAL EQUITIES	63.1	61.5	13.7	19.2	13.2	14.2	9.6	10.0
GLOBAL POOLED INC UK	5.9	7.0	18.3	19.2	14.3	14.2	-	10.0
UK EQUITIES	24.3	21.2	6.3	6.6	11.7	10.6	9.4	8.3
OVERSEAS EQUITIES	32.9	33.3	18.1	20.7	13.8	14.8	9.5	10.3
North America	11.7	8.2	24.8	25.1	18.4	18.1	14.0	14.0
Europe	8.6	6.3	8.8	7.7	14.6	14.2	8.2	7.2
Japan	3.1	2.9	27.3	27.1	13.9	12.7	8.4	6.7
Pacific (ex Japan)	3.2	2.8	16.0	10.6	8.7	7.2	7.1	6.1
Emerging Markets	5.4	3.8	13.5	16.3	6.0	3.7	4.1	2.7
Global ex UK	1.0	9.3	19.2	20.7	16.0	14.8	11.3	10.3
TOTAL BONDS	16.4	17.1	13.0	-	7.1	-	7.9	-
U.K. BONDS	9.3	9.2	11.8	13.9	7.5	5.3	7.9	7.0
OVERSEAS BONDS	2.4	2.3	8.7	8.4	3.9	4.9	4.3	4.8
INDEX LINKED	3.7	4.2	20.2	18.5	8.5	7.9	10.3	9.6
POOLED BONDS	0.9	1.3	7.6	-	5.5	-	5.8	-
TOTAL CASH	2.9	2.7	1.8	0.3	2.0	0.4	1.8	0.4
ALTERNATIVES	7.0	7.9	12.5	-	8.6	-	7.0	-
Total Private Equity	3.8	4.3	15.7	-	10.9	-	9.6	-
Total Hedge Funds	2.0	2.2	8.6	-	6.5	-	4.9	-
Other Alternatives	1.2	1.4	9.5	-	4.8	-	3.3	-
POOLED MULTI ASSET	3.1	2.8	10.2	-	-	-	-	-
TOTAL EX-PROPERTY	92.6	91.9	13.0	12.5	11.2	10.6	8.8	8.1
TOTAL PROPERTY	7.4	8.1	15.8	18.3	9.7	11.4	8.9	10.3
TOTAL ASSETS	100.0	100.0	13.2	12.9	11.0	10.6	8.7	8.2

APPENDIX 4:

External Analysis of LGPS Management Costs 2014/15

Worth Accounting Solutions Response to CPS Report *LGPS: Unsustainable*

1. The analysis prepared by Michael Johnson is based on the DCLG's data rather than the published accounts for 2014/15. During 2014/15 CIPFA issued new guidance on accounting for the costs of running pension funds. The guidance required:

    a. All transaction costs to be reported gross (hitherto these have tended to be netted off purchases and sales)
    b. Report all management fees (i.e. *ad valorem* fees, performance fees and custody fees) gross rather than net these off purchases and sales
    c. Disclose costs over three categories of expense:
        i. Administration
        ii. Investment management
        iii. Oversight and governance (new category for 2014/15)

2. The guidance was not fully implemented by all pension funds. Nationally only about half the pension fund across England, Scotland and Wales complied with the guidance and within London, less than half of all pension funds fully implemented the guidance. Therefore any inter-fund comparison is probably flawed. Michael Johnson's analysis does not reflect this.

	London pension funds			National position	
	No.	%		No.	%
Fully complied	14	43%		51	52%
Partly complied	6	19%		16	16%
Did not comply	12	38%		31	32%
	32	100%		98	100%

3. Westminster Pension Fund fully implemented the CIPFA guidance in 2014/15.

Restating 2013/14

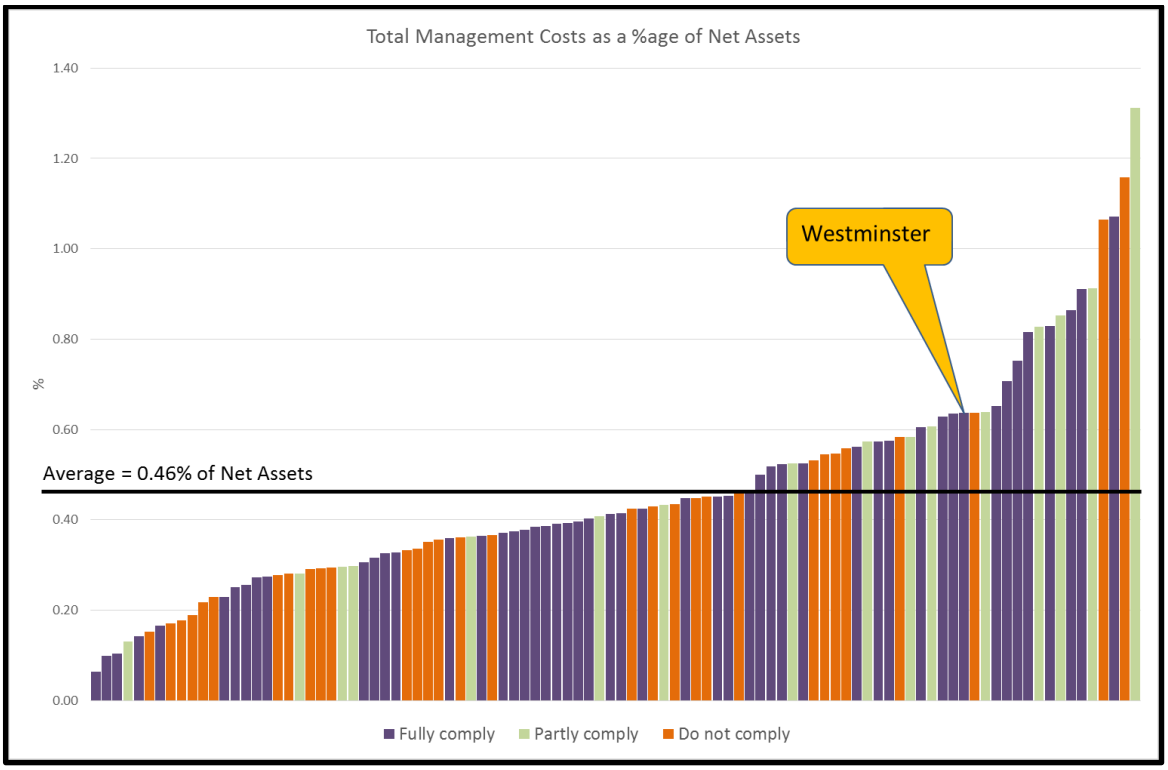
4. Michael Johnson states that the cost of running LG pension funds has risen by 40%. His analysis is based on the data reported on the DCLG website. The pension funds which fully implemented the CIPFA guidance also restated the comparator financial information for 2013/14 to ensure consistency of reporting – the DCLG data for 2013/14 has not been restated.

5. Just looking at the authorities who fully implemented the CIPFA guidance, total management costs rose by 29% rather than 40%.

6. Additionally a significant number of LG pension funds have active pension fund management mandates with some fund managers. These are designed to out-perform the market. The reward for fund managers under active mandates is a performance fee on top of the basic *ad valorem* fee. Performance fees are inherently volatile between years. Overall 2014/15 was a good year compared with 2013/14 so part of the 29% increase is due to performance fees.

Total management costs

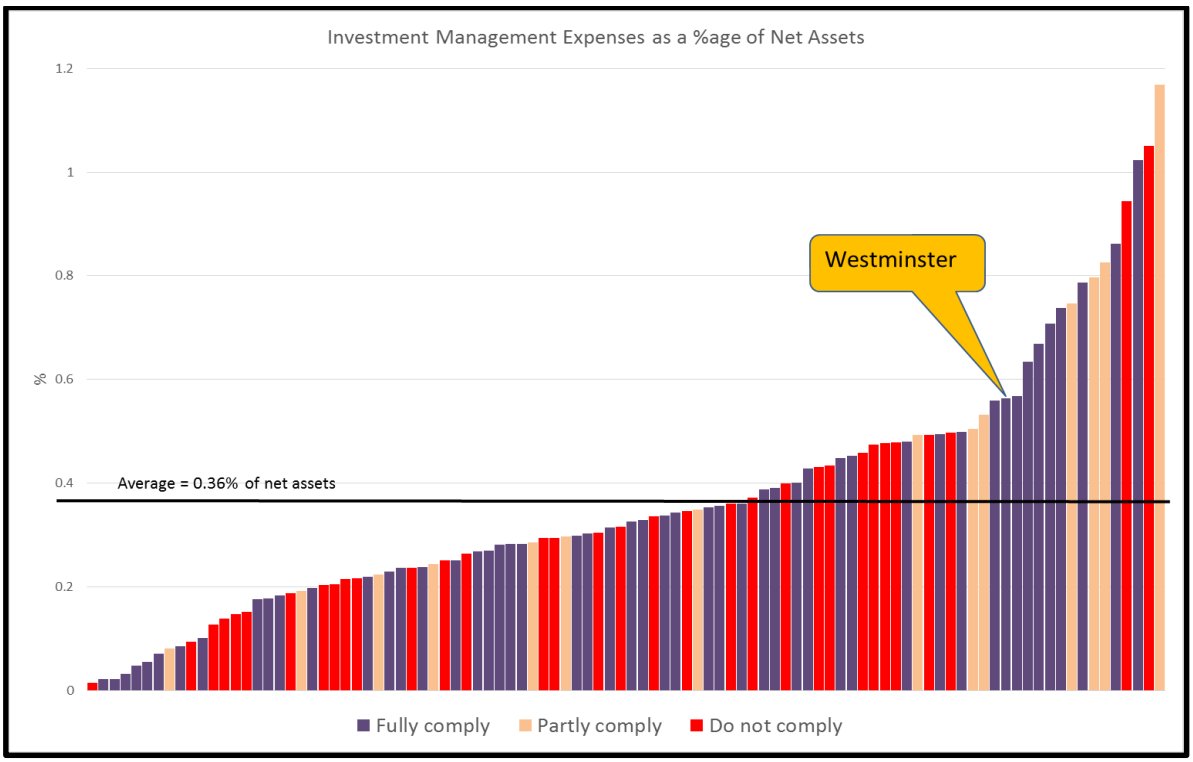
7. The average total management costs for a LG pension fund were 0.46% of net assets. Westminster pension fund was above average at 0.64% of total net assets –see graph below. The difference of 0.18% is around £1.9m. To a large extent this reflects that investment management expenses are higher than the average- see next section.



Investment management expenses

8. The average total investment management costs for a LG pension fund were 0.36% of net assets. Westminster pension fund was above average at 0.56% of total net assets –see graph below. However this compares favourably against pension funds in the private sector where investment management fees are in the range 0.75 to 1.25%.

9. The difference of 0.20% equates to around £2.2m of net assets.



10. Westminster's Pension Fund's above average costs reflect that the pension fund paid around £2.2m in performance fees to one fund manager to reward out-performance.

11. Given that overall management costs are 0.18% above average, but investment management expenses are 0.2% above average, this means that the pension fund's administration and oversight and governance costs are below average.

No.	Key Indicator	Examples of level for concern	Examples of good practice for high performing fund	Fund score	Evidence and comments	Links
1	Risk management	No or only a partial and/or an unclear risk register with no or poorly specified or un-implemented mitigation actions over time leading to increased fund risk. No evidence of a risk register being	Comprehensive risk register covering the key risks (in accordance with current CIPFA guidelines) with prioritisation, robust mitigation actions, defined deadlines, with action tracking to completion. Evidence and e-links to demonstrate			
		a) prioritised	a) risks prioritised on a RAG red, amber, green or by a scoring methodology	1	Risk Register in place - implemented May 2015	http://committees.westminster.gov.uk/documents/s13403/Pension%20Risk%20Register%20WCC%20draft%20150416.pdf
		b) annually reviewed by Pensions Committee	b) completed actions signed off by Pensions Committee after at least annual update,	0	Reviewed quarterly by Committee, not yet been in place for a year.	
		c) annually reviewed by internal audit or external audit	c) annual review by internal audit and external audit	-1	Not yet been reviewed by Internal Audit	
		d) used to reduce high risks	d) <3 priority/"red" risks	1	No red risks to date	
		e) available for public scrutiny.	e) public disclosure of a summary version published on fund website or in fund annual report.	0	As per links above, register is available as part of public Committee papers on Council's website. Most recent version published for September Meeting. Not included in 2014/15 Annual Report.	http://committees.westminster.gov.uk/documents/s15237/Fund%20Financial%20Management%20Apx%202.pdf
		Self score -1 point for each one	Self score +1 point for each one			
2	Funding level and contributions	a) Decreasing funding level (calculated on a standardised and consistent basis) and/or in bottom decile of LGPS, over the last three triennial valuations on a standardised like for like basis.	Evidence and e-links to demonstrate			
	(see explanatory notes)	b) No or minimal employer funding risk assessment and monitoring and not reported to Pensions Committee	a) Funding level rising and getting closer to 100% funded (or above) over last three triennial valuations on a standardised like for like basis. Funding %		Funding level 78% on standardised basis at 2013. 74% as reported to Fund in TV, 74% in 2010 and 79% in 2007	http://transact.westminster.gov.uk/Newdocstores/publications_store/Pensions/westminster-valuation-report-2013.pdf
		c) Total actual contributions and actual received in last 6 years less than that assumed and certified in last 2 triennial valuations.	91 to >100 =score +5			
		d) Net inward cash flow less than benefit outgoings so need for any unplanned or forced sale of assets.	80-90 =+4			
		Self score -1 for each one	70-79 =+3 60-69 = +2 <59 = +1	3		
			b) Employer funding risk assessment and monitoring reports to Pension Committee. Net inward cashflow forecasts meeting planned income or significantly exceeding benefot outgoings.	-1		
			c) Total actual contributions received in last 6 years equate to (or exceed) that assumed and certified in the last 2 triennial valuations.	1	two lump sum deficit payments received totalling £97m over the period	
			d) Net inward cash flow significantly exceeds benefit out-goings	-1	Cash flow monitored by officers and reported quarterly to Committee	http://committees.westminster.gov.uk/documents/s15236/Fund%20Financial%20Management%20Apx%201.pdf
			Self score a) as above and rest +1 for each one			
3	Deficit recovery	a) No or opaque deficit recovery plan.	Evidence and e-links to demonstrate :			
	(see explanatory notes)	b) Lengthening implied deficit recovery period (for contributions)	a)Transparent deficit recovery plan for tax raising and non-tax raising bodies.	1	See Funding Strategy Statement	http://transact.westminster.gov.uk/Newdocstores/publications_store/Finance/pension_funding_strategy.pdf
		c) Implied deficit recovery periods >25 years for last 3 valuations.	b) Implied deficit recovery reducing each triennial valuation.	1	30 years at 2010 reduced to 25 years in 2013	http://transact.westminster.gov.uk/Newdocstores/publications_store/Pensions/westminster-valuation-report-2013.pdf
		Self score -1 point for each	c) Implied deficit recovery period in line <15 years for last 3 valuations Self score +1 point for each one	-1	30 years at 2007	
4	Investment returns	a) Required future investment return (calculated on standardised and prudently consistent basis) not aligned to the investment strategy target return, so lower likelihood of the fund achieving its funding strategy.	Evidence and e-links to demonstrate :			
	(see explanatory notes)	b) Actual investment returns consistently undershoot actuarially required returns	a) Required future fund investment return (calc by actuary) are consistent with and aligned to investment strategy (asset mix expected target returns) so higher likelihood of the fund meeting its funding strategy.	1	Rate of return expected from Investment Strategy in line with Actuarial assumptions - see Statement of Investment Principles	http://transact.westminster.gov.uk/docstores/publications_store/pensions/westminster_sip_2015.pdf
		Self score -1 point for each one	b) Actual investment returns consistently exceed actuarially required returns	1	Returns at 2013 Valaution of 7.9% exceeded expected figure of 7.5%. Three year annualsied returns to March 2015 of 13.3% in excess of actuarial required rate of return of 7.1%	http://committees.westminster.gov.uk/documents/s13398/2015%20Q1%20Performance%20Rpt%20-%20Deloittes%20vf.pdf
			Self score +1 point for each one			
				6		

No.	Key Indicator	Examples of level for concern	Examples of good practice for high performing funds	Fund score	Evidence and comments	Links
5	Pensions Committee and Pensions Board members competence	Appointees unclear of statutory role and unable to clearly articulate the funds funding and investment objectives. No evidence of a) different scheme employer types and no or minimal scheme member representation. b) No training needs analysis, or training strategy, or training log or use of CIPFA LGPS training framework. c) No training record disclosures d) Self assessment Self score core -1 point for each	Appointees understand their statutory role and are able to clearly articulate the funds funding and investment objectives Evidence and e-links to demonstrate a) representation from different scheme employer types (scheduled and admitted) and member types (actives, deferred and pensioners). b) annual training plan recorded against the CIPFA knowledge and understanding framework. c) annual training records disclosed in Annual Report d) annual self-assessment of training undertaken and identification of future needs. Self score +1 point for each one	0 0 -1 -1	Only one scheduled body on Board and two active/one pensioner representative. No other employer representation on Committee Knowledge & Skills Policy agreed in September 2015 None in place by 31 March 2015 None in place by 31 March 2015	http://committees.westminster.gov.uk/documents/s15232/Governance%20Arrangements%20Apx%201.pdf
6	Administering authority staff accountability, leadership, experience, and training	a) No or only part time Head of Fund and or only part time officers b) No or little induction or on- going training provision or experience recorded on the adoption of CIPFA LGPS knowledge and understanding framework. Self score -1 for each one	Evidence and e-links to demonstrate a) Experienced Head of Fund with full time dedicated officers with at least 3+ years' experience. b) staff undertake regular CIPFA LGPS TKU or other CPD training recorded across all LGPS skills (governance, benefits administration, funding, investments, and comms) Self score +1 point for each one	0 0	Shared Head of Fund across three tri-borough funds Training undertaken through attendance at various seminars - no formal records due to lack of formal appraisal process	
7	Statutory governance standards and principles (as per DCLG guidance and TPR codes)	Several key areas of non- compliance with a) DCLG LGPS statutory guidance b) TPR guidance and codes and reasons why not explained. c) No, little or poor key decision taking records and no or poor self, or scheme employers, or scheme members assessment of overall fund effectiveness. Self core -1 for each one	Evidence and e-links to demonstrate a) Full compliance with DCLG LGPS statutory guidance b) Full compliance with TPR guidance and codes for public sector pension schemes c) Meet or exceed other LGPS best practice on recording all key decision taking and annual self, scheme employers, scheme member assessment of overall effectiveness. Self score +1 for each one	0 0 0	Representation only area of non-compliance. Link: Partially compliant - Board papers show conflict of interest, training and code of conduct policies in place Link: Committee Decisions clearly recorded - no assessments of effectiveness Link to Committee minutes:	http://committees.westminster.gov.uk/documents/s15233/Governance%20Arrangements%20Apx%202.pdf https://www.westminster.gov.uk/council-pension-fund http://committees.westminster.gov.uk/mgCommitteeDetails.aspx?ID=321
8	Quality and accessibility of information and statutory statements, strategies, policies (governance, FSS, SIP, comms, admin authority and employer discretions policies)	a) Statutory publications not all in place or published on fund website or updated in accordance with regulatory requirements and due timelines. b) Fund and employers discretions not published c) Do not seek to meet any recognised 'Plain English' or e-publishing standards Self score -1 for each one	Evidence and e-links to demonstrate a) Statutory publications all in place and published on fund website and updated in accordance with regulatory requirements and due timelines. b) Fund and employer discretions pubished c) Meet 'Plain English' and or other recognised e-publishing standards. Self score +1 for each one	1 1 -1	Statutory publications published. Link to website: Contained within the WCC pensions poilcies found on the internal WCC knowledge base Do not seek to meet plain english standards	https://www.westminster.gov.uk/council-pension-fund https://btlg.service-now.com/LFSharedServices/pft_wcc.do
9	a) Adoption and report compliance with Investment Governance Principles (IGP) (was Myners Principles) and voluntary adoption/signatory to FRC Stewardship Code and UNPRI	No or un-explained non- compliance and/or non-support of a) IGP b) UK Stewardship Code c) UN PRI Self score -1 for each	Evidence and e-links to demonstrate a) 100% compliance with IGP b) adoption and public reporting of compliance against the FRC UK Stewardship Code c) external managers or fund are PRI signatories Self score +1 for each	0 0 0	Compliant with all except assessment of own effectiveness Stewardship Policy approved in September 2015 and included in 2014/15 Annual Report All except one fund managers are signatories	http://transact.westminster.gov.uk/docstores/publications_store/pensions/westminster_sip_2015.pdf https://www.westminster.gov.uk/council-pension-fund http://www.unpri.org/signatories/signatories/#investment_managers
10	a) Historic investment returns (last 1, 3, 5, and 10 years) and b) total investment costs compared to other LGPS funds. (See explanatory notes)	a) overall fund investment returns (net of fees) for last 1, 3, 5 years bottom two quintiles Score -3 and -5 points b) Retain fund managers under- performing their mandates for 2 triennial valuation cycles. Score -1 point c) Fund does not benchmark its fund manager and total investment costs relative to other LGPS funds. Score -1 point	Evidence and e-links to a) overall fund investment return (net of fees) for last 1, 3, 5 years a) Top quintile score +5 points b) Next two quintiles score +3 and 0 points respectively b) >75% of fund mandates deliver over rolling 3 year performance periods. Score +1 point c) Fund benchmarks its fund manager and total investment costs Score +1	-3 0 -1	only 1 year data available. Position 66 All managers with 3 year record ahead of targets but only covers 40% of assets. Other managers replaced in 2015 Do not benchmark against other LGPS funds	http://committees.westminster.gov.uk/documents/s13398/2015%20Q1%20Performance%20Rpt%20-%20Deloittes%20vf.pdf
11	Annual report and audited financial statements	a) Do not fully meet some regulatory requirements or CIPFA LGPS guidance b) Not published in Admin Authority Accounts by 1st October. c) Published on SAB website after 1st November Self score -1 for each one	Evidence and e-links to demonstrate a) Meet all regulatory and CIPFA best practice guidance b) Publish in Administering Authority accounts by 1st October c) Publish fund report and accounts of SAB website before 1st November. Self score +1 for each one	1 1 1	Meet all regulatory requirements and CIPFA best practice Pension Fund Accounts published in Administering Authority accounts within timescale On website	http://transact.westminster.gov.uk/docstores/publications_store/accounts/6.51_wcc_pensions_fund_report_2014_interactive_v2.pdf
12	Scheme membership data	a) Common data does not meet TPR standards b) Conditional data do not meet the TPR standards. No plans in place to rectify this. Self score -1 for each	Evidence and e-links to demonstrate a) >99% common data meets TPR quality and due date standards b) >95% of conditional data meets TPR quality and due date standards. Plans in place to improve this. Self score +1 for each one	0 0	Awaiting for the data to be updated via the new payroll/pensions interface Awaiting for the data to be updated via the new payroll/pensions interface	
13	Pension queries, pension payments, and Annual Benefit Statements	a) No or poor website with no scheme member or employer access. b) ABS do not meet regulatory requirements or due timelines for issuance. Self score -1 for each	Evidence and e-links to demonstrate a) Good website with interactive scheme member and employer access. b) ABS meet or exceed regulatory standards and due timelines for issuance. Self score +1 for each	1 1	Website in place ABS meet standards	http://www.wccpensionfund.co.uk/
14	Cost efficient administration and overall VFM fund management	a) In bottom quartile with high total admin cost pa per member (based CIPFA or other benchmark tool). b) Not in any national or regional frameworks for any externally procured services or collective investments. Self score -1 for each	Evidence and e-links to demonstrate a) In top quartile with low total admin cost pa per fund member (based CIPFA or other benchmark tool calculated on a consistent and transparent basis). b) Lead and/or actively participates in collaborative working and collective LGPS procurement, shared services or CIVs Self score +1 for each	0 1	Needs to be remeasured in 15/16 Council is a CIV shareholder. Actuarial national LGPS framework used in 2015, custody in 2014.	
15	Handling of formal complaints and IDRPs	a) Any Pensions Ombudsman determinations (and any appeals) fines were against the actions of the fund (ie not employer). Score -1	Evidence and e-links to demonstrate a) No Stage 2 IDRPs and no Pensions Ombudsman findings against the fund actions in last 3 years. Score +1	1	Clear IDRP process in place and strong evidence of application	http://www.wccpensionfund.co.uk/
16	Fraud prevention	No or minimal systems/programme or plan or mechanisms in place to a) Prevent fraud b) Detect fraud c) detect pension over-payments due to unreported deaths Self score -1 for each one	Evidence and e-links to demonstrate a) Fraud prevention programme in place. b) Use external monthly, quarterly/annual mortality screening services, and c) participate in bi-annual National Fraud Initiative. Self score +1 for each one	0 0 1	Currently obtaining costings and reviewing options Currently obtaining costings and reviewing options Participation confirmed	
17	Internal and external audit	a) No annual internal audit or qualified internal and external audit opinions b) Urgent management action recommended on high/serious risks. c) Only moderate or low level of assurance and a number of high priority action recommended Self score -1 for each	Evidence and e-links to demonstrate a) Unqualified annual internal reports with no or only low priority management actions b) Unqualified and annual external audit with no or only low priority management recommendations. c) Full or substantial assurance against all key audit areas with no high risk recommendations. Self score +1 for each	0 1 1	One medium priority action in last internal audit report Unqualified external audit report with no recommendations. Page 40 of Annual Report Unqualified external audit report with no recommendations.	http://transact.westminster.gov.uk/docstores/publications_store/accounts/6.51_wcc_pensions_fund_report_2014_interactive_v2.pdf
18	Quality assurance	No evidence of a) quality management system b) external reviewed publications c) externally approved website accessibility d) any awards. Self score -1 for each one	Evidence and e-links to demonstrate a) Fund has formal quality management external certification b) Crystal Mark for plain English for publications/forms c) externally approved website accessibility d) pensions & investment recognition award(s) Self score +1 for each one	0 -1 -1 -1	Surrey County Council have internal QA system in place No crystal mark for plain english No external approval for website No awards received	

2

City of Westminster

Pension Board

Date:	**10 May 2016**
Classification:	**General Release**
Title:	**Update on London CIV**
Report of:	**Steven Mair** ***City Treasurer***
Wards Involved:	**All**
Policy Context:	**Discuss the Pension Fund's involvement with the London CIV**
Financial Summary:	**There are no financial implications arising from this report**

1. Executive Summary

1.1 This report discusses the Pension Fund's involvement with the London CIV and the likely future impact of the Government's Pooling Criteria.

2. Key Matters for the Board

2.1 The Board is invited to note the contents of this paper

3. Background

3.1 The London CIV ("CIV") is a company owned by 32 London Boroughs. The CIV was established in 2014 at a time when there was widespread discussion of merging the London pension funds and was seen as a way to obtain the cost saving benefits of larger asset pools while leaving individual funds in place with retained responsible for investment strategy.

3.2 The London CIV governance structure is based around a Joint Committee that has one representative from each shareholder borough. This Committee appoints a board of directors who then appoint the senior management. The Joint Committee also discuss and agree the CIV's future plans. The Pension Fund has contributed £150,000 of share capital in addition to £75,000 towards the CIV's

establishment costs. Funding thereafter will be based on an annual fee of £25,000 plus a charge on the assets under management.

3.3 The objective of the CIV is to facilitate joint investment thereby saving costs for London Boroughs and increasing opportunities through larger asset values. The CIV aims to operate in full consultation with each borough in appointing fund managers. The structure ensures that the important decisions on asset strategy i.e. how much to invest in equities, bonds etc, remain a Council decision. Also whether to invest actively or passively is also a local decision.

3.4 Subsequent to the establishment of the London CIV, the Government issued 'Pooling Criteria' asking each local authority to develop plans to participate with other LGPS in collective asset pools, each of at least £25 billion. The criteria require that decisions on manager selection are made at pool level, that there is significant cost savings / enhanced performance and that there is a greater opportunity to invest in infrastructure. The Government are also consulting on new powers that will enable them to force funds to pool assets.

3.5 The Government required the Council to submit initial plans for meeting the pooling criteria in February (see attached) and more detailed plans are required by July 2016.

3.6 In addition to the London CIV, a further seven pools are under discussion, mostly on a regional basis. The CIV is by far the most advanced in terms of development and operation.

3.7 The CIV has commenced the process of taking on assets from London Boroughs. The starting point was to identify managers who had multiple identical mandates across London funds from which fee savings could be achieved. No changes are made to the underlying investments. The only change is the introduction of the CIV in the ownership structure sitting between the borough and the fund manager.

3.8 To date, three investment mandates have transferred to the London CIV, one of which involved the transfer of £180 million of Westminster assets – Baillie Gifford Global Active equities. Further manager transfers will take place during 2016 to achieve fee savings, the next is likely to be the passive global equity mandate with Legal & General (£240 million).

3.9 At this time it seems unlikely that the Government will change its intention that implementation of investment strategy will be undertaken at pool level. This will result in challenges for the Pension Committee who retain ultimate responsibility

for the performance of the fund but will have restricted choice in fund manager appointments.

3.10 Officers have been discussing the CIV's long term strategy with its senior management. The CIV will not be able to bring on board all fund managers who currently have mandates with London Councils. We have impressed on the CIV the need for a long term vision, in particular a fund manager / mandate structure, and to ensure that it is properly resourced to manage £25 billion of assets.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

George Bruce

Tri-Borough Director of Treasury and Pensions

Email: gbruce@westminster.gov.uk

Telephone: 020 8641 2258

BACKGROUND PAPERS:

None

APPENDIX 1:

The February 2016 response to the Government's Pooling Criteria.

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Chris Megainey
Deputy Director, Workforce, Pay and Pensions
Department for Communities and Local Government
Fry Building
2 Marsham Street
London
SW1P 4DF

12 February 2016

Dear Chris,

Local Government Pension Scheme: Investment Reform Criteria and Guidance (DCLG, November 2015)

1. This response to the above criteria and guidance is sent on behalf of London LGPS CIV Limited (the "**London CIV**") and the 31 London local authorities (the "**boroughs**", listed at Attachment 1 for reference) that are currently active participants in establishing the Collective Investment Vehicle arrangements (the "**CIV**").

2. We note that the government requires all LGPS Administering Authorities to respond, collectively and/or individually, by 19 February 2016. We also note that this initial response should include a commitment to pooling and a description of the progress made towards that outcome. A refined and completed submission is required, and will be provided by London CIV, by 15 July 2016.

3. London Councils' Leaders' Committee had the foresight in 2012 to commission London Councils to facilitate work looking at what might be done to drive down the cost of pension's investment through greater collaboration. Since then the boroughs and London Councils have been at the forefront of working through the detail and laying the ground for others that are now starting to follow in our footsteps.

4. The CIV has taken two years to implement (facilitated by London Councils, for and on behalf of the boroughs), but is now established and operational. London CIV is fully authorised by the FCA as an Alternative Investment Fund Manager ("**AIFM**") with permission to operate a UK based Authorised Contractual Scheme fund (the "**ACS Fund**"). The ACS Fund, which is tax transparent in the UK and benefits from international tax treaties in other jurisdictions, will be structured as an umbrella fund with a range of sub-funds providing access, over time, to

the full range of asset classes that the boroughs require to implement their investment strategies.

5. The first sub-fund has been opened, an active global equities fund, and three authorities are the initial seed investors with £500m of assets transferred in on 2 December 2015. A further eight sub-funds, comprising a mix of active and passive equity funds, are being opened over the next few months, by the end of which it is anticipated that around £6 billion of assets will have been migrated into the ACS Fund delivering fee savings for the investing boroughs of some £3 million.

6. London CIV's ambition is to be…

the investment vehicle of choice for Local Authority Pension Funds, through successful collaboration and delivery of compelling performance.

7. In summary, the key achievements we aim to deliver between now and 2020 are:

- **At least £23 billion of assets under management;**
- **Annual fund management savings rising to more than £30 million per annum;**
- **Greater access to and investment in infrastructure;**
- **Increased fund management industry influence;**
- **Wider benefits of collaboration and knowledge sharing;**

8. Turning to the specifics of the four criteria:

A. Asset pool(s) that achieve benefits of scale:

9. In consideration of the government's expectation that proposals will demonstrate commitment and be ambitious, it would seem clear that with 31 of the 33 London local authorities actively engaged in the development of the CIV such commitment and ambition is amply demonstrated.

10. The 31 boroughs participating at this time in the London CIV have assets under management, at 31 March 2015, totalling £27.6 billion. If all London LGPS funds were to participate, which it is hoped they will, total assets would increase to £29.1 billion. Clearly investment markets over the period since 31 March 2015 have been volatile and therefore assets may fall short of the above numbers. Nonetheless, if it is assumed that at least 90 per cent of borough assets will eventually be invested through the CIV (recognising that boroughs may wish to make the case for up to 10 per cent of their assets to remain outside of the CIV) then the government's threshold of each pool having assets of at least £25 billion will be met.

11. To date development of the CIV and the ACS Fund has been based on a three phase strategy as described below. This strategy reflects the principles that have been adopted to steer implementation (see Attachment 2) and the voluntary nature of participation, however it is recognised that the government's criteria and guidance have significantly changed the environment which has led to the strategy coming under review by London CIV's Board and the boroughs.

12. Despite this, London CIV and the boroughs still believe that individual boroughs should have the choice and flexibility to invest through the CIV or not, putting the onus on the CIV to demonstrate and prove its value through compelling performance, but allowing boroughs to maintain investments outside of the CIV where they have specific needs that are not available through the Fund.

13. It should be noted that, at this stage, sub-funds will either be invested into 3rd party pooled funds or will be segregated funds with fund management being delegated to 3rd party Investment Managers ("**IM**"). However, London CIV is fully authorised to operate in-house fund management and this option will be explored at a later stage to assess whether it would deliver additional efficiencies and performance.

<u>Phase 1 – Implementation and fund launch</u>

14. Phase 1 is being delivered through what has become known as the "commonality" strategy. This broadly involves seeking to aggregate borough investments where two or more boroughs are invested with the same IM in the same or a very similar mandate, the aim being to increase efficiency and drive down cost.

15. The commonality strategy is a pragmatic approach that quickly delivers scale benefits for the boroughs and fee income for London CIV to cover operating costs.

16. Phase 1 is the prime focus of activity in terms of fund opening through the first half of 2016.

17. Implementation of the strategy began with the analysis of investment data gathered from across the boroughs in 2014, the aim of which was to discover which IMs the boroughs were invested through, in what asset classes and the underlying mandate strategies. This analysis showed that the 33 funds had holdings with close to 90 IMs through around 250 separate mandates. It also showed that while there was significant commonality in some asset classes (e.g. passive equity) other classes (e.g. fixed income) showed a high degree of dispersion.

18. Early discussions were held with 14 IMs where commonality could be seen, but over time, as the detail was explored, all but four decided to drop out of the process or were discounted. There were several influencing factors for this, the most prevalent of which was capacity constraint, but also included an unwillingness to reduce fees, especially for those IMs that have a 'most favoured nation' clause in their mandates.

19. In summary, the launch phase will deliver nine sub-funds:

    - 2 x UK passive equity
    - 2 x World Developed ex UK passive equity
    - 2 x Emerging Markets passive equity
    - 1 x Diversified Growth Fund (hard closed but nonetheless delivering lower fees for the boroughs currently invested)
    - 2 x Global active equity

20. In aggregate, the Phase I sub-funds will account for £6.1bn, or around 23% of the boroughs' total assets under management and will involve 20 of the 31 participating authorities.

21. Total fee savings are estimated to be a minimum of £2.8 million per annum (simply through reduced IM Annual Management Charges) but could be £3 million or more per annum based on assumptions about additional benefit derived from the tax efficient nature of the ACS Fund structure. These fee savings will not be spread equally across all the boroughs and this is largely influenced by each borough's current fee position – some boroughs have negotiated better fees than others at this point.

22. It should be noted that since passively managed equities generally have low fee scales, the ratio of fee savings to assets under management ("**AUM**") will increase as the more 'alternative' investments such as property and private equity are brought onto the fund.

23. In addition to the fee charged by each IM the London CIV will also apply a fee to each sub-fund as part of the company's cost recovery. These charges are applied at a rate appropriate to the nature of each sub-fund and range from 0.005% for the UK passive equity funds to 0.025% for the active funds.

<u>Phase 2 – Establishing London CIV and developing the ACS Fund</u>

24. The strategy for Phase 2, which has already commenced but with implementation starting in 2016-17, falls into two categories:

    i. Revisiting the Phase I 'commonality' strategy with those IMs that had early discussions but did not progress; and

    ii. Beginning the process of developing the fund with new manager selections in new asset classes.

25. In addition, the original nine launch sub-funds will be opened to investment from 'new' investors enabling any of the 11 boroughs (and indeed any other LGPS Fund) not included in the launch phase to transition assets from their current holdings should they wish to.

26. Attachment 3 presents analysis of the boroughs' current allocation by asset class, and from this it can be seen that the major asset classes by AUM are equities (active and passive), fixed income (active and passive) and multi-asset.

27. Category (i) will essentially follow the same process as was described in Phase I and will be applied to four Multi-Asset managers and, subject to on-going discussions with IMs and potentially one further passive equity manager.

28. The Multi-Asset products are significantly heterogeneous, and therefore it is sensible to present a fairly wide range of choice to the boroughs so that they can select a strategy which fits their particular risk appetite and investment strategy.

29. Category (ii) is driven by analysis of the borough's current holdings and the need to build AUM to deliver fee income that supports London CIV's operating costs. By reference to Attachment 3 it is clear that the focus should be on targeting the remainder of the passive and active equity assets and opening initial opportunities for Fixed Income sub-funds.

30. Passive Fixed Income mandates will be targeted in 2Q 2016-17. Earlier data collected from the boroughs suggests that the Fixed Income asset class has little in the way of commonality

and conviction, so on current projections there may be approximately £500 million being transitioned each for Active and Passive. However, the active fixed income mandates are likely to require more intensive search and selection, and therefore the bulk of the fixed income mandates will fall into the Phase 3 category (below).

31. It is anticipated that every participating borough will have opportunities to migrate to the CIV by March 2017.

32. As currently planned Phase 2 will conclude by March 2018. In terms of AUM, the end of Phase 2 will deliver an estimated £19 billion or 70 per cent of borough assets. However, the government should note that the opening of sub-funds is complex and time consuming and growth at that pace cannot be guaranteed.

Phase 3 – Business as Usual ("**BAU**")

33. BAU will be focussed initially on a continuation of developing the fund's offering and then its ongoing maintenance and enhancement. This phase will include:

    i. Opening of new asset classes (e.g. infrastructure);

    ii. The ongoing process of monitoring sub-funds, closing poor performers and opening new offerings; and

    iii. Development of the CIV's role in 'thought leadership' and being seen as a trusted source of support and advice for the boroughs.

34. Phase 3 could be seen as starting from April 2018 (i.e. the end of Phase 2), but in reality the transition from Phase 2 to Phase 3 is unlikely to be linear and there will be an overlap.

35. The successful migration of the boroughs' fixed income mandates together with the other mandates as detailed above, will lead to the asset base of London CIV increasing to an estimated £23 billion, or 86 per cent of total borough assets, by the end of 2019-20. Growth to the £25 billion threshold would be expected to happen over the following two or three years as more alternative asset classes are addressed.

36. Based on the fact that we are seeing fund management costs dropping by as much as 50 per cent (and in some cases more), and that we expect to have more negotiating power as the Fund develops, we expect to be delivering in the region of £30 million of fund management savings by 2020 (based on current fund management costs of £109 million). In addition we will be delivering other savings and benefits through greater tax efficiency, reduced procurement costs and lower fees for, for example, custody and brokerage.

37. In considering the extent to which boroughs may hold assets outside of the CIV, it can be seen from Attachment 3 that around 10 per cent of assets are held in property, private equity and infrastructure and it is in these asset classes that one would expect to find long term investments that may take several years to mature before transition to the CIV. It is of course for individual boroughs to make the case to government for holding assets outside of the CIV.

38. London CIV is focussed on delivering value for money for the participating boroughs and as such resources are tight and many tasks and activities are outsourced to 3rd parties. London

CIV's current organisational structure is shown at Attachment 4. This in-house resource is augmented by expertise provided by members of the IAC (see paragraph 38) and the use of 3rd party providers including the Custodian, the Depositary, the Operating Reporting Partner, and Investment Consultants and Advisors.

39. Over time the level of resource will increase and more activity will be brought in-house, which might include in-house fund management. The company's business strategy is being reviewed at this time and more detail will be provided in the July submission.

B. Strong Governance and decision making:

40. Attachment 4 provides a diagram of the core governance structures for the CIV. Strong governance and mechanisms to ensure that participating boroughs have the assurance that they need to be confident that their investments are being managed appropriately by the pool have been critical factors in the design of this structure.

41. Taking each of the core governance structures in turn; the participating local authorities (London boroughs and potentially other non-London funds) continue to be responsible for their investment strategy and the asset allocation decisions to deliver it. As the CIV's ACS Fund develops the expectation would be that more and more of the underlying investments would be made through the CIV. Each participating borough is an equal shareholder in London CIV and a signatory to the Shareholders Agreement that sets out the relationship between and the responsibilities of each shareholder.

42. Representing the borough level, a Sectoral Joint Committee ("**PSJC**") has been established under the governing arrangements of London Councils. The PSJC effectively fulfils two roles, one is as a mechanism for convening elected Member representation from each borough (generally the borough's Pension Committee Chair), and the other is as the route to convening the boroughs as shareholders in London CIV. The committee meets most often in its first guise and has met five times since December 2014 to provide oversight and guidance as the CIV has been established. Going forward the PSJC will be the channel through which borough views about how the ACS Fund might be developed will be passed to London CIV and as a general reporting route for London CIV back to the boroughs. The committee's Terms of Reference are provided as Attachment 5. Agendas and minutes of the PSJC are published on London Councils'' website and its meetings are held in public.

43. Alongside the PSJC an Investment Advisory Committee ("**IAC**") has been established. This committee is comprised of representative borough Treasurers and Pension Fund Managers, and provides Officer level input to the oversight and development of London CIV.

44. These two committees ensure that the links with local democratic accountability for the London CIV are maintained.

45. The CIV itself is comprised of two parts, the operating company (London LGPS CIV Limited) and the ACS Fund, this structure is described in brief at paragraph 4 above.

46. As government will be aware, London CIV already has dedicated resources working for the company with a Chief Executive, Investment Oversight Director, and Chief Operating Officer,

as well as support staff. In addition the Company has a highly respected Non-Executive Board in place, meeting the requirements for strong governance arrangements to be in place.

47. As an AIFM London CIV must comply with the Alternative Investment Manager Directive ("**AIFMD**") and falls under the regulatory scrutiny and reporting regime of the Financial Conduct Authority ("**FCA**"). This includes the requirement for robust systems and processes and for these to be documented appropriately in policies and manuals. Risk management is a particular focus for the FCA and London CIV has developed a risk framework and risk register covering all areas of it operations, including fund management.

48. In addition to the oversight and scrutiny arrangements described above, it is a requirement for London CIV to engage a Depositary to provide oversight of the Fund Custodian and London CIV as the fund operator. Northern Trust have been contracted to provide this service, which is effectively there to provide additional assurance and protection to the boroughs as investors.

49. As described above the participating boroughs will be closely involved in the development of the ACS Fund, including in the decisions about what new sub-funds might opened and in what asset class. The IAC is also expected to be involved in the search and selection process for IMs. However, the final due diligence consideration and appointment of IMs falls under the regulatory responsibilities of London CIV through its Investment Oversight Committee and Board. Boroughs will decide which of the sub-funds they wish to invest in to best deliver their investment strategy.

50. The processes for London CIV to report on fund performance to the investing boroughs are still being developed, but in broad terms will include regular written and verbal reports to the PSJC, the IAC and to individual borough Pension Committees as required. However, the development of final arrangements for reporting is likely to be an iterative process to ensure that they are efficient and fit for purpose for both the investors and for London CIV. It is the intention that every borough will receive performance reporting across every sub-fund (regardless of whether they are invested in that sub-fund or not), in this way boroughs will be able to easily compare performance of sub-funds they are invested in with other similar sub-funds.

51. With regards to providing assurance on environmental, social and governance issues and how this will be handled by the CIV, this has already been the subject of consideration by the company and the PSJC with an agreement that the London CIV should be a separate member of the Local Authority Pension Fund Forum (the "**LAPFF**") – a body which represents the majority of views of local authority pension funds on these matters. Discussions have commenced with the LAPFF to put this arrangement in place.

52. London CIV is also currently considering how it will meet the requirements of the Stewardship Code and anticipates being a signatory to this in due course.

53. The IAC has also established a working group to look at the whole issue of ESG matters and how funds can best access this through the London CIV and how to assist funds in acting as long term responsible shareholders.

54. For individual funds, they will of course need to maintain their own policies in respect of ESG matters and this will comprise part of their new Investment Strategy Statement which replaces the Statement of Investment Principles later this year.

C. Reduced costs and excellent value for money:

55. London CIV anticipates significant fee savings arising over time, from scale and increased negotiating power with managers. As described above, Phase 1 of the Fund development is expected to deliver around £3 million of savings p.a. for the 20 boroughs that will be invested. It should be recognised that the first phase represents relatively low cost asset classes with the majority being in passive asset classes, it is inevitable that as more complex and expensive assets are added then fee savings will significantly increase. To date London CIV has seen fee reductions of up 50 per cent.

56. In addition to the anticipated fee savings, we also expect to accrue significant advantages from the tax transparent nature of the ACS structure and savings across the entire spectrum of investment costs, including reduced custodian fees, lower procurement costs etc. In 2012 the Society of London Treasurers in 2012 had the foresight to commission a report from PWC that estimated that an additional £85 million could be derived in terms of improved investment returns by delivering superior performance. Whilst clearly this figure is open to some debate, it does give an indication of what might be achieved for funds through greater collaboration and delivering improved performance overall.

57. London CIV will be working with the participating boroughs to gather the data necessary to provide the requested assessment of investment costs and fees as at 31 March 2013, the current position and estimated savings over the next 15 years. This information will be provided in the July submission.

58. Transition costs are complex and extremely difficult to estimate in isolation from the case by case detail of each specific transition. Costs in this area can accrue from fees (e.g. transition managers, custodians and tax advisors) and transaction costs (e.g. the cost of buying and selling assets, including unavoidable tax in some jurisdictions). London CIV is working hard to bear down on transition costs and will continue to do so. It is anticipated that more detail can be provided in the July submission.

59. In addition to reduced costs and fees the wider governance benefits from information sharing and improved access to expertise at all levels should not under estimated as significant advantages from collaboration.

60. LGPS funds clearly understand the need to look at the risk adjusted returns over the longer time frame and that it is the net value-add that impacts on the fund's ability to pay pensions over the longer term. It is clear that avoiding knee jerk reactions when managers experience periods of underperformance is an important factor and we are pleased to see the government has recognised this in asking for funds to consider what is achieved over an appropriate long term period, rather than solely focusing on short term performance comparisons. London CIV is firmly of the view that 'churn' of IMs will be reduced through the CIV as part of the enhanced governance arrangements and knowledge sharing that is being established.

D. An improved capacity to invest in infrastructure:

61. One of the big opportunities from creating the CIV is the potential to use the benefit of scale to enable the boroughs to access infrastructure as an asset class. London CIV and the boroughs have begun to consider infrastructure as an asset class and what different and innovative approaches might be taken to deliver benefits both in London and nationally. Detailed proposals are likely to fall towards the end of Phase 2 of our development. Early discussions have been had with a number of IMs in this area and also with the Pensions Infrastructure Platform.

62. As can be seen from Attachment 3, LGPS funds across London currently have little or no assets invested in infrastructure. Most boroughs have limited resources to dedicate to considering this complex asset class and experience shows that there is a general lack of suitable investments at the scale that the average borough would wish to invest and with the required risk/return profile. However, there appears to be no evidence that any London LGPS fund is strategically opposed to infrastructure investment as an asset class per se.

63. Nonetheless, pooling of each borough's allocation to infrastructure and opening the opportunity for those that currently have no allocation will generate a greater capacity to invest, enabling the CIV to look at opportunities either direct or as co-investments that would not have been open to individual funds, often simply because of the cost of entry.

64. Determining the proportion of assets to allocate to infrastructure will be a decision for each investor to take as part of their Asset Allocation strategy. These decisions will depend on the opportunities that can be made available and on the level of risk and reward generated from those opportunities when compared against risk/reward in other asset classes.

In conclusion

65. London CIV believes that the work that has been undertaken by those London Boroughs that have contributed to the development of the CIV demonstrates a clear commitment to the principles of collaboration and collectivisation. The creation of London CIV has been instrumental in driving forward the investment reform agenda in London. The scale of asset pooling that we anticipate will be achieved in London is sufficiently large for the London CIV to meet the criteria for scale over the timescales being required. We believe that we have developed both the appropriate structure for London funds and that the governance structures in place mean that local accountability and decision making on asset allocation are retained.

66. Consequently we strongly believe given the willingness shown and progress made by the London funds over the last 2 years means that we are able to meet the criteria to be confirmed as one of the final pools of assets under the government's reform agenda.

67. We recognise that further work is required, but that London CIV and the participating boroughs are in a strong position to be able to come forward with comprehensive proposals to meet the government's criteria and guidance when submitting these in July 2016.

Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations2009 (the "Regulations")

68. It is recognised that in application the Regulations do not apply directly to London CIV but do determine the way that the boroughs manage and invest their funds and therefore have an influence over how London CIV and its investors will operate in the future. As such London CIV expects that each borough will respond to the consultation and this response only covers issues that relate, or could relate to London CIV specifically.

69. London CIV is broadly supportive of relaxing the regulatory framework for LGPS investments and the move to a 'prudent' basis, but as a principle does not support wide ranging powers for the Secretary of State to intervene. This concern about powers of intervention is especially true in circumstances where the guidance setting out how the power will be used has not been published.

70. In the context of LGPS Funds being required to invest through pooling arrangements (e.g. London CIV) it is not clear whether the Funds would be required to apply Section 9 of the Regulations when deciding to invest through a pool. London CIV is structured as a Private Limited Company (wholly owned by the participating authorities) and is authorised by the FCA as an AIFM with permission to operate an ACS, effectively this means that London CIV is an Investment Manager. London CIV believes that 'recognised' pools should be explicitly addressed in the regulations to avoid confusion, prevent unnecessary bureaucracy and to give reassurance to individual LGPS Funds – especially in this period of change.

71. In addition, London CIV is of the view that care should be taken over the wording of Section 7(4) which, as currently drafted, may have the effect of preventing LGPS Funds from investing in pools where Members or officers of the authority have decision making roles in those pools as a part owner of that pool. Again specific measures relating to recognised pools would provide clarity.

72. On the question of the use of derivatives; it should be recognised that derivatives can be use d to control outcomes in many ways, it is not just about risk per se. Derivatives can be used to produce more certain outcomes, be more efficient as an instrument to use as an investment than an actual asset due to increased liquidity and visibility of pricing; be more liquid than some real assets might be; and allow investment managers to reflect macro-economic views without having to churn large parts of the portfolio. Although controlling these outcomes is all about balancing risk and return it is not just risk management – there is a clear difference between the two and accordingly we would urge that the regulations should not be explicit that derivatives should only be used as a risk management tool.

London CIV would welcome the opportunity to discuss this submission in more detail with government officials and Ministers.

Yours sincerely

Hugh Grover
Chief Executive

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020 7934 9942

Attachment 1: Participating local authorities

City of London Corporation

London Borough of Barnet

London Borough of Barking and Dagenham

London Borough of Bexley

London Borough of Brent

London Borough of Camden

London Borough of Croydon

London Borough of Ealing

London Borough of Enfield

London Borough of Hackney

London Borough of Haringey

London Borough of Harrow

London Borough of Hammersmith and Fulham

London Borough of Havering

London Borough of Hounslow

London Borough of Islington

London Borough of Lambeth

London Borough of Lewisham

London Borough of Merton

London Borough of Newham

London Borough of Redbridge

London Borough of Southwark

London Borough of Sutton

London Borough of Tower Hamlets

London Borough of Waltham Forest

London Borough of Richmond upon Thames

Royal Borough of Greenwich

Royal Borough of Kensington and Chelsea

Royal Borough of Kingston upon Thames

Wandsworth London Borough Council

Westminster City Council

Attachment 2: London CIV guiding principles

1. Investment in the ACS should be voluntary, both entry and withdrawal.
2. Boroughs choose which asset classes to invest into, and how much.
3. Boroughs should have sufficient control over the ACS Operator.
4. Investing authorities will take a shareholding interest in the Operator.
5. Shareholders will have membership of the Pensions Joint committee.
6. ACS Operator will provide regular information to participating boroughs.
7. ACS will not increase the overall investment risk faced by boroughs.

Attachment 3: Analysis of current borough holdings

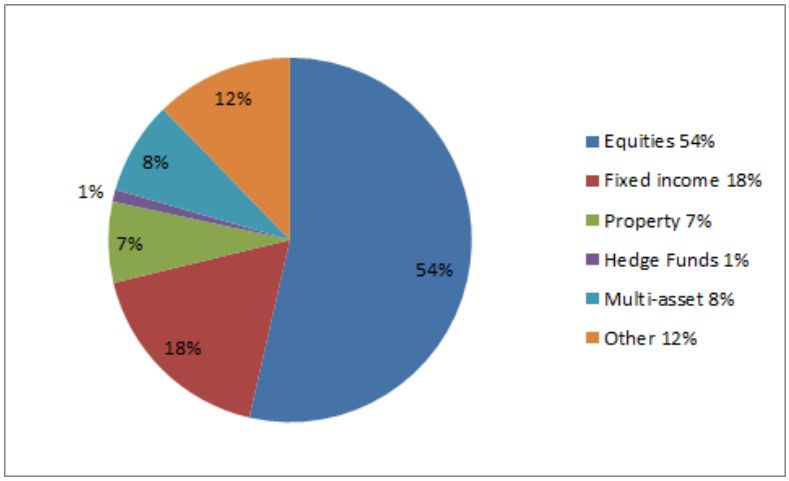
Current asset allocation

The breakdown of the pension fund assets as of 31 March 2015 for the 31 participating London boroughs can be seen below:

Table 1

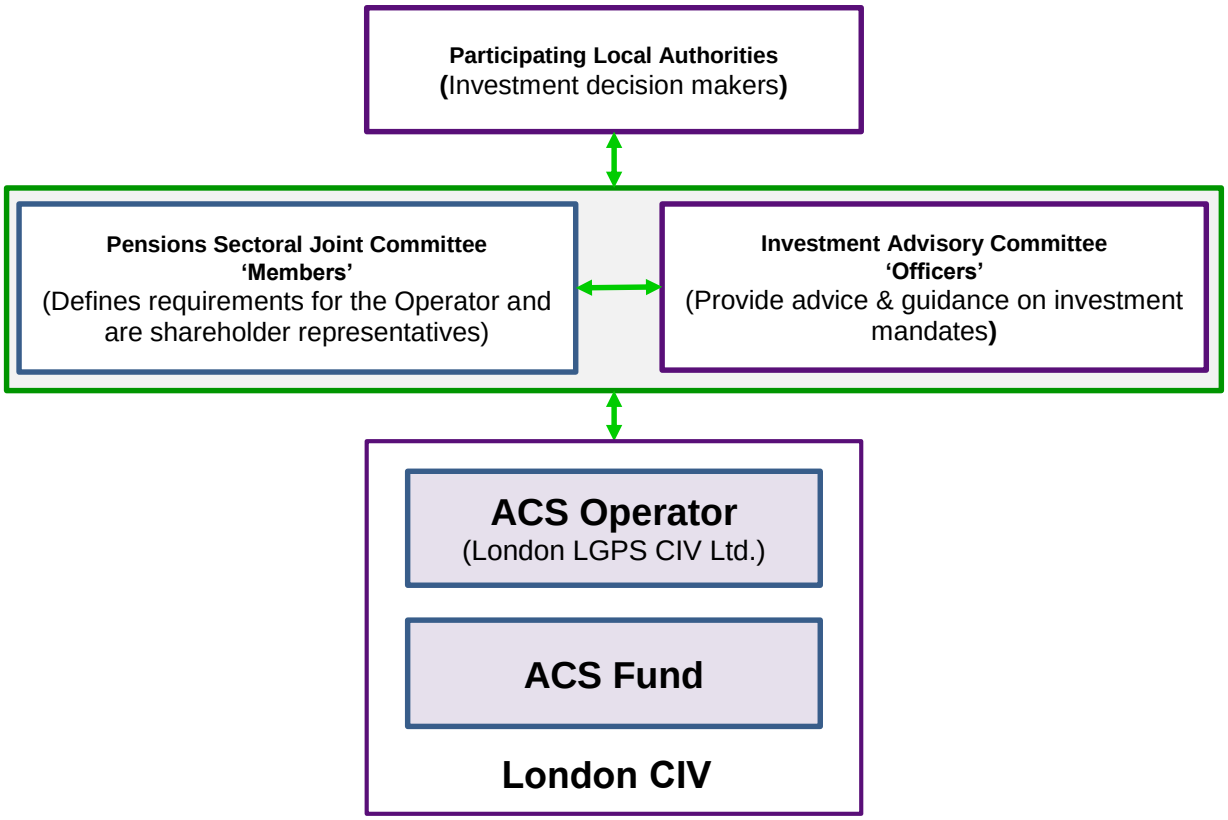
Allocation	£m, March 2015	Percentage
UK equities	5,077.39	18.9%
overseas equities	6,560.63	24.4%
unallocated	2,748.31	10.2%
total equities	**14,386.33**	**53.6%**
UK fixed interest	2,636.29	9.8%
overseas fixed interest	808.32	3.0%
unallocated	863.04	3.2%
total fixed interest	**4,307.65**	**16.0%**
UK index linked	312.52	1.2%
overseas index linked	30.01	0.1%
unallocated	80.43	0.3%
total index linked	**422.96**	**1.6%**
UK property	1,350.87	5.0%
overseas property	56.85	0.2%
unallocated	517.01	1.9%
total property	**1,924.73**	**7.2%**
UK hedge funds	32.40	0.1%
overseas hedge funds	-	0.0%
unallocated	256.56	1.0%
total hedge funds	**288.96**	**1.1%**
UK other	783.74	2.9%
overseas other	963.62	3.6%
Multi-asset	**2,214.31**	**8.2%**
Total unallocated	**3,961.67**	**14.8%**
infrastructure	193.53	0.7%
commodities	57.43	0.2%
private equity	525.05	2.0%
derivatives	- 2.28	0.0%
currency overlay	-	0.0%
cash	777.37	2.9%
Total investment assets	**26,843.38**	**100.0%**

NB the multi-asset allocation is done on a "best efforts basis" due to conflicting and out of date data.

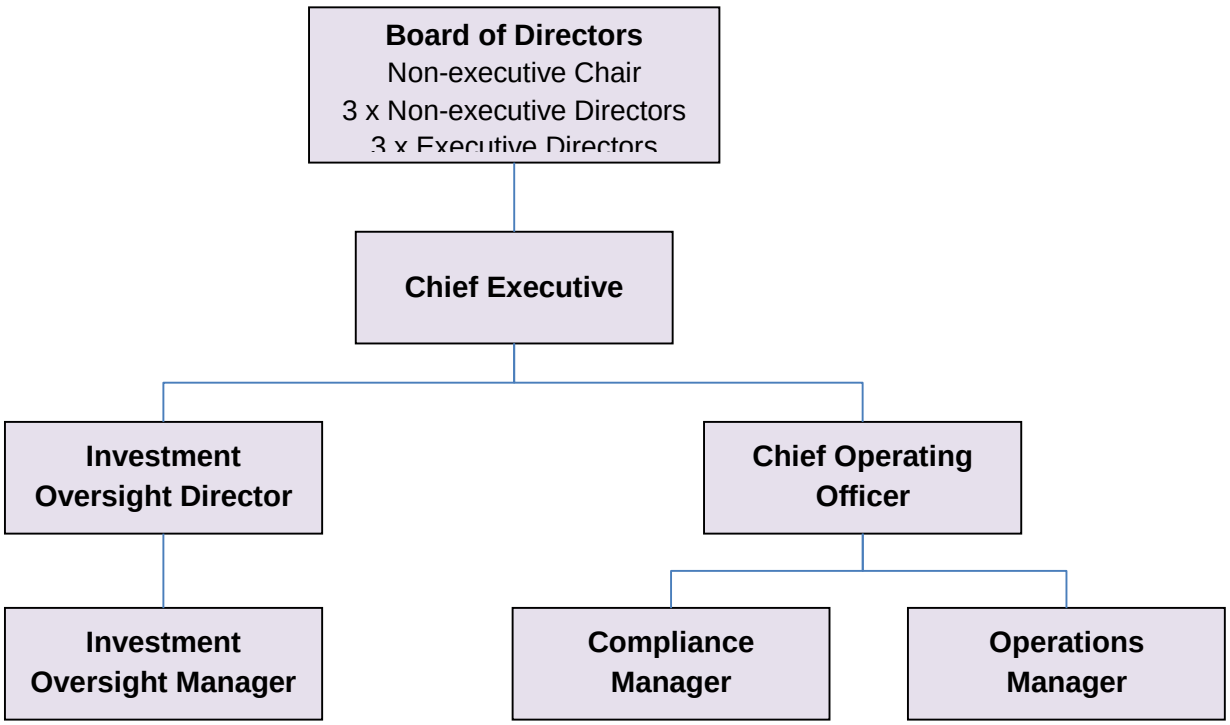


Attachment 4:

London CIV governance diagram



London CIV organisation chart



Attachment 5: Pensions Sectoral Joint Committee Terms of Reference

Constitution

1.a.1 The Pensions CIV Joint Committee is a sectoral joint committee operating under the London Councils governance arrangements.[1]

1.a.2 Each London local authority participating in the arrangements shall appoint a representative to the Pensions CIV Joint Committee being either the Leader of the local authority or the elected mayor as applicable or a deputy appointed for these purposes.[2]

1.a.3 The Pensions CIV Joint Committee shall appoint a Chair and Vice-Chair.

1.a.4 The Pensions CIV Joint Committee shall meet at least once each year to act as a forum for the participating authorities to consider and provide guidance on the direction and performance of the CIV, In addition, members of the Pensions CIV Joint Committee shall meet at least once each year at an Annual General Meeting of the ACS Operator in their capacity as representing shareholders of the ACS Operator.

1.a.5 Subject to Clause 1.1.4 above, meetings of the Pensions CIV Joint Committee shall be called in accordance with London Councils' Standing Orders and the procedure to be adopted at such meetings shall be determined in accordance with those Standing Orders.

1.a.6 If the Pensions CIV Joint Committee is required to make decisions on specialist matters in which the members of the Pensions CIV Joint Committee do not have expertise the Pensions CIV Joint Committee shall arrange for an adviser(s) to attend the relevant meeting to provide specialist advice to members of the Pensions CIV Joint Committee.

Quorum

1.a.7 The requirements of the Standing Orders of London Councils regarding quorum and voting shall apply to meetings of the Pensions CIV Joint Committee.

[1] The London Councils' Governing Agreement dated 13 December 2001 (as amended), London Councils' Standing Orders, Financial Regulations and other policies and procedures as relevant.
[2] Clause 4.5 of the London Councils' Governing Agreement dated 13 December 2001 (as amended).

Membership

[As amended from time to time]

Terms of Reference

1.a.8 To act as a representative body for those London local authorities that have chosen to take a shareholding in the Authorised Contractual Scheme (ACS) Operator company established for the purposes of a London Pensions Common Investment Vehicle (CIV).

1.a.9 To exercise functions of the participating London local authorities involving the exercise of sections 1 and 4 of the Localism Act 2011 where that relates to the actions of the participating London local authorities as shareholders of the ACS Operator company.

To act as a forum for the participating authorities to consider and provide guidance on the direction and performance of the CIV and, in particular, to receive and consider reports and information from the ACS Operator particularly performance information and to provide comment and guidance in response (in so far as required and permitted by Companies Act 2006 requirements and FCA regulations).

1.a.10 In addition, members of the Pensions CIV Joint Committee will meet at least once each year at an Annual General Meeting of the ACS Operator to take decisions on behalf of the participating London local authorities in their capacity as shareholders exercising the shareholder rights in relation to the Pensions CIV Authorised Contractual Scheme operator (as provided in the Companies Act 2006 and the Articles of Association of the ACS Operator company) and to communicate these decisions to the Board of the ACS Operator company. These include:

1.a.10.1 the appointment of directors to the ACS Operator board of directors;

1.a.10.2 the appointment and removal of auditors of the company;

1.a.10.3 agreeing the Articles of Association of the company and consenting to any amendments to these;

1.a.10.4 receiving the Accounts and Annual Report of the company;

1.a.10.5 exercising rights to require the directors of the ACS Operator company to call a general meeting of the company;

City of Westminster

Pension Board

Date:	**10 May 2016**
Classification:	**General Release**
Title:	**Pension Board Forward Plan**
Report of:	**Steven Mair** ***City Treasurer***
Wards Involved:	**All**
Policy Context:	**Effective Control over Council Activities**
Financial Summary:	**There are no financial implications arising from this report**

1. Executive Summary

1.1 This report presents the forward plan for the Pension Board and incorporates the dates and proposed agenda items outlined for the Pension Fund Committee meetings.

2. Key Matters for the Board

2.1 The Board note the contents of this paper.

3. Background

3.1 The forward plan identifies the expected agenda items for the Board and the Pension Committee for the next 12 months. The Board is invited to review the proposed Board agenda and indicate any amendments.

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:

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

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Pension Board 2016-17 Forward Plan

Pension Board Forward Plan 2016-17

A proposed work plan for the Pension Board during 2016/17 is outlined below with indicative timings of the meetings. The proposed dates and work plan of the Pension Fund Committee is included for reference purposes (*blue text*).

21st June 2016 *Pension Fund Committee*	• *Quarterly Update pack for 31st March 2016* • *Pension Fund Annual report and accounts* • *Knowledge and Skills policy review* • *Annual review of Admitted Bodies* • *Investment Advisor Contract*
Mid July / Early September 2016 Pension Board	• Pension Fund Committee Papers 21st June 2016 • Quarterly Performance Indicators Update pack for 30th June 2016 • Risk Register Review – focus to be determined • Annual Report on Pension Board Activities • Promotion of Scheme Membership • Regulatory Compliance Review
20th September 2016 *Pension Fund Committee*	• *Quarterly Update pack for 30th June 2016* • *Annual report on Pension Board activities*
Late October 2016 Pension Board	• Pension Fund Committee Papers 20th September 2016 • Quarterly Performance Indicators Update pack for 30th September 2016 • Risk Register Review – focus to be determined • Interim review of training received to date • Contracts Register Monitoring

15th November 2016 *Pension Fund Committee*	• *Quarterly Update pack for 30th September 2016* • *Results of triennial actuarial valuation* • *Funding Strategy Statement review*
Mid January 2017 Pension Board	• Pension Fund Committee Papers 15th November 2016 • Quarterly Performance Indicators Update pack for 31st December 2016 • Risk Register Review – focus to be determined • Results of Triennial Actuarial Valuation • Funding Strategy Statement Review
21st March 2017 *Pension Fund Committee*	• *Quarterly Update pack for 31st December 2016*
Early May 2017 Pension Board	• Pension Fund Committee Papers 21st March 2017 • Quarterly Performance Indicators Update pack for 31st March 2017 • Risk Register Review – focus to be determined • Annual Report on Pension Board Activities • Knowledge and Skills Policy Review and Training Needs Annual Review • Pension Fund Annual Accounts Audit