



City of Westminster

Committee Agenda

Title: Pension Fund Committee

Meeting Date: Thursday 21st June, 2018

Time: 7.00 pm

Venue: Room 3.8, 3rd Floor, 5 Strand, London, WC2 5HR

Members: **Councillors:**

Antonia Cox (Chairman)
Melvyn Caplan

Patricia McAllister
Eoghain Murphy



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 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 Committee 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 Director of Law in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

1. MEMBERSHIP

To note any changes to the membership.

2. DECLARATIONS

To receive notifications of interest by Members and Officers of any personal or prejudicial interests.

3. MINUTES

To approve the minutes of the Pension Fund Committee held on 8 March 2018.

(Pages 1 - 4)

4. PENSION ADMINISTRATION UPDATE

Report of the Director of People Services.

(Pages 5 - 12)

**5. NEW ADMITTED BODY TO THE PENSION FUND -
REGULATOR FOR SOCIAL HOUSING**

Report of the Director of People Services.

(Pages 13 - 14)

6. VOLUNTARY SCHEME PAYS

Report of the Director of People Services.

(Pages 15 - 20)

7. QUARTERLY PERFORMANCE REPORT

Report of the City Treasurer.

(Pages 21 - 60)

8. FUND FINANCIAL MANAGEMENT

Report of the City Treasurer.

**(Pages 61 -
104)**

9. FIXED INCOME MANAGER SELECTION

(Pages 105 - 110)

Report of the City Treasurer.

10. DRAFT PENSION FUND ANNUAL REPORT AND STATEMENT OF ACCOUNTS 2017-18

(Pages 111 - 274)

Report of the City Treasurer.

11. LONDON COLLECTIVE INVESTMENT VEHICLE UPDATE

(Pages 275 - 278)

Report of the City Treasurer.

12. ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

13. EXCLUSION OF PRESS AND PUBLIC

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

<u>Item No</u>	<u>Grounds</u>	<u>Para. of Part 1 of Schedule 12A of the Ac</u>
14	Information relating to the financial and business affairs of an individual including the authority holding the information and legal advice	3

14. LONGVIEW EQUITY MANDATE

Report of the City Treasurer.

Stuart Love
Chief Executive
13 June 2018

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CITY OF WESTMINSTER

MINUTES

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Thursday 8th March, 2018**, Room 3.4, 3rd Floor, 5 Strand, London WC2 5HR.

Members Present: Councillors Suhail Rahuja (Chairman), Peter Cuthbertson, Patricia McAllister and Ian Rowley.

Officers Present: Phil Triggs (Tri-Borough Director of Treasury and Pensions), Matthew Hopson (Senior Finance Manager – Treasury), Yvonne Thompson-Hoyte (Senior Finance Manager – Pensions), Lee Witham (Director of People Services), Sarah Hay (Pensions and Payroll Officer) and Toby Howes (Senior Committee and Governance Officer).

Also Present: Kevin Humpherson (Deloitte).

1 MEMBERSHIP

1.1 There were no changes to the membership.

2 DECLARATIONS

2.1 Councillor Suhail Rahuja declared that he was employed by fund managers who have amongst their clients Hermes. However, he was not involved in any element of the work which relates to the Westminster Pension Fund and accordingly he did not regard this as a prejudicial interest.

3 MINUTES

3.1 RESOLVED:

That the Minutes of the meeting held on 23 January 2018 be signed by the Chairman as a correct record of proceedings.

4 PENSION ADMINISTRATION UPDATE

4.1 Lee Witham (Director of People Services) presented the report that included performance data for January 2018. He referred to the survey of retirees between October and December 2017 in the report that showed a 91.3%

positive response rate from 23 respondents. Lee Witham stated that although most respondents found the letters and forms easy to follow, there were some who had thought less so and they would be contacted to see if these could be made clearer. In respect of the key performance indicators for January, the figures were encouraging and Lee Witham felt that this reflected a solid and consistent service that was being provided.

- 4.2 During Members' discussions, the Chairman sought further details as to what would be discussed at the meeting with Surrey County Council. He also asked whether a date for the Pensions Annual General Meeting had now been confirmed.
- 4.3 In reply to Members' questions, Sarah Hay (Pensions and Payroll Officer) advised that the originally proposed meeting with Surrey County Council had been postponed due to adverse weather conditions. The re-arranged meeting would include discussions regarding what information was required from BT prior to the handover of payroll details being managed by Hampshire County Council and the Pensions Annual General Meeting. Sarah Hay advised that there were no particular service issues of concern. Members noted that the Pensions Annual General Meeting would take place on 12 April and it would be publicised to both pensioners and existing staff and there would be internal communication to both the Committee and Pension Board members.
- 4.4 The Chairman welcomed Members to attend the Pensions Annual General Meeting and added that the previous meeting had been a useful exercise.

5 QUARTERLY PERFORMANCE REPORT

- 5.1 Kevin Humpherson (Deloitte) presented this item and advised that performance was 0.5% below the benchmark this quarter, which was attributable to the over performance of Hermes and Aberdeen Standard being offset by the underperformance of Majedie and Longview. However, more recent data had shown an improvement in performance for Majedie.
- 5.2 Kevin Humpherson advised Members that the Chief Investment Officer of Longview was stepping down at the end of the year and this position would be filled by Alistair Graham who was currently Head of Research. Kevin Humpherson informed Members that Deloitte had held a meeting with Longview about the change to the Chief Investment Officer post, and although Longview had stated that there would be no impact, Deloitte wanted further discussions to seek reassurances and a further update on the matter would be provided to the Committee.
- 5.3 During Members' discussions, concerns were expressed about the present Chief Investment Officer leaving Longview. The Chairman requested that he discuss this issue with Phil Triggs ((Tri-Borough Director of Treasury and Pensions) and Deloitte and also that a meeting be arranged with Longview to consider the matter further.
- 5.4 The Chairman sought an update in respect of the London Collective Investment Vehicle (CIV) governance review consultation. In reply, Kevin

Humpherson advised that there was no news to report in terms of the vacant Chief Investment Officer position. Phil Triggs advised that the review consultation had been extended to 5 March, with 25 of 33 London boroughs responding to date, of which with two thirds had indicated that they were against the proposals. The Chairman added that he would be meeting representatives of the London CIV with Phil Triggs on 13 March.

5.5 Kevin Humpherson advised Members that Standard Life Aberdeen had lost its Lloyds Mandate and the insurance business had been sold to Phoenix. Deloitte was planning to meet Standard Life Aberdeen to discuss the implications of this.

5.6 **RESOLVED:**

That the performance of the investments and funding position be noted.

6 **FUND FINANCIAL MANAGEMENT**

6.1 Yvonne Thompson-Hoyte (Senior Finance Manager – Pensions) presented the report and advised that the London CIV governance and resourcing arrangements risk had been upgraded from low to medium on the Risk Register. She drew Members' attention to the cashflow position as set out in the report and advised that this remained on track with the 3 year forecast.

6.2 **RESOLVED:**

1. That the Risk Register for the Pension Fund be noted.
2. That the cash flow position and 3 year forecast be noted.
3. That the Forward Plan for the Committee be noted.

7 **PENSION FUND COSTS**

7.1 Phil Triggs presented the report and referred to the confidential detailed costs for the Pension Fund. He advised that the emphasis on funds to provide transparency on costs when the Chartered Institute of Public Finance and Accountancy's Code of Practice comes into effect would have consequences in respect of pooling.

7.2 The Chairman requested further details of costs, including software costs, prior to the agreement with Surrey County Council to administer the pension scheme.

7.3 **RESOLVED:**

That the Pension Fund costs be noted.

8 FIXED INCOME MANAGER SELECTION

8.1 Phil Triggs introduced the report and advised that the transition process to Insight Investment Management for the fixed income mandate was now underway. Matthew Hopson (Senior Finance Manager – Treasury) added that there had been a delay to proceedings due to a potential conflict of interest being raised, however this had now been resolved.

8.2 In reply to Members' queries about the timing of the transition to Insight, Phil Triggs advised that the transition could be complete before the end of the financial year and Insight would produce a report to be made available at the next meeting.

8.3 RESOLVED:

That the progress on the transition to Insight Investment Management to run the Fund's fixed income mandate be noted.

9 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

9.1 On behalf of Members, Councillor Ian Rowley, in noting that it was the Chairman's last Pension Fund Committee meeting, thanked him for his chairing of the Committee and his contribution to its work.

The Meeting ended at 7.50 pm.

CHAIRMAN: _____

DATE _____



Pension Fund Committee

Date:	21st June 2018
Classification:	General Release
Title:	Pension Administration Update
Report of:	Lee Witham, Director of People Services
Wards Involved:	All
Policy Context:	Service Delivery
Financial Summary:	Limited

1. Executive Summary

- 1.1.** This report provides a summary of the performance of the City Council, Surrey County Council and BT. The report gives an update on the Key Performance Indicator (KPI) performance of the pension administrators Surrey County Council (SCC) for the period March to May 2018. The detailed KPIs are shown in Appendix 1.

2. Surrey County Council (SCC) Performance

- 2.1.** The scope of the KPIs in this report have been agreed between WCC and SCC based on the section 101 agreement, however they will continue to be reviewed on feedback from all parties, including committee members.
- 2.2.** This paper covers only the period of March to May 2018. The last period reported to committee on the 8th of March 2018 ended at February 2018. February data is shown for comparison and to measure the trend changes against. The next review meeting with Surrey has not been agreed at the time of drafting this paper but is expected to be in late June or early July 2018.
- 2.3.** Since the last committee meeting, Jason Bailey, the Pension Manager of Surrey CC has left his position. Surrey are currently operating without an appointed manager and interim reporting structures are currently in place. Surrey have advised us that an offer has been made to a prospective candidate and that references are being checked ahead of an expected appointment in October

2018. People Services can confirm that there is no issue in contacting the pensions team or getting responses from Surrey in since Jason has left.

2.4. Since the last committee meeting Westminster has held its Pensions AGM on the 12th of April in the Strand offices. We have also run three individual pension surgery sessions for staff. Feedback by staff has overall been positive. Staff wanted to talk about a number of issues but primarily, retirement options including flexible retirement, enhancing their pension benefits, transferring in additional service and understanding their annual benefit statement.

2.5. The headlines from the KPI performance in appendix 1 is summarised below:

2.5.1. **Death Benefits Notified to Beneficiary.** In May 2018 there was an increase in cases due to be completed to 11. There were no cases in March or April and only 4 in February as previously recorded. 1 case was late In May taking our KPI down to 91% that month though overall the impact is minimal.

2.5.2. **Write to Dependent and Provide Claim Form.** This KPI was only 75% for May 2018.1 case was late out of 4 processed. All other cases were actioned on time during the reporting period.

2.5.3. **Annual Exercises: P60's issued to Pensioners.** We are notifying you that 100% of the P60's were issued on time in April 2018.

2.5.4. **Annual Exercises: Apply Pensions Increases.** We are happy to note that this KPI is at 100% with Pension Increases applied in April 2018.

2.5.5. **Annual Exercises: Pensioners Newsletter.** Letters were sent to all pensioners and deferred members in March advertising the pensions AGM and invited applications to join the Pension Board.

2.5.6. **Correspondence to 3rd Party.** We are pleased to note that no 3rd party correspondence were late during this reporting period of March through May 2018.

2.6. The existing customer survey is being closed ahead of the move for back office HR and payroll support from BT to Hampshire CC (HCC) planned for October 2018. Resources will be prioritised to ensure that the go live with HCC and the interactions between WCC, SCC and HCC are efficient and meet the needs of our customers. Once the new service is up and running we will look at ways to encourage member feedback. We will also be promoting the member self-service portal that members need to access to view their online annual benefit statement.

3. BT Performance

3.1 BT have been completing urgent pension leaver forms as requested by People Services in a reasonable timeframe.

- 3.2** People Services have identified an issue with the May payroll run where BT have over deducted pension contributions for over 200 people. BT have admitted that they had not applied a previous solution to the payroll to account for April arrears being paid. People Services have a list of the staff impacted, we have reviewed the individuals data and have calculated the refund due to those members. Refunds are due to be processed by BT in the June payroll. Once the payroll has run, People Services will be checking those records to ensure that the refunds are correct.
- 3.3** BT have in the last few weeks provided initial end of year files in relation to 2017/ 2018 for the LGPS to the pension officer in Westminster. The files are being checked, with a Q and A process in place with People Services and BT. Early indications are that whilst data is not yet perfect, overall data quality is far superior to prior years. At this stage, we would be on track to submit end of year files to Surrey by the end of June 2018. Submitting files by the end of June will mean that annual benefit statements would be available online for members by the 31st of August deadline.

4. Issues Log

- 4.1** People Services continue to review any pension matters that have been referred to the in-house team by individuals, Unison, BT or Surrey.

5. Risk Register

- 5.1** The main risk for People Services as we move into the Summer / Autumn will be ensuring that the implementation of the new Hampshire contract goes smoothly. Risk 27 Operational Administration and the move from BT to HCC will be our focus.

6 Pension Board Update.

People Services are notifying the committee that following a recruitment exercise we have appointed two new member representatives to the Pension Board. Terry Neville and Chris Walker will be replacing Dr Norman Perry the previous chair and Sue Manning who have left the board. In addition, we have offered the role of deputy member representative / observer to Mr Martin Colwell who has accepted the offer. Martin's appointment will give the board some resilience in the event that one of the existing member representatives decides to step down in the next year.

7. Western Union Global Existence Transaction (GET).

- 7.1** Westminster has approved a Western Union (WU) existence checking process to confirm the continued entitlement to pension for our overseas based pensioners. The existence exercise involves WCC providing names and contact details to WU for WCC overseas based pensioners, WU will then invite the

pensioner into a local WU office where the pensioner will show WU a copy of their identification in exchange for a £10 incentive payment. WU will then notify WCC of all pensioners that have completed the exercise and identify any missing responses. Where a pensioner does not respond to the invitation this will lead to the pension being suspended pending contact to confirm continued entitlement to benefit.

- 7.2** WCC have 280 overseas-based pensioners. In order for Western Union to complete the existence checking they require full member names. When People Services first downloaded the contact details from Surrey CC the majority of records held the member initials and surname but not the full first names of the individuals. People Services have been reviewing old pension records on fiche to locate some of the missing names but as of 11th of June 2018 we have 102 pensioners outstanding. These will require additional checks through alternative routes.
- 7.3** People Services are working with WU to now commence the GET checking for the 180 records that we do have full records for. The remaining 100 people we will be checking other data sources to reduce this number down further. People Services will update the committee in the next administration report on the progress with this project.







8. Summary

- 8.1** The Pension Administration service overall remains positive. Surrey KPI data is of an acceptable standard. The focus of People Services is on ensuring the 17/18 LGPS files are submitted to Surrey by the end of June 2018 and that interaction with HCC ensures our new provider can meet staff expectations in October. The Western Union existence exercise has been delayed due to data quality issues though these are being worked on with the aim of completing this exercise for all our overseas-based pensioners.

Westminster City Council - February -May 2018 Results on KPI Reporting

Description	Target time/date as per Partnershi	Target	Quantity Feb 2018	Actual Score Feb 2018	Comments	Quantity March 2018	Actual Score March 2018	Comments	Quantity April 2018	Actual Score April 2018	Comments	Quantity May 2018	Actual Score May 2018	Comments	<u>Trend</u>	People services Comments
Pension Administration																
Death Benefits Notify potential beneficiary of lump sum death grant	5 days	100%	4	100%		0	N/A		0	N/A		11	91%	1 case late	↓	
Write to dependant and provide relevant claim form	5 days	100%	10	100%		2	100%		2	100%		4	75%	1 case late	↓	
Set up any dependants benefits and confirm payments due	14 days	100%	4	100%		0	N/A		0	N/A		1	100%		→	
Retirements Retirement options issued to members	5 days	100%	4	100%		12	100%		5	100%		7	100%		→	
New retirement benefits processed for payment following receipt of all necessary documents	5 days	100%	1	100%		3	100%		10	100%		7	100%		→	
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		1	100%		3	100%		10	100%		7	100%		→	
Refunds of Contributions Refund paid following receipt of claim form	14 days	100%	3	100%		5	100%		6	100%		2	100%		→	
Deferred Benefits Statements sent to member following receipt of leaver notification	30 days	100%	18	100%		21	100%		5	100%		12	100%		→	

Notification to members 2 months before payments due	2 months		17	6 weeks before	Target is 2 months before due date but issued 6 weeks before in February	21	6 weeks before	Target is 2 months before due date but issued 6 weeks before in March	24	5 weeks before	Target is 2 months before due date but issued 5 weeks before in April	49	6 weeks before	Target is 2 months before due date but issued 6 weeks before in May		
Lump Sum (on receipt of all necessary documentation)	5 days		15	100%		12	100%		14	100%		29	100%			
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		15	100%		12	100%		14	100%		29	100%			
New Joiners																
New starters processed	30 days	100%	18	100%		6	100%		7	100%		0	N/A			
Transfers In																
Non LGPS transfers-in quotations	30 days	100%	2	100%		1	100%		1	100%		1	100%			
Non LGPS transfers-in payments processed	30 days	100%	0	0		0	N/A		0	N/A		0	N/A			
Transfers Out																
Non LGPS transfers-out quotations processed	30 days	100%	7	100%		9	100%		5	100%		9	100%			
Non LGPS transfers out payments processed	30 days	100%	2	100%		3	100%		0	N/A		1	100%			
Interfunds In - Quotations	30 days	100%	1	100%		0	N/A		3	100%		1	100%			
Interfunds In - Actuals	30 days	100%	0	0		0	N/A		0	N/A		0	N/A			
Interfunds Out - Quotations	30 days	100%	10	100%		12	100%		7	100%		5	100%			
Interfunds Out - Actuals	30 days	100%	6	100%		6	100%		7	100%		5	100%			
Estimates																
1-10 cases	5 Days		7	100%		14	100%		1	100%		2	100%			

11-50 cases	Agreed with WCC			N/A			N/A			N/A			N/A		
51 cases or over	Agreed with WCC			N/A			N/A			N/A			N/A	NA	
Material Changes															
Any changes to data which materially affect actual or potential benefits to be processed within 30 days of receiving all necessary data	30 days		83	100%		18	100%		34	100%		62	100%		
Buying Additional Pensions															
Members notified of terms of purchasing additional pension	15 days			N/A			N/A			N/A			N/A	N/A	
Monthly Pensioner Payroll															
Full reconciliation of payroll and ledger report provided to WCC	Last day of month			100%			100%			100%			100%		
Issue of monthly payslips	3 days before pay day			100%			100%			100%			100%		
RTI file submitted to HMRC	3 days before pay day			100%			100%			100%			100%		
BACS File submitted for payment	3 days before pay day			100%			100%			100%			100%		
P35	EOY			31-Mar-17			31-Mar-17			31-Mar-18			31-Mar-18		
Annual Exercises															
Annual Benefit Statements Issued to Active members	31 August each year			Annual			Annual			Annual			Annual	N/A	
Annual Benefit Statements Issued to Deferred members	31 August each year			Annual			Annual			Annual			Annual	N/A	

P60s Issued to Pensioners Non LGPS transfers-in quotations processed within 20 days	31 May each year			100%	Issued April 2017		100%	Issued April 2017		100%	Issued April 2018		100%	Issued April 2018		All end of year pension payroll tasks completed on time in 2018.
Apply Pensions Increase to Pensioners	April each year			100%			100%			100%	Applied April 2018		100%			
Pensioners Newsletter	April each year			100%			100%	sent out newsletter in March 2018		100%			100%			
Customer Service					Issued April 2017			Issued April 2017			Issued March 2018			Issued March 2018		
Correspondence																
Acknowledgement if more than 5 days	2 days															
Response	10 days		26	100%		6	100%		8	100%		15	100%			
3rd party enquires	10 days		1	1 case	3 days late	7	N/A	100%	1	N/A	100%	2	N/A	100%		
Helpdesk Enquiries																
Volumes of Enquiries Handled By Helpdesk	Number of Enquiries Handled		399	-	89% FPF rate	399	-	92% FPF rate	386	-	95% FPF rate	393	-	95% FPF Rate		
Customer Surveys																
Monthly survey to retirees	Percentage Satisfied with Service			N/A	Due to be sent after Q4		N/A	Surveys to be issued end of April 18		N/A	Surveys issued April 2018		N/A	Surveys issued April 2018 - to be analysed 1 July 2018	N/A	



Pension Fund Committee

Date:	21st June 2018
Classification:	General Release
Title:	New Admitted Body to the Pension Fund - Regulator for Social Housing
Report of:	Sarah Hay, Senior Pension and Payroll Advisor.
Wards Involved:	All
Policy Context:	Service Delivery
Financial Summary:	Limited

1. Executive Summary

This report requests consent for the entry of a new body the Regulator for Social Housing (RSH) into the Westminster Pension fund.

2. Regulator for Social Housing Background.

- 2.1** The Homes and Community Agency (HCA), is an admitted body in the Westminster pension fund. A government review has recommended that the body that makes agreements with landlords supplying homes to the social housing market should not regulate those same landlords. As a result, legislation is due to pass through parliament to create the RSH.
- 2.2** Once the RSH is created, staff currently working in the regulatory functions of the HCA will be tupe transferred to RSH. The expected go live date for the RSH is the 1st of October 2018 but this will be confirmed when the legislation is passed.
- 2.3** HCA is a closed admission body within our pension fund. This means that no new employees of HCA will be appointed to our fund. There are approximately 84 people in the fund who are due to tupe transfer to the newly created RSH.
- 2.4** Under the New Fair Deal 2013 Guidance, public bodies should include provisions in their outsourcing contracts that transferring staff retain entitled to

remain an active member of the original public sector pension arrangement to which they belonged.

- 2.5 The Fund should not reject any reasonable request to accept a new body in the fund as long as the fund has sufficient security in relation to the new body.
- 2.6 People Services have requested the pension funds legal advisors Eversheds Sutherland, draft a closed admission agreement to admit SRH into the fund with a side agreement. The side agreement is between the pension fund, the RSH and the Secretary of State for Homes, Communities and Local Government. In the side agreement, the Secretary of State guarantees that any outstanding liability due to the fund would be covered by the existing HCA, any successor body to the RSH or by the ministry itself.
- 2.7 The side agreement that will be signed by the secretary of state will be in lieu of a bond and will give the pension fund the highest level of security in relation to the future pension liabilities for these staff without the need for any review.

3. Summary

- 3.1 People services seek consent to agree a closed admission agreement with the RSH provisionally at 1st of October 2018. Further that we agree a side agreement to give the fund maximum financial protection to cover all liabilities associated with the RSH.



City of Westminster

Pension Fund Committee

Date:	21st June 2018
Classification:	General Release
Title:	Voluntary Scheme Pays
Report of:	Sarah Hay, Senior Pension and Payroll Advisor.
Wards Involved:	All
Policy Context:	Service Delivery
Financial Summary:	Limited

1. Executive Summary

- 1.1. This report requests consent for the Westminster Pension Fund to offer Voluntary Scheme Pays (VSP) to people who have a tax charge on their Westminster City Council (WCC) Local Government Pension Scheme (LGPS) pension benefit. I have included a simple spreadsheet as Appendix 1, which includes two examples referred to in the report below.

2. Pension Tax Background

- 2.1. HMRC have restricted the tax benefits for pension savings over a number of years. There are restrictions on the lifetime size of an individuals' pension savings to £1M which is known as the Life Time Allowance (LTA). There are restrictions on the size an individual's pot can increase in any one year, this is currently £40,000 and this is known as the Annual Allowance (AA). Please note that some individuals AA is further restricted if their taxable income levels exceed £110,000 per annum on a tapered basis to an AA figure of £10,000. Example 1 in the appendix details the tax treatment of someone earning less than £110,000 and example 2 more than £110,000.
- 2.2. Protections that applied initially to many people are slowly ceasing to have any impact, and the AA and LTA limits have reduced over time. This leads to some members facing significant tax charges as a result of being in the pension scheme.

- 2.3.** If an individual has a taxable income of more than £110,000 the AA for pension purposes will then be determined by the level of the Pension Input Amount (PIA). The PIA is a measure of how much the pension pot has grown in a year. If the PIA plus the taxable income comes to £210,000 or more then the tapered annual allowance will be £10,000. If the taxable income plus the PIA is £150,000 or less then the AA will be the standard £40,000. For people who's taxable income plus PIA amount come between £150,000 and £210,000 they will be allocated an AA figure between £10,000 and £40,000.
- 2.4.** HMRC regulations already include a Mandatory Scheme Pays (MSP) facility that allows members who meet certain criteria to elect with HMRC to have their tax paid via their pension fund. The fund cannot elect to reject a qualifying MSP request. MSP is a right under section 237B of the Finance Act 2004.
- 2.5.** If the member qualifies for MSP they can choose if they want to pay the tax in one lump sum or via long term deduction from their pension.
- 2.6.** There are some circumstances where MSP does not cover an individual's full or partial tax liability. This is when an individual can request that the scheme accept a request for Voluntary Scheme Pays (VSP).
- 2.7.** Please see example 1 in appendix 1. If someone has a taxable income of less than £110,000, they will have an AA figure of £40,000 and their pension can increase by that amount without any tax charge. In example 1, the PIA is £100,000 (this could be as a result of a large transfer of service into the scheme). The individual will have the standard AA of £40,000 but will have to pay tax on the £60,000 above the AA. The standard tax rate is normally 40% so applying this in example 1 the individual will have a tax liability of £24,000. However the member has an entitlement to have an MSP for the entire £24000. In this case the scheme would pay the £24000 and reduce the members care pension pot accrued in the year by £2162.49 which would be a permanent reduction.
- 2.8.** Please see example 2 in appendix 1. If someone has a taxable income of £110,000 or more they will be subjected to a possible tapered allowance. In example 2 the PIA is again £100,000 but in this case the combined taxable income plus PIA comes to £210,000 and the tapered allowance is therefore the minimum £10,000 figure. This member will owe tax on £90,000 due to the tapered allowance. They can only request HMRC issue a MSP election in respect of £60,000 as this is the sum in excess of a standard AA. The member will have a tax payment due at 40% of £36,000. If the scheme adopts VSP the member could as an alternative to paying that to HMRC as a lump sum have the scheme pay and a permanent reduction in pension of £3243.74. If the scheme does not offer VSP, the member would have to pay a £12,000 lump sum to HMRC as well as a reduction in pension of £2162.49.
- 2.9.** We have a recent example of a senior employee appointed in 2017 who is facing a significant tax charge (£94K) in 2018/2019, by transferring in their previous LGPS pension to our fund and exceeding the tapered allowance

described above. The individual is seeing a significant increase in their LGPS pension promise however few people will be able to find the £94K in cash. More cases will follow and would most likely impact senior appointments and could potentially impact recruitment going forward if we do not offer VSP.

- 2.10.** There are other circumstances where an MSP election would not be effective for example, where an annual allowance charge were £2000 or less the member would not have an entitlement to an MSP election. A retiring member needs to make an election before becoming entitled to all their benefits under the scheme if for some reason they did not do this then they would be relying on VSP or would have to fund the tax payment up front to HMRC.
- 2.11.** The Local Government Pension Scheme Regulations are silent on the matter of VSP. It is a matter for each administering authority to determine its own policy and if VSP will be offered to any member of its fund or if VSP is only offered in particular circumstances.
- 2.12.** It is important to note that if the committee approve VSP there is no direct cost to the fund. Money will be recovered by the reducing of the members' pension permanently and so the tax remains the members' responsibility. Reductions are applied using Government Actuary Department (GAD) factors based on the members expected mortality dates. Some people will live longer than the GAD factors suggest and some less meaning that the fund will recoup more money than it pays out in some cases and less in others.
- 2.13.** Additionally, VSP for exceeding the annual allowance currently appears to benefit members who may exceed the LTA limit. VSP reduces their overall pension pot and thus the tax exposure. HMRC rules may change going forward but in offering VSP the fund would be potentially allowing members to limit the tax they legally have to pay.

3. Recommendation

- 3.1** That the committee approve WCC administering authority operate an unrestricted Voluntary Scheme Pays arrangement which will apply from the current tax year 2018 / 2019.

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EXAMPLE 1	EXAMPLE 2
Taxable Income in Year Less than £110,000.00	Taxable Income £110,000.00 A Year or more
Standard Annual Allowance Applies £40,000.00	Tapered Annual Allowance Applies £10,000.00
Mandatory Scheme Pays (MSP) elections apply in most cases if the member exceeds £40,000.00	Mandatory Scheme Pays (MSP) elections apply in most cases but only on any sum that exceeds the £40,000.00
Example Pension Input Amount £100,000.00	Example Pension Input Amount £100,000.00
Tax due on £60,000.00 MSP will apply	Tax due on £90,000.00, MSP will apply to £60,000.00 only as the excess over the standard AA
Tax at 40% Lump sum payment	Tax at 40% Lump sum Payment
£24,000.00	£36,000.00
Scheme Pays Deduction Member's pension reduced by (NB this would be based on an individuals Mortality factors this is an example only)	Scheme Pays Deduction (assuming VSP offered) Member's pension reduced by (NB this would be based on an individuals Mortality factors this is an example only)
£2,162.49	£3,243.74
	Assuming that no VSP offered the lump sum tax would be
	£12,000.00
	Plus pension being reduced by
	£2,162.49

Assumptions

Member's marginal tax rate is 40% - a higher rate could apply

Scheme pays deduction based on an assumed age, gender and State Pension Age

No carry forward available from past three years

That the minimum tapered AA of £10,000 applies in Example 2

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City of Westminster

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	21 June 2018
Classification:	General Release
Title:	Performance of the Council's Pension Fund
Wards Affected:	All
Policy Context:	Effective control over Council Activities
Financial Summary:	There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.
Report of:	Steven Mair <i>City Treasurer</i> smair@westminster.gov.uk 020 7641 2904

1. Executive Summary

- 1.1 This report presents the performance of the Pension Fund's investments, together with an update on the funding position to 31 March 2018.

2. Recommendation

- 2.1 The Committee is asked to note the performance of the investments, and funding position.

3. Background

- 3.1 The terms of reference of the Pension Fund Committee require the committee to monitor the performance of the Pension Fund, individual fund managers, and other service providers to ensure that they remain suitable.
- 3.2 This report presents a summary of the Pension Fund's performance and estimated funding level to 31 March 2018. The investment performance report (Appendix 1) has been prepared by Deloitte, the Fund's investment

adviser, who will be attending the meeting to present the key points and answer questions.

- 3.3 The Investment Performance Report shows that over the quarter to 31 March 2018, the market value of the assets decreased by £36.5 million to a value of £1,331 million (£1,368) at 31 December 2017). The fund outperformed the benchmark net of fees by 0.6%. This is mainly attributable to the positive relative returns from Baillie Gifford, Hermes and Aberdeen Standard.
- 3.4 The Investment Performance Report shows that over the year to 31 March 2018, the market value of the assets increased by £68.4 million to a value of £1,331 million (£1,263 at 31 March 2017). The fund outperformed the benchmark net of fees by 1.1% with Baillie Gifford being the largest contributor, offsetting underperformance from Majedie.
- 3.5 The advisors continue to rate the fund managers favourably. They have however, expressed ongoing concern about resignations and vacancies at senior management level within the London CIV. The advisors have also expressed concern surrounding the departure of Longview's CIO from 31st December 2018.
- 3.6 The Funding update (Appendix 2) has been prepared by the Fund Actuary, Barnett Waddingham. This indicates that the estimated funding level as at 31 March 2018 was 92.2% an increase of 2.4% on the last quarter's 89.8% to 31 December 2017. This is due mainly to a greater return on assets than that anticipated at the time of the triennial valuation in March 2016. This position is also up 12.2% on the funding level of 80% that was calculated at the triennial valuation of 31 March 2016.

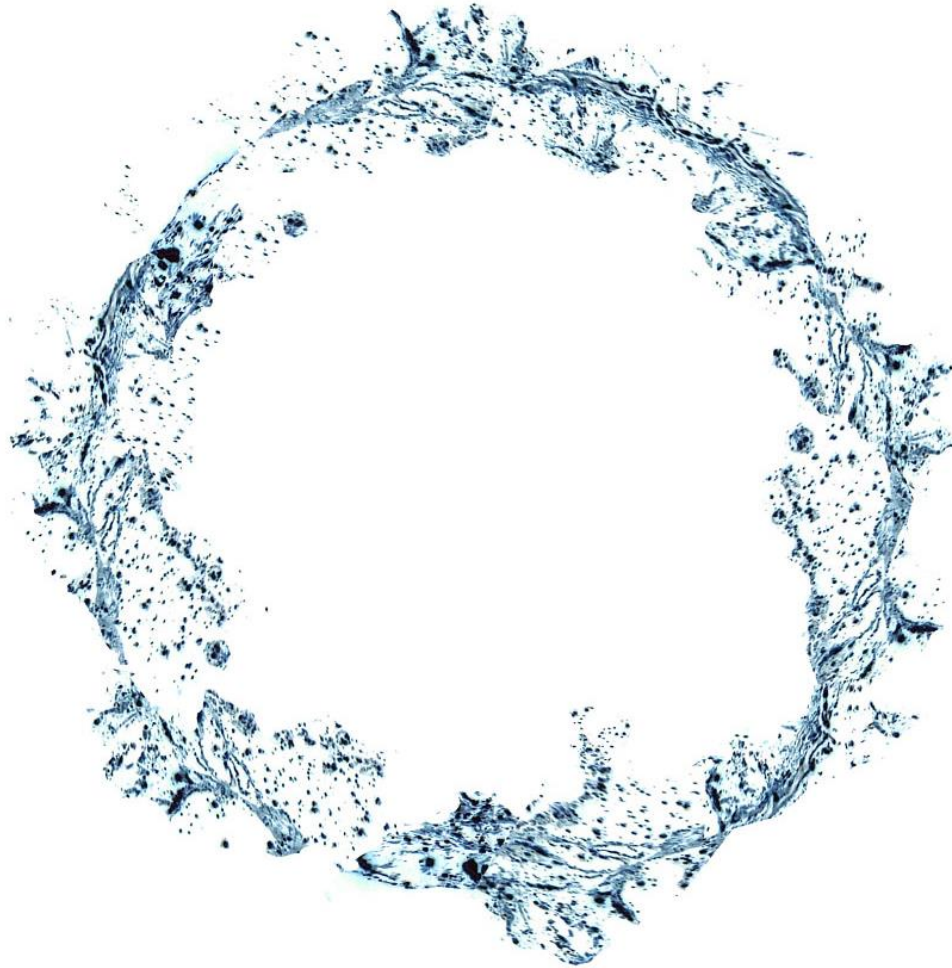
If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Damien Pantling pensionfund@westminster.gov.uk or 0207 641 2884

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Deloitte Investment Report, Quarter Ending 31 March 2018.
Appendix 2: Barnett Waddingham Funding Update as at 31 March 2018.



City of Westminster Pension Fund
Investment Performance Report to 31
March 2018

Deloitte Total Reward and Benefits Limited
May 2018

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1 Market Background

Three and twelve months to 31 March 2018

The UK equity market experienced a sharp decline in the first quarter of 2018, following a sustained period of gains in 2017. The FTSE All Share Index fell by 6.9% with rising inflation earlier in the quarter raising concerns in the market that interest rates may rise faster than expected, increasing the cost of capital for UK companies. Later in the quarter markets were impacted by protectionist fears as a potential trade war between the US and China gathered steam.

The FTSE 100 Index decreased by 5.0% while the FTSE Small Cap Index fell by 4.2% over the quarter as larger, more internationally focused companies underperformed smaller domestic focused UK companies as the pound strengthened, reducing the sterling value of overseas revenues. All sectors suffered negative absolute returns albeit to differing degrees. Technology was the worst hit (-27.4%) due to the threat of increased regulation and taxes amid a number of company specific setbacks. Meanwhile Health Care was the best performing sector, which experienced a relatively small loss of 1.1%.

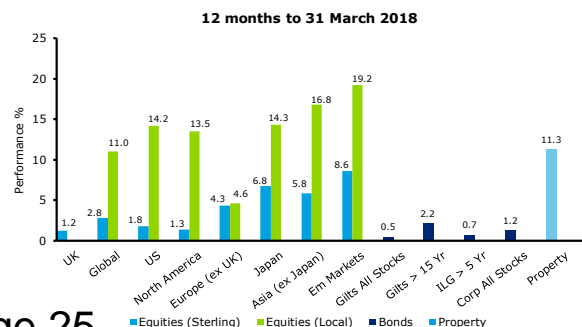
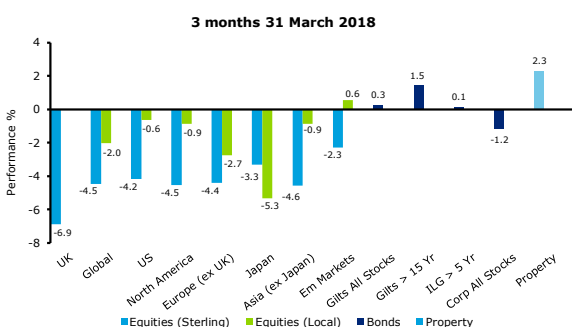
Global equity markets outperformed UK equities in local currency terms (-2.0%) and sterling terms (-4.5%), with the UK's sluggish growth forecasts continuing to lag the stronger macroeconomic environment overseas. Sterling strengthened slightly over the quarter, with currency hedging therefore benefitting investors. All geographic regions delivered negative returns in local currency terms except for Emerging Markets which returned 0.6%. Both Europe (ex UK) and Japan, the worst performing regions in local terms, were hit particularly hard by protectionist fears given their reliance on exports.

Nominal gilt yields rose at the short end of the curve as inflation fears led the market to anticipate rate rises at a faster rate over the short to medium term. However, nominal gilt yields fell at longer durations, perhaps as a reflection of the longer term economic outlook. Overall, the All Stocks Gilts Index delivered a return of 0.3% over the quarter. Real yields similarly increased at the short end, but were broadly unchanged at the long end, reflecting the marginally lower inflation expectations over the longer term. Therefore, index-linked gilts' performance was broadly flat with the Over 5 Year Index-Linked Gilts Index returning 0.1% over the period. Credit spreads widened over the first quarter reflecting the volatility within equity markets. The iBoxx All Stocks Non Gilt Index delivered a negative return of -1.2%.

Over the 12 months to 31 March 2018, the FTSE All Share Index delivered a positive return of 1.2% as the gains in 2017 from the improving economic environment globally were partly offset by the losses at the start of 2018. Basic Materials (11.2%) was the best performing sector while Utilities (-22.6%) was the poorest performing sector. The continuing uncertainty caused by Brexit and productivity issues are still weighing on the UK, and all overseas markets generated superior returns, with the FTSE All World Index returning 11.0% in local terms over the period. The strengthening of sterling over the period will have damped UK equity markets over the period and suggests that currency hedging has been beneficial.

UK nominal gilts delivered positive returns over the 12 months to 31 March 2018, with the All Stocks Gilts Index returning 0.5% and the Over 15 year Gilts Index returning 2.2%. UK index-linked gilts also delivered positive returns over the same period, with the Over 5 Year Index-Linked Gilts Index returning 0.7%. Credit spreads were broadly unchanged over the year to 31 March 2018. Consequently, corporate bonds yielded a return slightly above gilts of 1.2%.

The IPD UK Monthly Property Index returned 2.3% over the quarter and 11.3% over the year to 31 March 2018, following continued strong demand for UK property as investors search for yield, and significant demand from overseas investors, despite the continued uncertainty over Brexit.



2 Total Fund

2.1 Investment Performance to 31 March 2018

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

Manager	Asset Class	Last Quarter (%)		Last Year (%)		Last 3 Years (% p.a.) ¹		Since inception (% p.a.) ¹					
		Fund	B'mark	Fund	B'mark	Fund	B'mark	Fund	B'mark				
		Gross	Net ¹	Gross	Net ¹	Gross	Net ¹	Gross	Net ¹				
Majedie	UK Equity	-6.4	-6.5	-6.9	-2.7	-3.3	1.3	4.8	4.2	5.9	11.8	11.2	9.9
LGIM	Global Equity	-2.3	-2.3	-2.4	9.8	9.7	9.7	7.3	7.3	7.3	12.1	12.1	12.1
Baillie Gifford	Global Equity	-0.9	-1.0	-4.5	13.0	12.7	2.4	14.5	14.2	10.2	15.8	15.4	12.2
Longview	Global Equity	-4.2	-4.4	-4.8	1.3	0.6	1.3	10.5	9.9	10.0	13.1	12.4	11.5
Insight Gilts	Gilts	-0.8	-0.9	-0.7	-0.8	-0.9	-0.9	1.5	1.4	1.6	2.3	2.2	2.3
Insight Non Gilts	Non Gilts	-1.1	-1.1	-1.1	1.7	1.4	1.0	3.5	3.2	3.0	6.7	6.4	5.7
Hermes	Property	1.9	1.8	2.0	11.3	10.9	10.7	9.9	9.5	9.0	10.3	9.9	8.9
Aberdeen Standard	Property	1.7	1.5	0.8	10.4	9.9	2.4	8.1	7.6	5.4	9.2	8.7	6.8
Total		-2.7	-2.7	-3.3	5.3	4.9	3.8	8.0	7.6	6.9	n/a	n/a	n/a

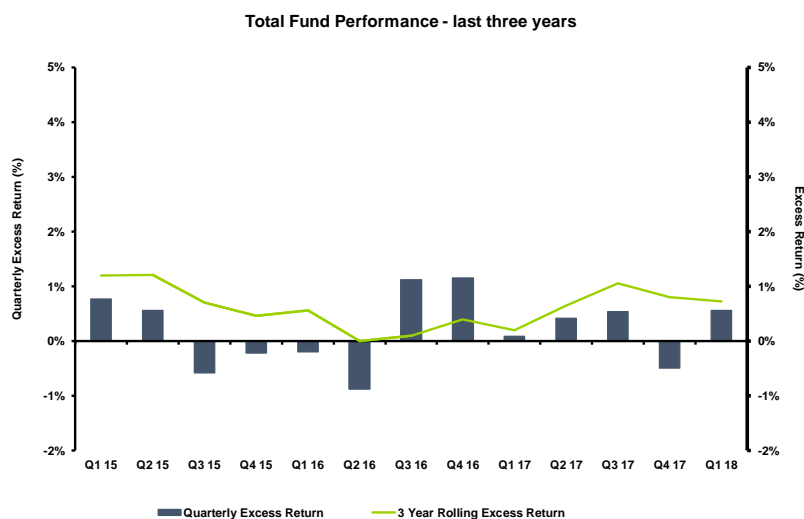
Source: Northern Trust

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

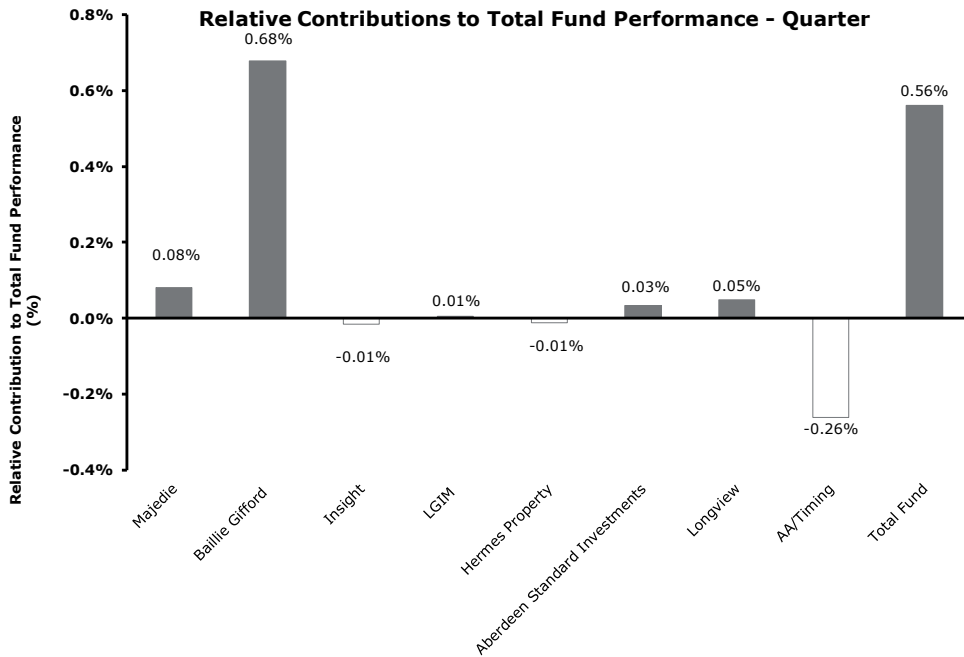
See appendix 1 for more detail on manager fees and since inception dates

The Fund outperformed its benchmark by 0.6%, 1.1% and 0.7% p.a. net of fees over the quarter, one year and three years to 31 March 2018 respectively. The outperformance over the quarter was mainly driven by the positive relative returns from Baillie Gifford, Hermes and Aberdeen Standard.

The chart below shows the relative performance of the Fund over the quarter and last three years, highlighting that the rolling three-year performance is ahead of the benchmark. Please note that performance is shown net of fees versus the benchmark.

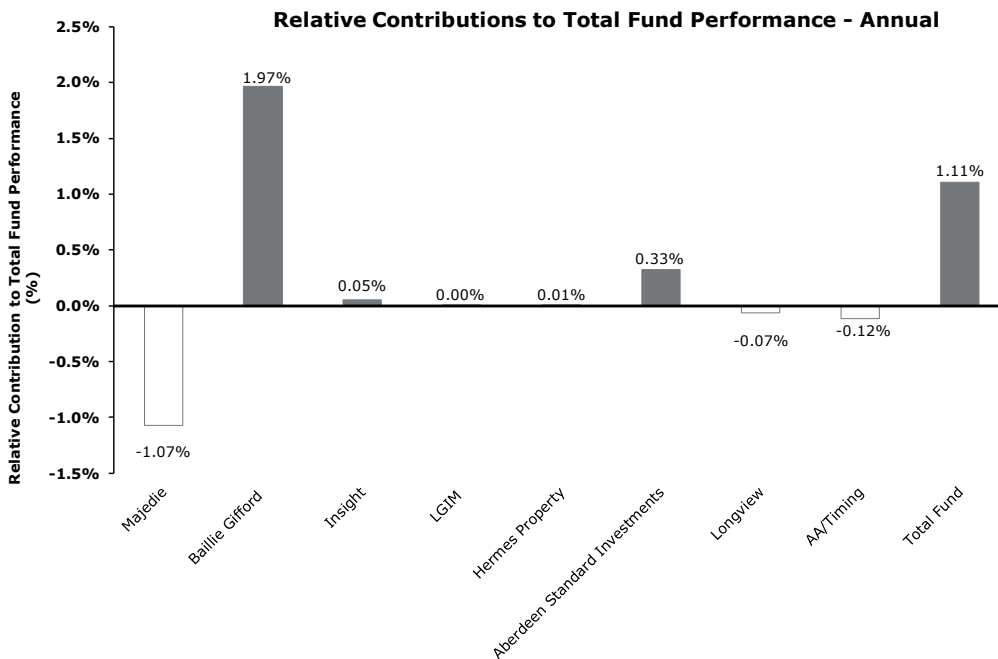


2.2 Attribution of Performance to 31 March 2018



On a net of fees performance basis, the Fund outperformed its benchmark by 0.6% over the first quarter of 2018, largely as a result of outperformance from Baillie Gifford. The negative contribution shown by the “AA/Timing” bar was primarily driven by the Fund having an overweight allocation to equities, with equity markets falling over the quarter.

Over the year the Fund outperformed the benchmark by 1.1% with Baillie Gifford being the largest contributor once again, offsetting underperformance from Majedie.



2.3 Asset Allocation as at 31 March 2018

The table below shows the assets held by manager and asset class as at 31 March 2018.

Manager	Asset Class	End Dec 2017 (£m)	End Mar 2018 (£m)	End Dec 2017 (%)	End Mar 2018 (%)	Benchmark Allocation* (%)
Majedie	UK Equity	317.8	297.5	23.2	22.3	22.5
LGIM	Global Equity (Passive)	317.9	310.4	23.2	23.3	22.5
Baillie Gifford	Global Equity	266.8	264.3	19.5	19.9	25
Longview	Global Equity	149.0	142.8	10.9	10.7	
	Total Equity	1,051.5	1,015.0	76.9	76.2	70
Insight	Fixed Interest Gilts (Passive)	18.9	18.7	1.4	1.4	20
Insight	Sterling Non-Gilts	175.4	173.5	12.8	13.0	
	Total Bonds	194.3	192.2	14.2	14.4	20
Hermes	Property	62.6	63.7	4.6	4.8	5
Aberdeen Standard	Property	59.5	60.5	4.3	4.5	5
To be determined	Property / Infrastructure	0.0	0.0	0.0	0.0	
	Total Property	122.1	124.2	8.9	9.3	10
	Total	1,367.8	1,331.4	100	100	100

Source: Northern Trust Figures may not sum due to rounding

* The benchmark allocation has been set to 70% equity, 20% bonds and 10% property to better align the benchmark performance calculation with the allocation and performance of the Fund. The Fund's long term strategic benchmark allocation includes a 5% allocation to Property / Infrastructure, which will be funded from the equity portfolio.

Over the quarter the market value of the assets decreased by c. £36.5m, with negative absolute returns from the equity and corporate bond investments.

As at 31 March 2018, the Fund was 6.2% overweight to equities when compared with the amended benchmark allocation and underweight bonds and property by c. 5.6% and 0.7% respectively.

2.4 Yield analysis as at 31 March 2018

The table below shows the yield as reported by the managers on each of the Fund's investments. Insight were unable to provide yields as at 31 March given the portfolio restructure and transition to the Insight Buy and Maintain Fund.

Manager	Asset Class	Yield as at 31 March 2018
Majedie	UK Equity	1.60%**
Baillie Gifford	Global Equity	0.70%**
LGIM	Global Equity (Passive)	0.24%*
Longview	Global Equity	2.38%
Insight Fixed Interest Gilts	Fixed Interest Gilts (Passive)	-
Insight Sterling Non-Gilts	Sterling Non-Gilts	-
Hermes Property	Property	5.00%
Aberdeen Standard Investments	Long Lease Property	4.20%
	Total	1.23%

*Benchmark yield is 2.5% (represents the income that would be generated).

** Majedie and Baillie Gifford yields are provided by the managers and are historic yields, reflecting the distributions declared over the past 12 months as a percentage of average market value.

3 Summary of Manager Ratings

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

Manager	Mandate	Triggers for Review	Rating
Majedie	UK Equity	Further turnover within the core investment team Re-opening the UK Equity products with no clear limits on the value of assets that they would take on	1
Baillie Gifford	Global Equity	Loss of key personnel Change in investment approach Lack of control in growth of assets under management	1
Longview	Global Equity	Loss of key personnel Change in investment approach Lack of control in growth of assets under management	Under review
LGIM	Global Equity (Passive)	Major deviation from benchmark returns Significant loss of assets under management	1
Insight	Sterling Non-Gilts Fixed Interest Gilts (Passive)	Departure of any of the senior members of the investment team Steps to broaden their product offering beyond the current UK and European focus without first bringing in the additional expertise	1
Hermes	Property	Significant growth in the value of assets invested in the fund Changes to the team managing the mandate	1
Aberdeen Standard Investments	Property	Richard Marshall leaving the business or ceasing to be actively involved in the Fund without having gone through an appropriate hand-over A build up within the Fund of holdings with remaining lease lengths around 10 years	1

3.1 London CIV

Business

As at 31 March 2018, the London CIV had 11 sub-funds and assets under management of £6,175m. The total assets under oversight (which includes passive investments held outside of the CIV platform) was just under £15bn, representing c. 40% of the 32 London Borough's total AuM. A further £1bn has been committed for transitioning in Q2, which will take the total number of London Borough Pension Fund's with assets on the CIV to 30.

A new range of fixed income funds will soon be launched, with four managers being appointed to run four different fixed income strategies:

- Multi Asset Credit Fund, managed by CQS.
- Long/Short Multi Asset Credit Fund, managed by MidOcean.
- Global Bonds Fund, managed by Pimco.
- Global Liquid Loans Fund, managed by Ares.

Deloitte view – There has been high turnover of personnel at the London CIV, with the recent departures of Hugh Grover, CEO, and Julian Pendock, CIO, being of significant loss. It is crucial that steps are taken to rebuild the senior management team and an appropriate strategy agreed for taking the pool forward, getting "buy-in" from the shareholders.

3.2 Majedie

Business

The total assets under management for Majedie was c. £13.8bn as at 31 March 2018, a decrease of c. £0.7bn over the first quarter of 2018.

Personnel

Alastair Johnston, an analyst within the investment team, left at the end of February to pursue an equity analyst opportunity elsewhere.

Following the quarter end Majedie announced that Chris Reid, a Portfolio Manager on the UK Equity Income and Focus Fund and one of Majedie's founding partners, would be leaving the firm at the end of June to pursue a postgraduate degree in finance.

Majedie also announced that Mark Wharrier and Imran Sattar will be joining the firm as Portfolio Managers. Mark joins from Troy Asset Management and will lead manage the UK Income Fund. Mark was previously at BlackRock for four years where he managed the BlackRock UK Income Fund. Imran joins from BlackRock and will co-manage the Majedie UK Focus Fund alongside existing managers James de Uphaugh, Chris Field and Matthew Smith. Imran was a fund manager on BlackRock's UK Equity Fund.

Deloitte view – We continue to rate Majedie positively for its UK Equity capabilities.

3.3 Baillie Gifford

Business

Total assets under management as at 31 March 2018 was c. £178bn, down from c. £180bn as at 31 December 2017.

Personnel

Andrei Kiselev, a Portfolio Manager in Baillie Gifford's US Equity team left the firm over the quarter.

From 1 May 2018, five new partners will be appointed with Sarah Whitley, Head of Japanese equities; Stephen Rodger, Head of Credit; Ken Barker, Client Service Director and Pet Cooke, Client Service Director all retiring.

Deloitte view: The retiring partners do not directly affect the Global Alpha fund, however we will continue to monitor developments at Baillie Gifford and the appointment of new partners. We continue to rate Baillie Gifford positively for its equity capabilities.

3.4 LGIM

Business

As at 31 December 2017, Legal & General Investment Management ("Legal & General") had total assets under management ("AuM) of £983bn, an increase of £32bn since 30 June 2017.

Personnel

At the Index team level, there was one new joiner and one leaver over the first quarter of 2018. Craig Parker joined as Portfolio Management Analyst and Russell Carswell left as Index Funds Analyst.

Deloitte View – We continue to rate Legal & General positively for its passive capabilities.

3.5 Longview

Business

Assets under management remained relatively stable over the quarter at c. £19.7bn as at 31 March 2018. The Fund has reached its capacity limit of \$25bn and is now closed to new investors, with a waiting list in operation.

There is limited capacity available for existing clients but this is being monitored closely by Longview.

Personnel

In March, Longview announced that Ramzi Rishani, Co-CEO, CIO and Founder of Longview Partners, would be retiring from his role in the business as of 31 December 2018. Marina Lund (currently Co-CEO with Ramzi) will become CEO with effect from 1 January 2019 and Alistair Graham (currently Head of Research) will become CIO by the fourth quarter of 2018.

Deloitte view – The departure of Ramzi Rishani will mean that both of Longview’s founding partners are no longer involved in the business. This is a significant departure given Ramzi’s current role and involvement in the success of the business to date. As a result, Longview Partners is currently ‘under review’.

3.6 Insight

Business

Total AuM has increased level over Q1, with over £580bn in assets under management, an increase from £552bn in Q4. Total headcount across the business has grown from 730 to 757 over the quarter.

Personnel

Insight made no changes to their credit team over the quarter.

Deloitte view – We rate Insight positively for its Fixed Income capabilities but continue to monitor how growth is being managed across the business.

3.7 Hermes

Business

Total assets under management increased by c. £2.2bn over the first quarter to £33.0bn. Assets under management within the HPUT increased by c. £0.1bn to c. £1.6bn as at 31 March 2018.

Over the quarter it was announced that Federated Investors, a large investment manager in the US, will acquire a majority stake (60%) in Hermes Fund Managers Limited for c. \$350m from BT Pension Scheme (BTPS). BTPS will retain a c. 30% share in Hermes with the final 10% being retained by members of Hermes’ management team.

Personnel

There were no changes to the HPUT team over the quarter.

Deloitte view – We are closely monitoring the business development over the quarter and will provide an update of our views following further review. We continue to rate the team managing HPUT and at this stage, see no reason to change this.

3.8 Aberdeen Standard Investments – Long Lease Property

Business

The Fund’s assets under management increased by c. £0.1bn to c. £2.2bn over the quarter to 31 March 2018.

ASI announced that from 1 April 2018 the fee rate being charged on the Long Lease Property Fund will be changing from the flat fee of 0.5% on assets invested to the following sliding fee scale:

- 0.5% on first £25m of assets invested;
- 0.4% on assets in the range of £25m-£50m; and
- 0.3% on assets over £50m.

This will benefit the Fund which had c. £60.5m invested in the Fund as at 31 March 2018. Fee reductions will be achieved through a management charge rebate in the form of either increasing the number of units held by the Fund or through a cash payment made monthly to the Fund bank account.

Personnel

Aberdeen Standard Investments had previously announced the leadership team for Aberdeen Standard Investments Real Estate Division, which will be led by Global Co-Heads of Real Estate, David Paine and Pertti Vanhanen, with Mike Hannigan appointed as Head of Real Estate UK. In March 2018 Mike Hannigan announced his integrated UK management team: Richard Marshall (Head of UK Secure, Residential and Alternative Funds), Cameron Murray (Head of UK Institutional Funds), Mark Watt (Head of UK Wholesale Funds and Investment Trusts), Nick Ireland (Head of UK Segregated Funds), Simon Moscow (Head of Portfolio Management), Rob Cass (Head of Transaction Management) and James Stevens (Head of UK Development).

It was also confirmed that Richard Marshall would remain as Fund Manager of both the SLI Long Lease Property Fund and SLI Ground Rent Fund.

Process

Since the two businesses merged, ASI has put in place a formal process where all potential transactions are reviewed and an “allocation policy” applied where interest is expressed in the investment by more than one fund/client portfolio.

Deloitte View – We continue to monitor ASI post-merger with the organisation currently in the midst of the integration. ASI has been keen to stress that the management of the Long Lease Property Fund is unaffected by the merger and developments over the quarter appear to reinforce this view.

4 London CIV

4.1 Investment Performance to 31 March 2018

As at 31 March 2018, the London CIV had 11 sub-funds and assets under management of £6,175m. The total assets under oversight (which includes passive investments held outside of the CIV platform) was just under £15bn.

The table below provides an overview of the sub-funds currently available on the London CIV platform.

Sub-fund	Asset Class	Manager	Total AuM as at 31 December 2017 (£m)	Total AuM as at 31 March 2018 (£m)	Number of London CIV clients	Inception Date
LCIV MJ UK Equity	UK Equity	Majedie	531	494	3	18/05/17
LCIV Global Equity Alpha	Global Equity	Allianz Global Investors	742	720	3	02/12/15
LCIV BG Global Alpha Growth	Global Equity	Baillie Gifford	1,826	1,808	9	11/04/16
LCIV NW Global Equity	Global Equity	Newton	641	531	3	22/05/17
LCIV LV Global Equity	Global Equity	Longview Partners	442	425	3	17/07/17
LCIV EP Income Equity	Global Equity	Epoch Investment Partners	140	212	2	08/11/17
LCIV HN Emerging Market Equity	Global Equity	Henderson Global Investors	-	76	1	11/01/18
LCIV PY Total Return	Diversified growth fund	Pyrford	359	274	4	17/06/16
LCIV Diversified Growth	Diversified growth fund	Baillie Gifford	477	480	6	15/02/16
LCIV RF Absolute Return	Diversified growth fund	Ruffer	834	826	10	21/06/16
LCIV NW Real Return	Diversified growth fund	Newton	344	331	3	16/12/16
Total			6,336	6,175		

Over the quarter, the Global Equity Income sub fund (managed by Epoch Investment Partners) and the Absolute Return sub fund (managed by Ruffer) both added another London Borough to their client list. The Henderson Emerging Market Equity sub fund was seeded in January by one London Borough Fund.

5 Baillie Gifford – Global Equity

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

5.1 Global equity – Investment performance to 31 March 2018

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Baillie Gifford – Gross of fees	-0.9	13.0	14.5	15.8
Net of fees	-1.0	12.7	14.2	15.4
MSCI AC World Index	-4.5	2.4	10.2	12.2
Relative (net of fees)	3.5	10.3	4.0	3.2

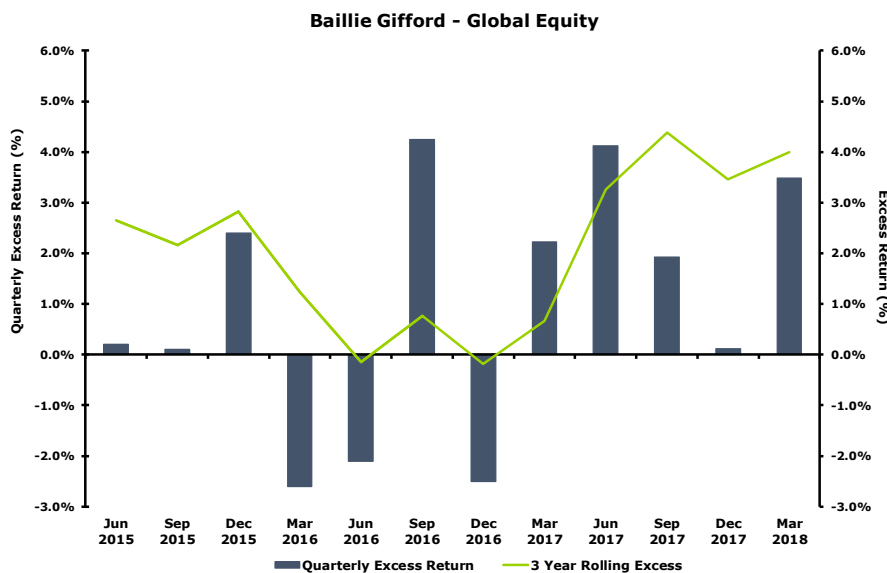
Source: Northern Trust and estimated by Deloitte.

See appendix 1 for more detail on manager fees

Inception date taken as 18 March 2014

The Baillie Gifford Global Equity Alpha Fund has outperformed its benchmark by 3.5% and 10.3% net of fees over the quarter and one year to 31 March 2018 respectively.

The graph below shows the net quarterly returns and the rolling three year excess returns relative to the benchmark. The Fund’s current three year excess return is ahead of the target (+2% p.a.) having outperformed the benchmark by 4.0% p.a.



5.2 Performance Analysis

The top 10 holdings in the portfolio account for c. 28.4% of the Fund and are detailed below.

Top 10 holdings as at 31 March 2018	Proportion of Baillie Gifford Fund
Amazon	4.6%
Naspers	4.0%
Prudential	3.3%
Taiwan Semiconductor Manufacturing	3.1%
Alibaba	2.5%
Moody's	2.3%
Anthem	2.3%
SAP	2.3%
AIA	2.1%
Alphabet	1.9%
Total	28.4%

Note: The numbers in this table may not sum due to rounding.

Source: London CIV.

The tables below shows the top 5 and bottom 5 contributors to performance over the quarter to 31 March 2018.

Top 5 contributors as at 31 March 2018	Contribution (%)
Amazon	+0.70
GrubHub	+0.28
Abiomed	+0.24
NVIDIA	+0.18
Mastercard	+0.18

The Fund's holdings in Amazon contributed the most over the quarter as the company saw strong and accelerating sales figures – more new paid members joined Amazon Prime in 2017 than in any previous year. GrubHub, an online and mobile food-ordering company, and Abiomed, a manufacturer of medical implant devices, also produced positive contributions over the quarter. GrubHub secured an exclusive partnership with YUM! Brands to be the takeout and delivery provider for KFC and Taco Bell in the US.

Top 5 detractors as at 31 March 2018	Contribution
Naspers	-0.70
ICICI Bank	-0.28
SAP	-0.25
Prudential	-0.18
Facebook	-0.18

6 LGIM – Global Equity (Passive)

Legal and General Investment Manager (“LGIM”) was appointed to manage a global equity portfolio with the objective of replicating the performance of the FTSE All World Index benchmark. The manager is remunerated on a tiered fixed fee based on the value of assets.

6.1 Passive Global Equity – Investment Performance to 31 March 2018

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
LGIM - Gross of fees	-2.3	9.8	7.3	12.1
Net of fees¹	-2.3	9.7	7.3	12.1
FTSE World (GBP Hedged) Index	-2.4	9.7	7.3	12.1
Relative (net of fees)	0.1	0.0	0.0	0.0

Source: Northern Trust

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

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

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

The LGIM Fund outperformed its benchmark by 0.1% over the quarter to 31 March 2018. The Fund performed in line with its benchmark over the one year and three year periods respectively.

7 Majedie – UK Equity

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

7.1 Active UK Equity – Investment Performance to 31 March 2018

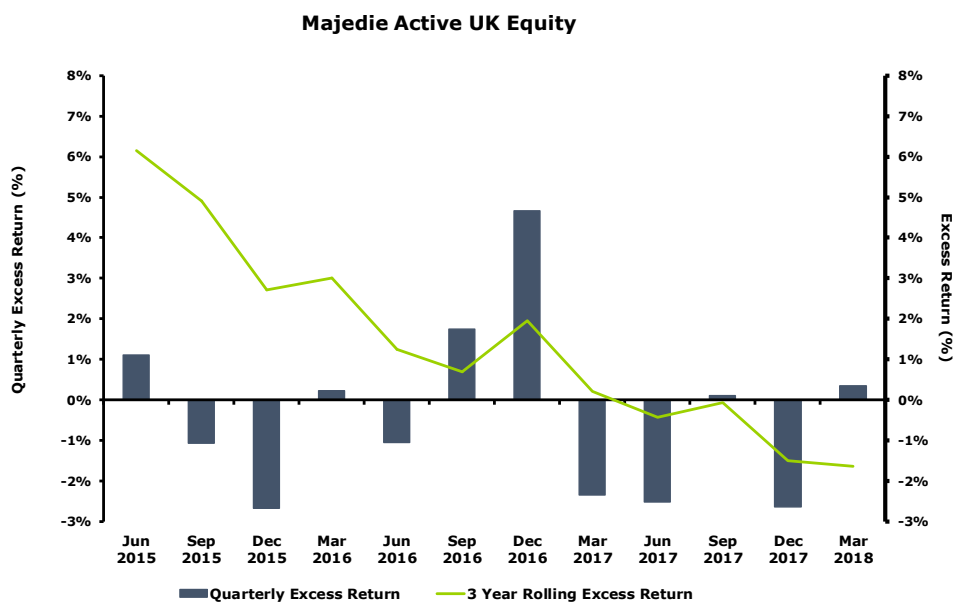
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie - Gross of fees	-6.4	-2.7	4.8	11.8
Net of fees¹	-6.5	-3.3	4.2	11.2
MSCI AC World Index	-6.9	1.3	5.9	9.9
Relative (on a net basis)	0.4	-4.6	-1.7	1.3

Source: Northern Trust

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006



Over the quarter to 31 March 2018, Majedie outperformed its benchmark by 0.4% but underperformed its benchmark over one year and three years by 4.6% and 1.7% p.a. respectively on a net of fees basis.

7.2 Performance Analysis

The top 10 holdings in the portfolio account for c. 49.5% of the Fund and are detailed below.

Top 10 holdings as at 31 March 2018	Proportion of Majedie Fund
Majedie Asset Management Special	9.6%
Royal Dutch Shell	7.4%
BP	7.0%
Tesco	5.0%
HSBC	4.7%
GlaxoSmithKline	4.0%
Vodafone	3.2%
WM Morrison	3.1%
Orange	2.8%
Centrica	2.7%
Total	49.5%

Note: The numbers in this table may not sum due to rounding.

Source: London CIV.

The tables below shows the top 5 and bottom 5 contributors to performance over the quarter to 31 March 2018.

Top 5 contributors as at 31 March 2018	Contribution
GlaxoSmithKline	+0.23
Anglo American	+0.14
Centrica	+0.09
Barclays	+0.07
Telecom Italia	+0.06

Top 5 detractors as at 31 March 2018	Contribution
HSBC	-0.61
Royal Dutch Shell	-0.59
Vodafone	-0.58
Majedie Asset Management Special	-0.47
BP	-0.45

The Fund's holdings in HSBC, Royal Dutch Shell and Vodafone provided the biggest detractions to performance over the quarter to 31 March 2018.

8 Longview – Global Equity

Longview was appointed on 15 January 2015 to manage an active global equity mandate. The manager’s remuneration is based on the value of assets invested across the Tri-borough. The expectation is that the fund will outperform the benchmark by 3% p.a.

8.1 Active Global Equity – Investment Performance to 31 March 2018

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Longview - Gross of fees	-4.2	1.3	10.5	13.1
Net of fees¹	-4.4	0.6	9.9	12.4
MSCI World Index	-4.8	1.3	10.0	11.5
Relative (on a net basis)	0.4	-0.7	-0.1	0.9

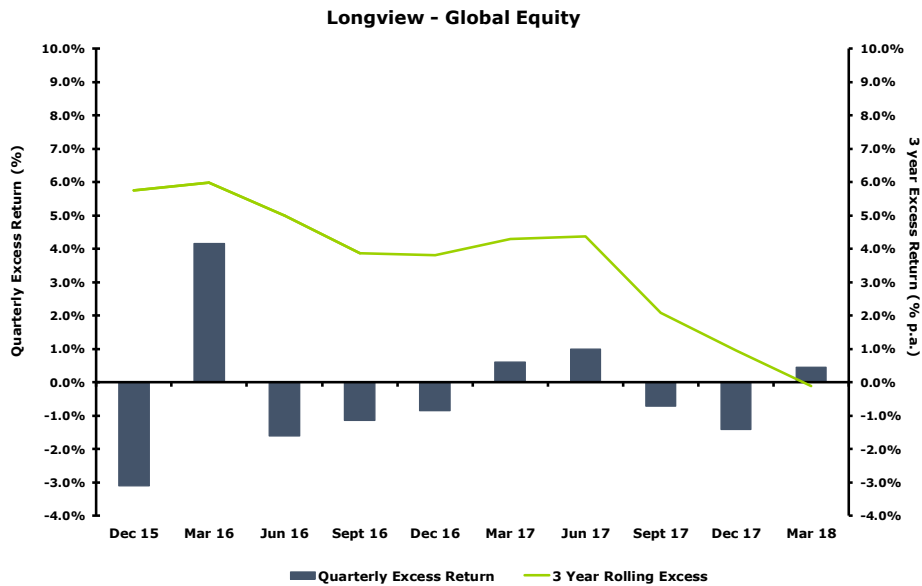
Source: Northern Trust

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date 15 January 2015

Longview outperformed its benchmark by 0.4% over the quarter to 31 March 2018 while underperforming it by 0.7% and 0.1% p.a. on a net of fees basis over the year and three year periods respectively. The Fund targets an outperformance of 3% p.a. over a three year period. The chart below shows the quarter and rolling three year returns.



8.2 Performance Analysis

The tables below represent the top 5 and bottom 5 contributors to performance over the quarter to 31 March 2018.

Top 5 contributors as at 31 March 2018		Contribution
WW Grainger		+0.95
HCA Healthcare		+0.53
Thermo Fisher Scientific		+0.38
Fiserv		+0.29
AON		+0.27

The Fund's holdings in WW Grainger, an industrial supply company founded in Chicago, produced the greatest contribution to performance over the quarter, with HCA Healthcare and Thermo Fisher Scientific also providing strong contributions. WW Grainger has also been the largest contributor over the 12 month period, contributing 1.26%.

Top 5 detractors as at 31 March 2018		Contribution
WPP		-0.50
Wells Fargo		-0.40
Sodexo		-0.40
Parker Hannifin		-0.35
Zimmer Biomet Holdings		-0.26

9 Insight – Bonds

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

9.1 Insight – Active Non Gilts Investment Performance to 31 March 2018

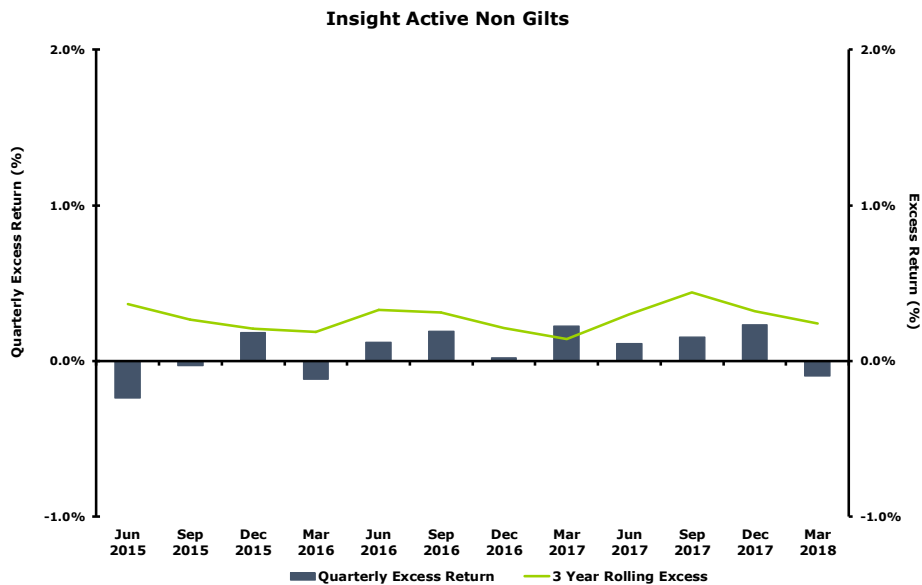
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight Non Gilts - Gross of fees	-1.1	1.7	3.5	6.7
Net of fees¹	-1.1	1.4	3.2	6.4
iBoxx £ Non-Gilt 1-15 Yrs Index	-1.1	1.0	3.0	5.7
Relative (on a net basis)	0.0	0.4	0.2	0.7

Source: Northern Trust

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006.



Over the quarter to 31 March 2018 the Non-Gilt portfolio performed in line with its benchmark on a net of fees basis. It outperformed the benchmark by 0.4% and 0.2% p.a. (net of fees) respectively over the year and three years to 31 March 2018. Performance remains below the outperformance target of 0.9% p.a. across all periods.

9.2 Insight – Government Bonds Investment Performance to 31 March 2018

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight Gilts - Gross of fees	-0.8	-0.8	1.5	2.3
Net of fees¹	-0.9	-0.9	1.4	2.2
FTSE A Gilts up to 15 Yrs Index	-0.7	-0.9	1.6	2.3
Relative (on a net basis)	-0.2	0.0	-0.2	-0.1

Source: Northern Trust

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 30 June 2008.

The gilt portfolio aims to track the benchmark and has performed broadly in-line, or within acceptable tracking levels, over all periods to 31 March 2018.

9.3 Insight – Buy and Maintain Fund

Over the quarter to 31 March 2018, the Insight mandate was restructured and transitioned to the Insight Buy and Maintain Fund, therefore Insight have been unable to provide the usual performance analysis.

Please refer to the Post Transition Report for details regarding this transition.

10 Hermes – Property

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

10.1 Property – Investment Performance to 31 March 2018

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Hermes - Gross of fees	1.9	11.3	9.9	10.3
Net of fees¹	1.8	10.9	9.5	9.9
Benchmark	2.0	10.7	9.0	8.9
Relative (on a net basis)	-0.2	0.2	0.5	1.0

Source: Hermes

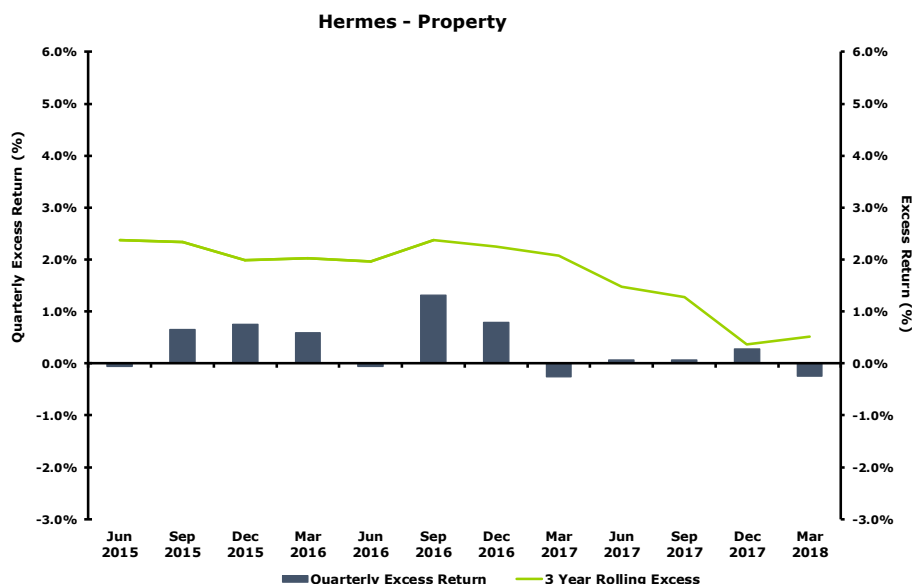
(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date is taken as 26 October 2010

Hermes underperformed the benchmark by 0.2% over the quarter on a net of fees basis, returning 1.8% in absolute terms. The strategy outperformed its benchmark by 0.2% and 0.5% p.a. (net of fees) respectively over the year and three years to 31 March 2018. It outperformed the benchmark by 1.0% p.a. since inception, and hence is ahead of the target (to outperform the benchmark by 0.5% p.a.) over the period since inception to 31 March 2018.

Key contributors to the performance over the quarter came from properties in the Industrial sector and the "Other" sector, with Rest of UK Offices also contributing positively to performance. The main detractors were the Trust's holdings in Retail Warehouses and West End Offices.



10.2 Sales and Purchases

There were no acquisitions or disposals over the first quarter of 2018.

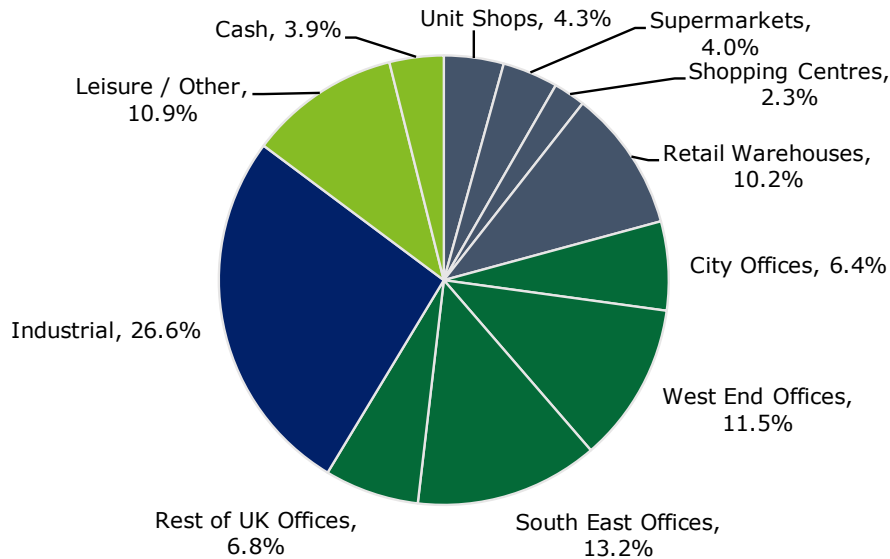
In January 2018, the Trust completed the letting of DHL Global (UK) Ltd's 38,000 sq. ft. unit at Polar Park, Bath Road, Heathrow for a 5 year term. This new lease is at a passing rent of £426,000 per annum, equating to £11.25 per sq. ft. The deal includes a tenant incentive equivalent to 50% rent reduction in 2019 with a tenant break option in 2021 on a 6 month notice.

Also, in January 2018, the Trust completed the new letting with Mountain Warehouse for a 5 year term to occupy the 5,500 sq. ft. high street unit at The Broadway, Wimbledon. The terms of the new lease with

Mountain Warehouse are at passing rent of £140,000 per annum equating to circa £160 per sq. ft. The lease include 6 month rent free tenant incentive, starting in January 2018 and a tenant break in the third year to be served with 6 months' notice, subject to a 6 month penalty.

10.3 Portfolio Summary as at 31 March 2018

The Hermes Property Unit Trust invests across retail, offices, industrials and other sectors, with the split as at 31 March 2018 shown below.



The table below shows the top 10 directly held assets in the Fund as at 31 March 2018, representing c.32.9% of the Fund.

Asset	Sub-sector	Value (£m)
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	107.5
8/10 Great George Street, London SW1	Offices	65.3
Polar Park, Bath Road, Heathrow	Industrial	51.9
27 Soho Square, London W1	Offices	44.6
Horndon Industrial Park, West Horndon, CM13	Industrials	43.8
Sainsbury's, Maxwell Road, Beaconsfield	Supermarkets	41.2
Hythe House, Hammersmith	Offices	40.8
Camden Works, Oval Road, London NW1	Offices	39.6
2 Cavendish Square, London W1	Offices	38.1
Jurys Inn Hotel, 31, Keel Wharf, Liverpool, L3 4FN	Leisure/Other	37.3
Total		510.0

11 Aberdeen Standard Investments – Long Lease Property

Aberdeen Standard Investments was appointed to manage a long lease property mandate with the aim of outperforming the FT British Government All Stocks Index benchmark by 2.0% p.a. The manager has an annual management fee.

11.1 Long Lease Property – Investment Performance to 31 March 2018

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Aberdeen Standard - Gross of fees	1.7	10.4	8.1	9.2
Net of fees¹	1.5	9.9	7.6	8.7
Benchmark	0.8	2.4	5.4	6.8
Relative (on a net basis)	0.7	7.5	2.2	1.9

Source: Aberdeen Standard Investments

(1) Estimated by Deloitte

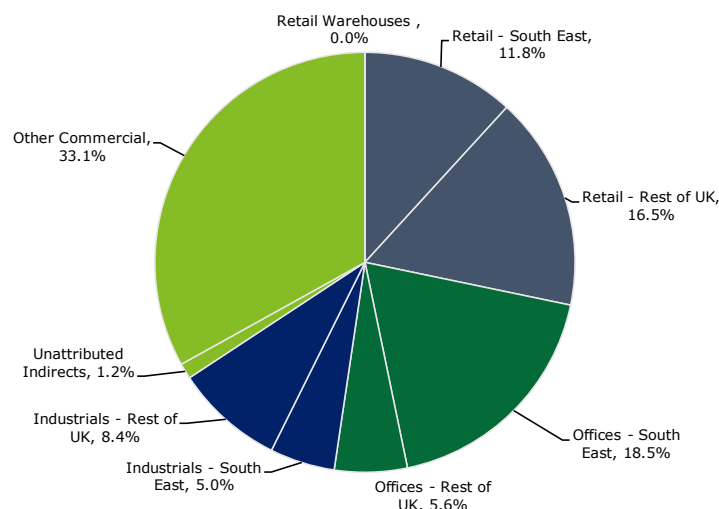
See appendix 1 for more detail on manager fees

Since inception: 14 June 2013

The ASI Long Lease Property Fund returned 1.5% net of fees over the quarter to 31 March 2018, outperforming the benchmark of the FTSE Gilt All Stocks Index + 2% by 0.7% net of fees.

11.2 Portfolio Holdings

The sector allocation in the Long Lease Property Fund as at 31 March 2018 is shown in the graph below.



The Fund’s holdings in the office sector have increased slightly from 24.0% as at 30 December 2017 to 24.1% as at 31 March 2018.

Throughout the quarter, the Fund’s industrial weight has increased from 13.2% to 13.4%, while the “other” weighting has decreased from 34.4% to 34.3%.

The table below shows details of the top ten tenants in the Fund measured by percentage of net rental income:

Tenant	Total Rent £m p.a.	% Net Income
Tesco	8.2	8.9
Whitbread	6.4	7.0
Sainsbury's	5.0	5.4
Marston's	4.9	5.3
Asda	4.4	4.8
QVC	4.0	4.4
Salford University	3.9	4.2
Save The Children	3.8	4.1
Steinhoff	3.6	3.9
Glasgow City Council	3.5	3.8
Total	47.7	51.7 *

*Total may not equal sum of values due to rounding

The top 10 tenants contribute 51.7% of the total net income into the Fund. Supermarkets continue to dominate with Tesco, Sainsbury's and Asda contributing 19.1% to the Fund's total net rental income as at 31 March 2018.

The Fund's average unexpired lease term decreased over the quarter from 27.0 years to 26.7 years.

The Fund continues to have a high level of inflation-linkage, with the vast majority of income linked to RPI, CPI or fixed increases in rent.

11.3 Sales and Purchases

The first quarter of 2018 was a relatively quiet period for activity with the purchase of two data centers and no sales:

- The Fund acquired two linked data centers in the London Docklands area in an off market transaction for a combined purchase price of £56.5m, representing an initial yield of 4.2%. The properties are let to US data center operator, Digital Realty Trust, on a 30 year lease with 2.5% p.a. rent increases compounded every 5 years. The fund manager was attracted to this investment by its strong covenant and diversification benefits it brings to the wider portfolio. The assets also have an attractive location, and the nature of the buildings offers potential to convert to alternative uses which should support its future realisable value.
- ASI are also pursuing a strong pipeline with a number of transactions currently going through the legal review stage, and the fund manager hopes to make progress on these over the next quarter.

Appendix 1 – Fund and Manager Benchmarks

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

Total Fund

Inception: 1 June 2006. Current benchmark allocation effective from 25 March 2015.

Manager	Asset Class	Long Term Strategic Benchmark Allocation	Benchmark	Outperformance Target	Inception Date	Fees (p.a.)	Tracking Error p.a.
Majedie	UK Equity	20.0	FTSE All-Share Index	+2.0 p.a. (net of fess)	31/05/06	c.35bps base fees +20 performance fee on 1 outperformance over 3 year rolling	2.0-6.0
LGIM	Global Equity	20.0	FTSE World GBP Hedged	Passive	01/11/12	13bps base fees	+/- 0.5
Baillie Gifford	Global Equity	25.0	MSCI AC World Index	+2.0 p.a. (net of fess)	18/03/14	36bps base fee	
Longview	Global Equity		MSCI World (GBP) Index	To outperform the benchmark over a market cycle	15/01/15	75bps base fees minus a rebate dependent on fund size	
Insight	Fixed Interest Gilts	-	FTSE GILTS up to 15 Yrs Index	Passive	31/05/06	10bps base fees	
	Non-Gilts	20.0	iBoxx £ Non-Gilt 1-15 Yrs Index	+ 0.90 p.a. (gross fees)	31/05/06	c.24bps base fee	0 - 3.0
Hermes	Property	5.0	IPD UK PPFI Balanced PUT Index	+0.5 p.a. (net of fess)	26/10/10	40bps base fee	
Aberdeen Standard Investments	Property	5.0	FTSE Gilts All Stocks Index +2% p.a.	+0.5 p.a. (net of fess)	14/06/13	50bps on first £25m, 40bps on next £25m, 30bps thereafter	
To be determined	Property / Infrastructure	5.0					
	Total	100.0					

For the purposes of our performance calculations we have assumed the 5% awaiting allocation to property / infrastructure is split evenly between Majedie and LGIM.

Appendix 2 – Manager Ratings

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

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

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

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

Appendix 3 – MiFID II Cost Summary

On 3 January 2018, the Markets in Financial Instruments Directive II (“MiFID II”) was introduced. A key component of this legislation is for fund managers to disclose all costs incurred, with the view to increasing transparency.

Annual disclosure is required; however we propose monitoring this on a quarterly basis. As at the date of this report, some managers were unable to provide a full breakdown of finalised monetary costs and therefore the table below has not been populated. Once we have received information from all managers, we will follow up with this and will include this level of detail in future reporting.

Fund management costs	AMC p.a.	Other expenses p.a.	TER p.a.	Performance fees* p.a.	Total Costs over quarter GBP
Majedie					
LGIM					
Baillie Gifford					
Longview					
Insight Buy and Maintain					
Hermes					
Aberdeen Standard Investments					
Deloitte					
Total					

*Performance fees are estimated by managers on an annual basis.

Appendix 4 – Risk warnings & Disclosures

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

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City of Westminster Pension Fund

Funding update report as at 31 March 2018

Barnett Waddingham LLP

1 May 2018

Version 1

RESTRICTED

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Introduction

Westminster City Council, as administering authority for the City of Westminster Pension Fund (the Fund), has asked that we carry out a quarterly monitoring assessment of the Fund as at 31 March 2018. The purpose of this assessment is to provide an update on the funding position.

The Fund participates in the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit statutory scheme administered in accordance with Local Government Pension Scheme Regulations 2013 (the Regulations).

The information in this report is addressed to and is provided for use by Westminster City Council as the administering authority to the Fund. This report may be shared with other interested parties but it does not constitute advice to them.

This report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300) as issued by the Financial Reporting Council (FRC).

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

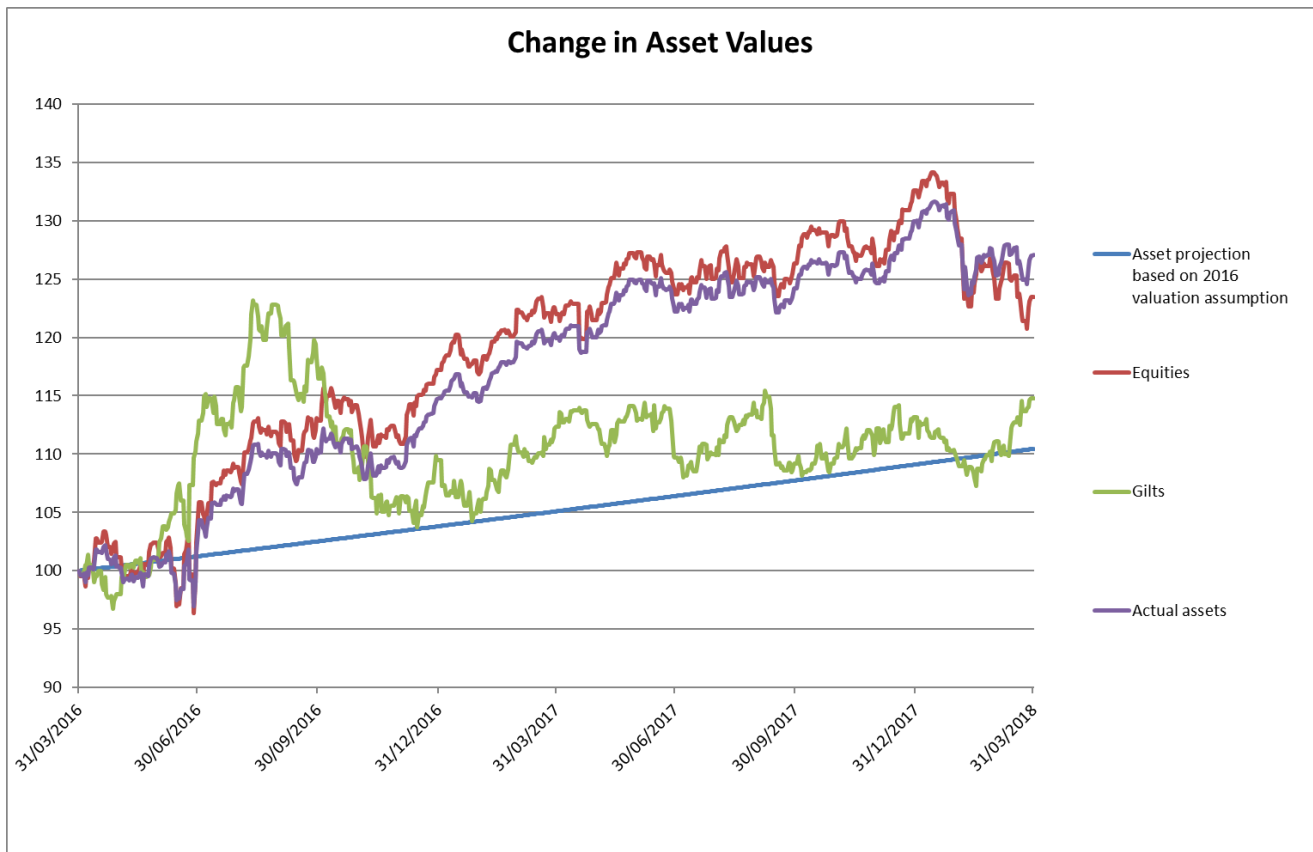
Assets

The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 31 March 2018, based on data received from Westminster City Council, is as follows:

Assets (market value)	31 Mar 2018		31 Dec 2017		31 Mar 2016	
	£000s	%	£000s	%	£000s	%
UK and overseas equities	1,008,867	75.5%	1,051,938	77.0%	790,289	74.1%
Bonds	183,879	13.8%	136,722	10.0%	130,390	12.2%
Property	120,667	9.0%	119,067	8.7%	105,811	9.9%
Gilts	0	-	45,805	3.4%	26,733	2.5%
Cash and accruals	22,564	1.7%	13,039	1.0%	13,120	1.2%
Total assets	1,335,977	100%	1,366,571	100%	1,066,343	100%

The investment return achieved by the Fund's assets in market value terms for the quarter to 31 March 2018 is estimated to be -2.2%. The return achieved since the previous valuation is estimated to be 27.1% (which is equivalent to 12.7% p.a.).

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



As we can see the asset value as at 31 March 2018 in market value terms is more than where it was projected to be at the previous valuation.

Changes in market conditions – market yields and discount rates

The actual investment returns earned by the Fund will affect the value of the Fund’s assets. The value of the Fund’s liabilities, however, is dependent on the assumptions used to value the future benefits payable.

For the purpose of this exercise it is appropriate to use the method and assumptions consistent with those set by the Fund actuary for the purpose of the 31 March 2016 actuarial valuation, updated where necessary to reflect market conditions. Further details of the derivation of the financial and demographic assumptions can be found in the relevant actuarial valuation report.

Please note that from 15 May 2017 to 3 July 2017 the Bank of England (BoE) temporarily suspended the publication of their implied inflation curve (on which our RPI increase assumption, and so our CPI increase assumption, is based) while they carried out a review of their methodology. The BoE resumed publication of the

implied inflation curve from 3 July 2017, however, they have also revised previous publications dating back to 1 January 2017. Our assumptions below take into account the new methodology from 1 January 2017.

The following table show how the main financial assumptions have changed since the last triennial valuation:

Assumptions (smoothed)	31 Mar 2018		31 Dec 2017		31 Mar 2016	
	Nominal	Real	Nominal	Real	Nominal	Real
	% p.a.		% p.a.		% p.a.	
Pension increases (CPI)	2.68%	-	2.72%	-	2.39%	-
Salary increases	4.18%	1.50%	4.22%	1.50%	3.89%	1.50%
Discount rate	5.16%	2.48%	5.15%	2.43%	5.10%	2.71%

In addition to that, it is assumed that salaries increase in line with CPI until 31 March 2020.

The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. Consistent with the method adopted for the 31 March 2016 valuation, we have included in the main discount rate assumption an explicit prudence allowance of 1.1%.

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As we see, the real discount rate is lower than at the 31 March 2016 valuation, increasing the value of liabilities used for funding purposes.

Results

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

It is not possible to assess the accuracy of the estimated liability as at 31 March 2018 without completing a full valuation, however, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2018 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation.

The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 March 2018 is 92.2% and the average required employer contribution would be 23.8% of payroll assuming the deficit is to be paid by 2038.
- This compares with the reported (smoothed) funding level of 80.0% and average required employer contribution of 29.1% of payroll at the 31 March 2016 funding valuation.

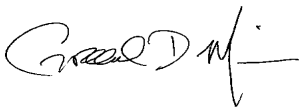
The main discount rate underlying the smoothed funding level as at 31 March 2018 is 5.2% p.a. The investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 5.6% p.a.

Final comments

There are many factors that affect the Fund's funding position and could lead to the Fund's funding objectives not being met within the timescales expected. Some of the key risks that could have a material impact on the Fund include longevity risk and financial risks (including inflation and investment risk). There is more detail on this contained within the Fund's Funding Strategy Statement and the 31 March 2016 actuarial valuation report.

Note that the funding position at a future date will be dependent on the investment performance of the Fund as well as future market conditions which determine the financial assumptions.

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



Graeme D Muir FFA
Partner
Barnett Waddingham LLP

Appendix 1 Financial position since previous valuation

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

Please note that the results shown below are sensitive to the underlying assumptions. For example, increasing the discount rate assumption by 0.5% will increase the funding level by about 8%, and increasing the CPI inflation assumption by 0.5% will reduce the funding level by about 8%.

Valuation date	Assets £000s	Liabilities £000s	Surplus / Deficit £000s	Funding level %	CARE ongoing cost (% of payroll)	Past service ctbn	Total ctbn (% of payroll)	Discount rate	Return required to restore funding level (p.a.)
31 Mar 2016	1,056,747	1,320,797	(264,050)	80%	16.9%	12.2%	29.1%	5.1%	6.1%
30 Apr 2016	1,069,289	1,336,290	(267,001)	80%	17.2%	12.5%	29.7%	5.0%	6.0%
31 May 2016	1,088,792	1,361,959	(273,167)	80%	17.7%	12.8%	30.5%	4.9%	5.9%
30 Jun 2016	1,103,684	1,383,592	(279,908)	80%	18.2%	13.0%	31.2%	4.8%	5.9%
31 Jul 2016	1,121,960	1,404,218	(282,258)	80%	18.6%	13.1%	31.7%	4.8%	5.8%
31 Aug 2016	1,133,402	1,420,778	(287,376)	80%	18.9%	13.3%	32.2%	4.8%	5.9%
30 Sep 2016	1,150,014	1,437,397	(287,383)	80%	19.3%	13.2%	32.5%	4.9%	5.9%
31 Oct 2016	1,172,816	1,449,340	(276,524)	81%	19.4%	12.7%	32.1%	4.9%	5.9%
30 Nov 2016	1,185,339	1,456,336	(270,997)	81%	19.5%	12.5%	32.0%	5.0%	6.0%
31 Dec 2016	1,206,192	1,462,395	(256,203)	82%	19.5%	11.8%	31.3%	5.1%	6.0%
31 Jan 2017	1,217,761	1,466,656	(248,895)	83%	19.5%	11.5%	31.0%	5.1%	6.0%
28 Feb 2017	1,237,696	1,476,136	(238,440)	84%	19.7%	11.1%	30.8%	5.1%	5.9%
31 Mar 2017	1,261,355	1,484,995	(223,640)	85%	19.8%	10.4%	30.2%	5.0%	5.8%
30 Apr 2017	1,272,195	1,484,855	(212,660)	86%	19.7%	9.6%	29.3%	5.0%	5.8%
31 May 2017	1,291,739	1,484,670	(192,931)	87%	19.6%	8.7%	28.3%	5.0%	5.7%
30 Jun 2017	1,297,593	1,481,734	(184,141)	88%	19.4%	8.4%	27.8%	5.0%	5.7%
31 Jul 2017	1,305,713	1,480,544	(174,831)	88%	19.2%	8.0%	27.2%	5.0%	5.7%
31 Aug 2017	1,309,876	1,477,911	(168,035)	89%	19.1%	7.7%	26.8%	5.1%	5.7%
30 Sep 2017	1,313,109	1,477,612	(164,503)	89%	19.0%	7.6%	26.6%	5.1%	5.7%
31 Oct 2017	1,328,003	1,482,240	(154,237)	90%	19.0%	7.1%	26.1%	5.1%	5.6%
30 Nov 2017	1,325,817	1,479,492	(153,675)	90%	18.8%	7.1%	25.9%	5.1%	5.7%
31 Dec 2017	1,330,352	1,476,509	(146,157)	90%	18.6%	6.8%	25.4%	5.1%	5.7%
31 Jan 2018	1,340,973	1,475,143	(134,170)	91%	18.5%	6.3%	24.8%	5.1%	5.6%
28 Feb 2018	1,350,845	1,476,443	(125,598)	91%	18.4%	5.9%	24.3%	5.1%	5.6%
31 Mar 2018	1,360,476	1,476,096	(115,620)	92%	18.3%	5.5%	23.8%	5.2%	5.6%

Appendix 2 Data and assumptions

Data

In completing our calculations for pension accounting purposes we have used the following items of data, which we received from Westminster City Council:

- The results of the valuation as at 31 March 2016 which was carried out for funding purposes;
- Estimated whole Fund income and expenditure items for the period to 31 March 2018; and
- Estimated Fund returns based on Fund asset statements provided to 31 March 2018, and Fund income and expenditure as noted above.

The data has been checked for reasonableness and we are happy that the data is sufficient for the purpose of this report.

Full details of the benefits being valued are as set out in the Regulations as amended and summarised on the LGPS [website](#) and the Fund's membership booklet. We have made no allowance for discretionary benefits.

Assumptions

For the purpose of this exercise it is appropriate to use the method and assumptions consistent with those set by the Fund actuary for the purpose of the 31 March 2016 actuarial valuation, updated where necessary to reflect market conditions.

A summary of the main financial assumptions adopted is set out in the main body of this report.

The main demographic assumptions are:

- The post retirement mortality tables adopted are the S2PA tables with a multiplier of 80% for males and 85% for females. These base tables are then projected using the CMI 2015 Model, allowing for a long term rate of improvement of 1.5% p.a;
- The dependant post retirement mortality tables adopted are the S2PMA tables with a multiplier of 95% for males and the S2DFA tables with a multiplier of 100% for females. These base tables are then projected using the CMI 2015 Model, allowing for a long term rate of improvement of 1.5% p.a;
- Members retire at a single age, based on the average age at which they can take each tranche of their pension; and
- It is assumed that members will exchange 50% of their commutable pension for cash at retirement.

Further details of the derivation of the financial and demographic assumptions can be found in the relevant actuarial valuation report.



City of Westminster

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	21 June 2018
Classification:	General Release
Title:	Fund Financial Management
Wards Affected:	All
Policy Context:	Effective control over Council Activities
Financial Summary:	There are no immediate financial implications arising from this report.
Report of:	Steven Mair <i>City Treasurer</i> smair@westminster.gov.uk 020 7641 2904

1. Executive Summary

- 1.1 The risk register narrative has been updated to reflect minor operational changes. The cash flow forecast has been updated for the next three years with actuals to 31 May 2018. The updated forward plan to 31 March 2019 is attached at Appendix 4 with a draft forward plan for the upcoming year 2019/20 at Appendix 5. The pension fund costs have also been provided for the past three financial years.

2. Recommendations

- 2.1 The Committee is asked to note the risk register for the Pension Fund.
- 2.2 The Committee is asked to note the cash flow position and three year forecast.
- 2.3 The Committee is asked to note the forward plan and comment on the draft forward plan for 2019/20.
- 2.4 The committee is asked to note the pension fund costs for 2017/18 and the two preceding years.

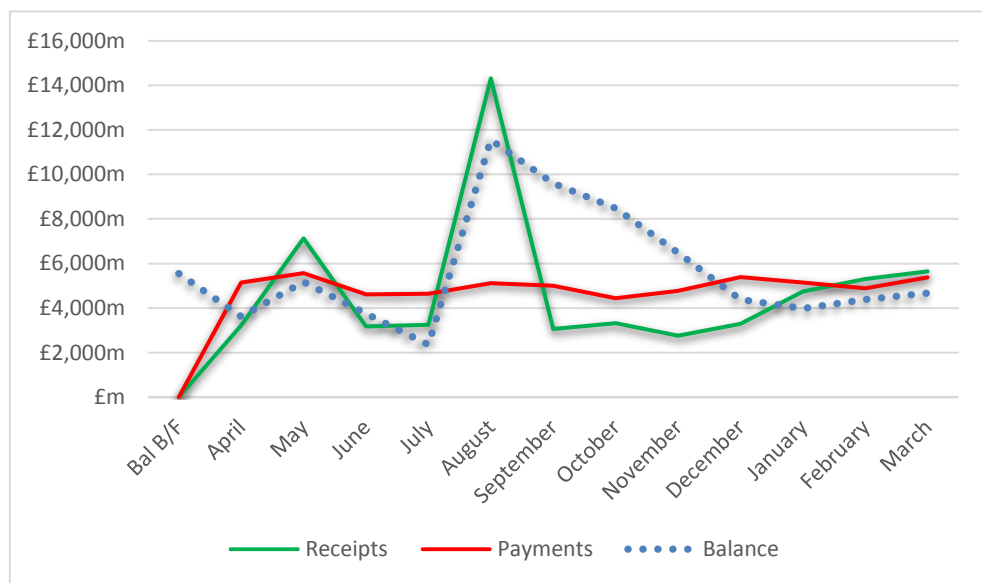
3. Risk Register Monitoring

3.1 The risk register narrative has been updated to reflect the changes since last quarter surrounding the BT contract wind down and Surrey CC pension administration arrangements. As a result, there have been no amendments to the risk ratings of numbers 26 and 27.

4. Cashflow Monitoring

4.1 The balance on the pension fund bank account at 31 March 2018 was £4.7 million.

4.2 The table below changes in the bank balance from 1 April 2017 to 31 March 2018.



4.3 Officers will continue to keep the cash balance on under review and take appropriate action where necessary.

5. Forward Plan

5.1 The forward plan attached at Appendix 4 has been reviewed and amended for the March 2018 Committee. A draft plan for 2018/19 has been attached at Appendix 5 for comment.

6. Pension Fund Costs

6.1 Appendix 6 provides a full breakdown of the costs incurred by the fund in relation to professional, investment management, central and advisory for the financial years 2015/16, 2016/17 and 2017/18.

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

Damien Pantling pensionfund@westminster.gov.uk or 0207 641 2884

BACKGROUND PAPERS: None

APPENDICES:

- Appendix 1 – Tri-Borough Risk Management Scoring Matrix
- Appendix 2 – Pension Fund Risk Register Review, June 2018
- Appendix 3 – Cash Flow Monitoring, March 2018
- Appendix 4 – Pension Fund Forward Plan, April 2018 to March 2019
- Appendix 5 – Draft Pension Fund Forward Plan, 2019/20
- Appendix 6 – Pension Fund costs

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Appendix 1 - Tri Borough Risk Management Scoring Matrix

Scoring (Impact)

Impact Description	Category	Description
1 Very Low	Cost/Budgetary Impact	£0 to £25,000
	Impact on life	Temporary disability or slight injury or illness less than 4 weeks (internal) or affecting 0-10 people (external)
	Environment	Minor short term damage to local area of work.
	Reputation	Decrease in perception of service internally only – no local media attention
	Service Delivery	Failure to meet individual operational target – Integrity of data is corrupt no significant effect
2 Low	Cost/Budgetary Impact	£25,001 to £100,000
	Impact on life	Temporary disability or slight injury or illness greater than 4 weeks recovery (internal) or greater than 10 people (external)
	Environment	Damage contained to immediate area of operation, road, area of park single building, short term harm to the immediate ecology or community
	Reputation	Localised decrease in perception within service area – limited local media attention, short term recovery
	Service Delivery	Failure to meet a series of operational targets – adverse local appraisals – Integrity of data is corrupt, negligible effect on indicator
3 Medium	Cost/Budgetary Impact	£100,001 to £400,000
	Impact on life	Permanent disability or injury or illness
	Environment	Damage contained to Ward or area inside the borough with medium term effect to immediate ecology or community
	Reputation	Decrease in perception of public standing at Local Level – media attention highlights failure and is front page news, short to medium term recovery
	Service Delivery	Failure to meet a critical target – impact on an individual performance indicator – adverse internal audit report prompting timed improvement/action plan - Integrity of data is corrupt, data falsely inflates or reduces outturn of indicator
4 High	Cost/Budgetary Impact	£400,001 to £800,000
	Impact on life	Individual Fatality
	Environment	Borough wide damage with medium or long term effect to local ecology or community
	Reputation	Decrease in perception of public standing at Regional level – regional media coverage, medium term recovery
	Service Delivery	Failure to meet a series of critical targets – impact on a number of performance indicators – adverse external audit report prompting immediate action - Integrity of data is corrupt, data falsely inflates or reduces outturn on a range of indicators
5 Very High	Cost/Budgetary Impact	£800,001 and over
	Impact on life	Mass Fatalities
	Environment	Major harm with long term effect to regional ecology or community
	Reputation	Decrease in perception of public standing nationally and at Central Government – national media coverage, long term recovery
	Service Delivery	Failure to meet a majority of local and national performance indicators – possibility of intervention/special measures – Integrity of data is corrupt over a long period, data falsely inflates or reduces outturn on a range of indicators

Scoring (Likelihood)

Descriptor	Likelihood Guide
1. Improbable, extremely unlikely	Virtually impossible to occur 0 to 5% chance of occurrence.
2. Remote possibility	Very unlikely to occur 6 to 20% chance of occurrence
3. Occasional	Likely to occur 21 to 50% chance of occurrence
4. Probable	More likely to occur than not 51% to 80% chance of occurrence
5. Likely	Almost certain to occur 81% to 100% chance of occurrence




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Appendix 2: Pension Fund Risk Register, June 2018



Changes to the risk register since previous quarter



Type	Ref	Risk	Rationale
<p>OPERATIONAL: ADMINISTRATION Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.</p>	26	<ul style="list-style-type: none"> Surrey CC administers pensions for Surrey, East Sussex and is taking on our Triborough partners. The majority of WCC cases are handled by the team in East Sussex. Service has been excellent since this change was made. 	Risk register narrative has been updated to reflect the changes since last quarter – now more cases are being handles by the East Sussex team.
<p>Operational: Administration BT contract wind down could lead to problems for retirements in 18/19 where data is on two different systems. All returns must be completed prior to BT contract ceasing. The move to Hampshire CC due in October 2018 and ensuring that key working practices continue such as the pension interface will be a Key to reduce risks to members.</p>	27	<ul style="list-style-type: none"> People Services are working with HCC and BT to ensure service transfer is smooth as possible. 17/18 LGPS files being checked by People Services in June 2018. 	Risk register narrative has been updated to reflect the changes since last quarter – Update on Hampshire transfer progress.




Pension Fund risk register, March 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
1	STRATEGIC: INVESTMENT That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	<ul style="list-style-type: none"> Investment strategy in place and reviewed periodically. Performance is measured against a liability based benchmark. Fund performance is reviewed quarterly. 	2	5		Low 10 	City Treasurer	January 2018
2	STRATEGIC: INVESTMENT Fund managers fail to achieve the returns agreed in their management agreements.	<ul style="list-style-type: none"> Independent monitoring of fund manager performance by custodian against targets. Investment adviser retained to keep watching brief. Fund manager performance is reviewed quarterly. 	3	4		Medium 12 	City Treasurer	January 2018
3	STRATEGIC: INVESTMENT Failure of custodian or counterparty.	<ul style="list-style-type: none"> 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	January 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
4	STRATEGIC: FUNDING The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	<ul style="list-style-type: none"> Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises. 	3	4		Medium 12 	City Treasurer	January 2018
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.	<ul style="list-style-type: none"> Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. Cashflow requirement is a factor in current investment strategy review. 	1	4		Low 4 	City Treasurer	January 2018
6	STRATEGIC: FUNDING Scheme members live longer than expected leading to higher than expected liabilities.	<ul style="list-style-type: none"> Review at each triennial valuation and challenge actuary as required. 	3	4		Medium 12 	City Treasurer	January 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
7	STRATEGIC: FUNDING Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	<ul style="list-style-type: none"> 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		4	Low 8 	City Treasurer	June 2018
8	STRATEGIC: REGULATION Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	<ul style="list-style-type: none"> 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	3		Low 9 	City Treasurer and Director of People Services	June 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
9	<p>STRATEGIC: REGULATION Introduction of European Directive MiFID II results is a restriction of Fund's investment options and an increase in costs</p>	<ul style="list-style-type: none"> Officers are engaging with the Local Government Association and 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. 	3	5		<p>Medium</p> <p>15</p> 	City Treasurer	June 2018
10	<p>STRATEGIC: REGULATION Loss of 'elective Professional Status' with any or all of existing Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund's investment options.</p>	<ul style="list-style-type: none"> Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements training programme and log in place to ensure knowledge and understanding is kept up to date Existing and new Officer appointments subject to requirements for professional qualifications and CPD. 	2	5		<p>Low</p> <p>10</p> 	City Treasurer	June 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
11	STRATEGIC: REGULATION Loss of flexibility to engage with Fund Managers that the fund has not 'opted up' with regard to new products, resulting in reduced knowledge about investment opportunities that may benefit the fund. (The Fund is a retail client to counterparties unless opted up)	<ul style="list-style-type: none"> • More reliance on investment advisor to keep Officers and Committee updated. • Officers are considering other financial institution outside of the current mandates to 'opt up' with • Maintaining up to date information about the fund on relevant platforms. • Fund can opt up with prospective clients. 	5	2		Low 10 	City Treasurer	June 2018
12	OPERATIONAL: GOVERNANCE Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	<ul style="list-style-type: none"> • Officers maintain knowledge of legal framework for routine decisions. • Eversheds retained for consultation on non-routine matters. 	2	4		Low 8 	City Treasurer	June 2018
13	OPERATIONAL: GOVERNANCE Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	<ul style="list-style-type: none"> • External professional advice is sought where required • Knowledge and skills policy in place (subject to Committee Approval) 	3	3		Low 9 	City Treasurer	June 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
14	<p>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.</p>	<ul style="list-style-type: none"> 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		<p>Low 9</p> 	City Treasurer and Director of People Services	June 2018
15	<p>OPERATIONAL: GOVERNANCE Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.</p>	<ul style="list-style-type: none"> 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	4		<p>Low 8</p> 	City Treasurer	June 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
16	<p>OPERATIONAL: GOVERNANCE London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.</p>	<ul style="list-style-type: none"> Pension Fund Committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV. 	3	4		<p>Medium</p> <p>12</p> 	City Treasurer	June 2018
17	<p>OPERATIONAL: FUNDING Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.</p>	<ul style="list-style-type: none"> 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	4		<p>Medium</p> <p>12</p> 	City Treasurer and Director of People Services	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
18	<p>OPERATIONAL: FUNDING Ill health costs may exceed “budget” allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.</p>	<ul style="list-style-type: none"> 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. 	2	2		<p>Low</p> <p>4</p> 	City Treasurer and Director of People Services	June 2018
19	<p>OPERATIONAL: FUNDING Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.</p>	<ul style="list-style-type: none"> 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	1		<p>Low</p> <p>2</p> 	City Treasurer and Director of People Services	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
20	<p>OPERATIONAL: ADMINISTRATION Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.</p>	<ul style="list-style-type: none"> • 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	4		<p>High</p> <p>16</p> 	City Treasurer and Director of People Services	June 2018
21	<p>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.</p>	<ul style="list-style-type: none"> • Contract monitoring in place with all providers. • Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 	2	5		<p>Low</p> <p>10</p> 	City Treasurer and Director of People Services	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
22	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.	<ul style="list-style-type: none"> 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 	2		5	Low 10 	City Treasurer	June 2018
23	OPERATIONAL: ADMINISTRATION Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	<ul style="list-style-type: none"> 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	Low 5 	Director of People Services	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
24	OPERATIONAL: ADMINISTRATION Failure to pay pension benefits accurately leading to under or over payments.	<ul style="list-style-type: none"> 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 	Director of People Services	June 2018
25	OPERATIONAL: ADMINISTRATION Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	<ul style="list-style-type: none"> 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	Low 5 	Director of People Services	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
26	<p>OPERATIONAL: ADMINISTRATION Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.</p>	<ul style="list-style-type: none"> Surrey CC administers pensions for Surrey, East Sussex and is taking on our Triborough partners. The majority of WCC cases are handled by the team in East Sussex. Service has been excellent since this change was made. 	3		3	<p>Low</p> <p>9</p> 	Director of People Services	June 2018
27	<p>Operational: Administration BT contract wind down could lead to problems for retirements in 18/19 where data is on two different systems. All returns must be completed prior to BT contract ceasing. The move to Hampshire CC due in October 2018 and ensuring that key working practices continue such as the pension interface will be a Key to reduce risks to members.</p>	<ul style="list-style-type: none"> People Services are working with HCC and BT to ensure service transfer is smooth as possible. 17/18 LGPS files being checked by People Services in June 2018. 	3		5	<p>Medium</p> <p>15</p> 	Director of People Services	June 2018




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Appendix 3: Pension Fund Risk Register, June 2018



Changes to the risk register since previous quarter



Type	Ref	Risk	Rationale




Pension Fund risk register, March 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
1	STRATEGIC: INVESTMENT That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	<ul style="list-style-type: none"> Investment strategy in place and reviewed periodically. Performance is measured against a liability based benchmark. Fund performance is reviewed quarterly. 	2	5		Low 10 	City Treasurer	January 2018
2	STRATEGIC: INVESTMENT Fund managers fail to achieve the returns agreed in their management agreements.	<ul style="list-style-type: none"> Independent monitoring of fund manager performance by custodian against targets. Investment adviser retained to keep watching brief. Fund manager performance is reviewed quarterly. 	3	4		Medium 12 	City Treasurer	January 2018
3	STRATEGIC: INVESTMENT Failure of custodian or counterparty.	<ul style="list-style-type: none"> 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	January 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
4	STRATEGIC: FUNDING The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	<ul style="list-style-type: none"> Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises. 	3	4		Medium 12 	City Treasurer	January 2018
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.	<ul style="list-style-type: none"> Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. Cashflow requirement is a factor in current investment strategy review. 	1	4		Low 4 	City Treasurer	January 2018
6	STRATEGIC: FUNDING Scheme members live longer than expected leading to higher than expected liabilities.	<ul style="list-style-type: none"> Review at each triennial valuation and challenge actuary as required. 	3	4		Medium 12 	City Treasurer	January 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
7	<p>STRATEGIC: FUNDING Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.</p>	<ul style="list-style-type: none"> 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		4	<p>Low 8</p> 	City Treasurer	June 2018
8	<p>STRATEGIC: REGULATION Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.</p>	<ul style="list-style-type: none"> 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	3		<p>Low 9</p> 	City Treasurer and Director of People Services	June 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
9	<p>STRATEGIC: REGULATION Introduction of European Directive MiFID II results is a restriction of Fund's investment options and an increase in costs</p>	<ul style="list-style-type: none"> Officers are engaging with the Local Government Association and 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. 	3	5		<p>Medium</p> <p>15</p> 	City Treasurer	June 2018
10	<p>STRATEGIC: REGULATION Loss of 'elective Professional Status' with any or all of existing Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund's investment options.</p>	<ul style="list-style-type: none"> Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements training programme and log in place to ensure knowledge and understanding is kept up to date Existing and new Officer appointments subject to requirements for professional qualifications and CPD. 	2	5		<p>Low</p> <p>10</p> 	City Treasurer	June 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
11	STRATEGIC: REGULATION Loss of flexibility to engage with Fund Managers that the fund has not 'opted up' with regard to new products, resulting in reduced knowledge about investment opportunities that may benefit the fund. (The Fund is a retail client to counterparties unless opted up)	<ul style="list-style-type: none"> • More reliance on investment advisor to keep Officers and Committee updated. • Officers are considering other financial institution outside of the current mandates to 'opt up' with • Maintaining up to date information about the fund on relevant platforms. • Fund can opt up with prospective clients. 	5	2		Low 10 	City Treasurer	June 2018
12	OPERATIONAL: GOVERNANCE Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	<ul style="list-style-type: none"> • Officers maintain knowledge of legal framework for routine decisions. • Eversheds retained for consultation on non-routine matters. 	2	4		Low 8 	City Treasurer	June 2018
13	OPERATIONAL: GOVERNANCE Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	<ul style="list-style-type: none"> • External professional advice is sought where required • Knowledge and skills policy in place (subject to Committee Approval) 	3	3		Low 9 	City Treasurer	June 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
14	<p>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.</p>	<ul style="list-style-type: none"> 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		<p>Low 9</p> 	City Treasurer and Director of People Services	June 2018
15	<p>OPERATIONAL: GOVERNANCE Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.</p>	<ul style="list-style-type: none"> 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	4		<p>Low 8</p> 	City Treasurer	June 2018



Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
16	<p>OPERATIONAL: GOVERNANCE London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.</p>	<ul style="list-style-type: none"> Pension Fund Committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV. 	3	4		<p>Medium</p> <p>12</p> 	City Treasurer	June 2018
17	<p>OPERATIONAL: FUNDING Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.</p>	<ul style="list-style-type: none"> 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	4		<p>Medium</p> <p>12</p> 	City Treasurer and Director of People Services	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
18	<p>OPERATIONAL: FUNDING Ill health costs may exceed “budget” allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.</p>	<ul style="list-style-type: none"> 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. 	2	2		<p>Low</p> <p>4</p> 	City Treasurer and Director of People Services	June 2018
19	<p>OPERATIONAL: FUNDING Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.</p>	<ul style="list-style-type: none"> 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	1		<p>Low</p> <p>2</p> 	City Treasurer and Director of People Services	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
20	<p>OPERATIONAL: ADMINISTRATION Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.</p>	<ul style="list-style-type: none"> • 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	4		<p>High</p> <p>16</p> 	City Treasurer and Director of People Services	June 2018
21	<p>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.</p>	<ul style="list-style-type: none"> • Contract monitoring in place with all providers. • Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 	2	5		<p>Low</p> <p>10</p> 	City Treasurer and Director of People Services	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
22	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.	<ul style="list-style-type: none"> 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 	2		5	Low 10 	City Treasurer	June 2018
23	OPERATIONAL: ADMINISTRATION Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	<ul style="list-style-type: none"> 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	Low 5 	Director of People Services	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
24	OPERATIONAL: ADMINISTRATION Failure to pay pension benefits accurately leading to under or over payments.	<ul style="list-style-type: none"> 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 	Director of People Services	June 2018
25	OPERATIONAL: ADMINISTRATION Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	<ul style="list-style-type: none"> 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	Low 5 	Director of People Services	June 2018

Ref	Risk	Mitigating Actions	Residual risk score			Risk Rating	Officer responsible	Next Review Date
			Likelihood	Impact £'s	Impact No's			
26	<p>OPERATIONAL: ADMINISTRATION Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.</p>	<ul style="list-style-type: none"> 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 tupe 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. 	3		3	<p>Low</p> <p>9</p> 	Director of People Services	June 2018
27	<p>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 valuations and notifications to starters and leavers.</p>	<ul style="list-style-type: none"> 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 	3		5	<p>Medium</p> <p>15</p> 	Director of People Services	June 2018

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Appendix 3: CASHFLOW MONITORING

Three Year Cashflow Forecast for 2018/19 - 2020/21

	2018/19	2019/20	2020/21
	£000	£000	£000
	F'cast	F'cast	F'cast
Balance b/f	4,667	10,917	16,317
Contributions	42,700	42,800	42,900
Misc. Receipts ¹	2,800	3,100	3,400
Pensions	(36,500)	(37,000)	(37,500)
HMRC Tax	(7,500)	(8,000)	(8,500)
Misc. Payments ²	(15,000)	(17,000)	(19,000)
Expenses	(2,250)	(2,500)	(2,750)
Net cash in/(out) in month	(15,750)	(18,600)	(18,600)
Withdrawals from Fund Managers	2,000	4,000	6,000
Income Distribution	0	0	0
Special Contributions	20,000	20,000	20,000
Balance c/f	10,917	16,317	23,717

Notes:

The summary above shows the forecast presented at the meeting on 21/06/2018

Cashflow actuals and forecast fo

Balance b/f
Contributions
Misc. Receipts ¹
Pensions
HMRC Tax
Misc. Payments ²
Expenses
Net cash in/(out) in month
Withdrawals from Fund Managers
Special Contributions 4
Balance c/f

Notes

¹ Includes Transfers in, Overpayments, Ba

² Includes Transfers out, Lump Sums, Dea

Period April 2018 to March 2019

Apr-18			May-18			Jun-18			Jul-18			Aug-18			Sep-18			Oct-18			Nov-18		
£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var
4,667	4,667	0	3,355	3,379	-24	2,042	2,768	(725)	730	2,768	(2,038)	-583	2,768	(3,350)	-1,896	2,768	(4,663)	-3,208	2,768	(5,975)	-4,521	2,768	(7,288)
3,558	3,272	286	3,558	3,393	165	3,558		3,558	3,558		3,558	3,558		3,558		3,558	3,558		3,558	3,558		3,558	3,558
233	942	(708)	233	917	(684)	233		233	233		233	233		233		233	233		233	233		233	233
(3,042)	(3,237)	195	(3,042)	(3,206)	164	(3,042)		(3,042)	(3,042)		(3,042)	(3,042)		(3,042)		(3,042)	(3,042)		(3,042)	(3,042)		(3,042)	(3,042)
(625)	(569)	(56)	(625)	(642)	17	(625)		(625)	(625)		(625)	(625)		(625)		(625)	(625)		(625)	(625)		(625)	(625)
(1,250)	(1,697)	447	(1,250)	(1,074)	(176)	(1,250)		(1,250)	(1,250)		(1,250)	(1,250)		(1,250)		(1,250)	(1,250)		(1,250)	(1,250)		(1,250)	(1,250)
(188)	1	(188)	(188)	1	(188)	(188)		(188)	(188)		(188)	(188)		(188)		(188)	(188)		(188)	(188)		(188)	(188)
(1,313)	(1,289)	(24)	(1,313)	(611)	(701)	(1,313)	0	(1,313)	(1,313)	0	(1,313)	(1,313)	0	(1,313)	(1,313)	0	(1,313)	(1,313)	0	(1,313)	(1,313)	0	(1,313)
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
3,355	3,379	(24)	2,042	2,768	(725)	730	2,768	(2,038)	(583)	2,768	(3,350)	(1,896)	2,768	(4,663)	(3,208)	2,768	(5,975)	(4,521)	2,768	(7,288)	(5,833)	2,768	(8,600)

Bank Interest, VAT reclaim, Recharges
 with Grants, Refunds

Dec-18			Jan-19			Feb-19			Mar-19		
£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var
-5,833	2,768	(8,600)	-7,146	2,768	(9,913)	-8,458	2,768	(11,225)	-9,771	2,768	(12,538)
3,558		3,558	3,558		3,558	3,558		3,558	3,558		3,558
233		233	233		233	233		233	233		233
(3,042)		(3,042)	(3,042)		(3,042)	(3,042)		(3,042)	(3,042)		(3,042)
(625)		(625)	(625)		(625)	(625)		(625)	(625)		(625)
(1,250)		(1,250)	(1,250)		(1,250)	(1,250)		(1,250)	(1,250)		(1,250)
(188)		(188)	(188)		(188)	(188)		(188)	(188)		(188)
(1,313)	0	(1,313)	(1,313)	0	(1,313)	(1,313)	0	(1,313)	(1,313)	0	(1,313)
0	0	0	0	0	0			0	2,000		2,000
0	0	0	0	0	0			0	20,000		20,000
(7,146)	2,768	(9,913)	(8,458)	2,768	(11,225)	(9,771)	2,768	(12,538)	10,917	2,768	8,150

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PENSION FUND COMMITTEE

Draft Forward Plan – 2019/20

Area of work	Jun 2019	Oct 2019	Dec 2019	Mar 2020
Standing Items	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan
Governance	Pension Fund Annual Report and Accounts 2018/19 Review of Governance Compliance Statement Business Plan	Annual report of Pension Board activities Training Plan Progress on compliance with TPR Code of Practice London CIV governance update	London CIV governance review	Investment Strategy Statement Review Briefing on Triennial Valuation
Investments	Pooling and CIV update Investment Strategy Review Annual report to Scheme Advisory Board re pooling arrangements	Pooling and CIV update Investment Strategy Review Update on fixed income tender	MiFID II annual review	Pooling and CIV update Investment Strategy Review

Area of work	Jun 2019	Oct 2019	Dec 2019	Mar 2020
Administration	<p>Voluntary Scheme Pays, Tax Paper.</p> <p>Pension Administration Strategy (PAS) – update Initial Audits</p> <p>Discretionary Policies Paper.</p> <p>Western Union certification exercise for Overseas Pensioners.</p>	<p>Update on Hampshire Project. Impact on Pension Administration going Forward.</p> <p>Pension Board Recruitment</p>	<p>Hampshire Project. First Months Issues for Pension Administration.</p> <p>Pension Administration Strategy (PAS) – update Initial Audits</p>	

Appendix 1: Fund Costs Summary

	2017/18	2016/17	2015/16
	£000s	£000s	£000s
Fund Management and Custody Fees			
Baillie Gifford	1,057	796	764
Insight - Gilts	14	41	39
Insight - Non Gilts	401	848	794
Majedie Performance	0	380	2,550
Majedie	1,137	1,339	1,195
Standard Life Aberdeen	287	260	249
Hermes	105	83	358
Longview	916	879	741
Legal and General	116	144	278
Northern Trust	63	71	42
London CIV	100	131	25
Other	742		
Sub Total	4,939	4,972	7,035
Advisory Fees			
Delloite	97	55	71
Other	23	6	6
Sub Total	120	61	78
Professional Fees			
Actuarial Fees	24	55	42
Audit Fees	18	21	21
Legal Fees	14	10	36
Surrey CC	140	345	345
Miscellaneous	48	13	11
Sub Total	245	445	454
Central Costs			
Staff Recharges Finance	263	187	157
Staff Recharges Admin	167	178	179
Total	430	365	336
Total	5,734	5,844	7,903

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City of Westminster

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	21 June 2018
Classification:	General Release
Title:	Fixed Income Manager Selection
Wards Affected:	All
Policy Context:	Effective control over Council Activities
Financial Summary:	Although no direct impact on the general fund, the change to the fixed income mandate for the Pension Fund is expected to generate savings of approximately £100K-150K per annum
Report of:	Steven Mair <i>City Treasurer</i> smair@westminster.gov.uk 020 7641 2904

1. EXECUTIVE SUMMARY

- 1.1 This paper updates Members on:
- a. The current progress with Insight Investment management transition.

2. RECOMMENDATIONS

- 2.1 That the Committee Notes:
- a. The transition progress/conclusion.

3. TRANSITION UPDATE

- 3.1 On 23 January 2018, the Pension Fund Committee elected to formally appoint Insight Investment Management to run the Fund's buy and maintain fixed income mandate.

3.2 Officers working with Fund's investment consultants Deloitte then started the process with Insight to formally begin the transition.

3.3 This process has now been concluded.

4. FURTHER UPDATE

4.1 The transition process was completed by 6 April 2018 at a cost of £224k, less than anticipated at the outset by £22k.

4.2 Full details are attached at Appendix 1 to this report.

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

Matt Hopson mhopson@wesminster.gov.uk or 0207 641 4126

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Transition Update

City of Westminster Pension Fund

Insight Post Transition Report

Executive Summary

This paper has been prepared for the City of Westminster Pension Fund Committee (“the Committee”). The note covers a review of the recent transition from the Insight Gilts and Non-Gilts funds to the Buy and Maintain Fund, outlining the actual costs incurred from the transition and how this compares with the expected costs set out in Insight’s transition plan.

In September last year, the Committee sent an Invitation to Tender to a select number of investment managers, looking for a Buy and Maintain Credit pooled fund. The tender responses were evaluated with the highest three scoring managers invited to present to the Committee on 30 November 2017.

Managers were asked to present their proposal and, specifically, a transition plan of how they would move the Fund’s current mandate to the manager’s pooled fund, outlining the expected transition costs involved. After the final evaluation, the mandate was awarded to Insight and the assets were transferred in March/April 2018 to Insight’s Buy and Maintain fund (“IBAM”).

Recap

Insight were instructed to transition the current mandate into BAMF in March 2018. There was a transition period of four weeks, to give the manager flexibility to trade at favorable liquidity points and therefore better pricing, although Insight expected to complete the transition well within this timeframe.

First, Insight reorganized the current portfolio so that its bond holdings were suitable for an in-specie transfer into IBAM. On the first dealing date of IBAM thereafter Insight would subscribe an in-specie and cash transfer for shares in IBAM. Finally, once the legacy hedging instruments remaining in the current portfolio were unwound, the final cash amount would be invested in IBAM.

The expected costs, as presented by Insight in November are outlined in the table below.

Rationale	GBP (m)	Assets %	Cost GBP (k)	Cost %**
Retain	117.0	67.2		
Govt/Supranational sale*	29.5	16.9	-19.5	-0.01
Credit sale	16.8	9.7	-38.2	-0.02
Cash/other sale	10.7	6.2		
	174.1	100.0	-57.7	-0.03
Purchase units	57.1		-188.4	-0.11
Total Costs			-246.1	-0.14

Note: Transition plan based on current portfolio as at 31 October 2017.

* Additional c. £19m held in gilts sub portfolio not included in this analysis.

** Cost as a percentage of the total assets value, c. £174m.

Transition

Trading commenced on 22 March and was completed on 6 April 2018. First, the portfolio was restructured into a format that could be transitioned in-specie into the IBAM. Government and Supranational bonds were sold (including those in the gilts sub portfolio) and corporate bonds that were unsuitable for buy and maintain were also sold (unsuitable due to their structure, credit rating or due to issuer limit). Throughout this restructure, Insight were able to make savings by internally matching sales/purchases on Westminster's portfolio with purchases/sales being made by other mandates managed by Insight, therefore meaning these securities were transacted at nil cost. Based on market spreads, Insight expect these savings to equate to approximately £121,743.

The restructured portfolio was transitioned to IBAM on 12 April. The in-specie subscription of £186,212,096 was transacted at the mid-price of the fund and was therefore achieved at nil cost. A cash balance of £5,453,855 was also subscribed on the same dealing date at a spread of 34bps, incurring transaction costs of c. £18.5k.

The table below outlines a breakdown of the costs of portfolio restructure.

Rationale	GBP (m)	Assets %	Cost GBP (k)	Cost %**
Retain	125.7	65.6		
Govt sale*	28.0	14.6	-5.4	-0.00
Credit sale	29.7	15.5	-42.6	-0.02
Cash/other sale	8.2	4.3	-8.7	-0.00
	191.7	100.0	-56.6	-0.03
Bonds purchased	64.7		-149.0	-0.08
Total Costs			-205.7	-0.11

* Includes the additional c. £19m held in gilts sub portfolio.

** Cost as a percentage of the total assets value, c. £192m.

The total cost of the transition was c. £224k, c. £22k less than the estimated transition plan. It should also be noted that the transition plan excluded any costs associated with the transition of the gilts sub portfolio.

Conclusion

This has been a successful transition in terms of minimising risk and the Fund has experienced good cost savings through matching.

Deloitte Total Reward and Benefits Limited

May 2018

Risk Warnings

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

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



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City of Westminster

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	21 JUNE 2018
Classification:	General Release
Title:	Draft Pension Fund Annual Report and Statement of Accounts 2017-18
Wards Affected:	All
Policy Context:	Effective control over Council Activities
Financial Summary:	There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.
Report of:	Steven Mair City Treasurer smair@westminster.gov.uk 020 7641 2831

1. Executive Summary

1.1 This report presents the draft Pension Fund Annual Report and Statement of Accounts for the year ended 31 March 2018.

2. Recommendation

2.1 The Committee is asked to approve the Pension Fund Annual Report 2017/18.

2.2 Note the pension fund accounts for 2017/18.

3. Background

3.1 The Council's Annual Statement of Accounts for 2017/18, which includes the accounts for the Pension Fund, were prepared and submitted to the Council's external auditors for audit on 1 April 2018, with an audit opinion produced on 23 April 2018.

- 3.2 This was two months in advance of the statutory requirement of 31 May. Despite the accounts receiving an unqualified opinion from external audit, there is a statutory public inspection period before the authority is able to approve or publish the accounts. To comply with this arrangement, the Council's Statement of Accounts will be represented to the Audit and Performance Committee on 16 July 2018 for approval, the earliest permitted date.
- 3.3 The production of the Pension Fund Annual Report, which includes the Pension Fund Accounts, is a regulatory requirement and needs to be approved by the Pension Fund Committee by 30 September following the year end. The draft Pension Fund Annual Report for 2017/18 is attached as Appendix 1.
- 3.4 Committee members are asked to comment on any matters in the draft Pension Fund Annual Report and delegate approval of the final document to the Tri-Borough Director of Treasury & Pensions in consultation with the Chair.

4. Annual Report Overview

- 4.4 The Pension Fund accounts were produced on the 1 April 2018 and received an unqualified opinion from the auditors on the 23 April 2018; this is the fastest of any organisation, public or private.
- 4.5 The Pension Fund assets have had an excellent year, outperforming the strategic benchmark by 1.6%. This continues the long term trend of outperformance: +1.5% annualised over a five-year period.
- 4.6 The Pension Fund has benefitted from increased deficit recovery contributions compared with 2016/17, with improving cash flow and no need to liquidate assets in the short term to pay benefits.
- 4.7 The Pension Fund administration has seen significant improvements over the last few years in its KPIs as a result of hard work from both the City of Westminster's internal officers and external partners Surrey County Council and BT. Retirement benefit letters are now meeting the 5-day target 96% of the time, as opposed to 62% of the time in 2015/16.
- 4.8 Administration costs remain low when benchmarked with other London Funds, demonstrating the Fund's value for money for its members.

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

Matt Hopson mhopson@westminster.gov.uk or 020 7641 4126

BACKGROUND PAPERS: None

APPENDICES

Appendix 1: Pension Fund Annual Report and Statement of Accounts 2017/18

Appendix 2: Audit Findings Report

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City of Westminster

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Annual Report

City of Westminster Pension Fund • 2017/18



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1.

Preface

Report from Chair of the Pension Fund Committee

WELCOME TO THE ANNUAL REPORT OF THE CITY OF WESTMINSTER PENSION FUND.

The Pension Fund Committee is responsible for overseeing the management of the City of Westminster Pension Fund including investment management and pension administration issues. As the Chairman of this Committee, I am pleased to introduce the Pension Fund's Annual Report for the year 2017/18.

During the year, the value of the Fund increased by £68m to £1,336m reflecting the continued increase in global markets last year. This recovery has slowed somewhat since the start of 2018 and the Committee continues to monitor the Fund closely at every meeting and challenges the investment advisers as necessary to ensure the Fund's investments are being managed effectively.

The Pension Fund was last valued by the Fund actuaries, Barnett Waddingham, as at 31 March 2016. The actuaries reported that the Fund has assets to cover 80% of the liabilities and an overall deficit of £264m. Preparations are commencing for the next actuarial valuation as at 31 March 2019.

To improve funding levels the City Council has started to increase deficit contributions to the Fund, with the aim of improving the overall funding level and reducing the deficit recovery period.

During the year there have been significant improvements in the data quality and transfer of information between parties that administer the

Fund. Further details are in the Administration Management Performance section of the Annual Report. A plan of action was in place to address a range of issues during last year and the Pension Fund Committee will continue to monitor to ensure service improvements are maintained.

The Council has been active in the transfer of assets under management to the London Collective Investment Vehicle (CIV) to gain efficiencies and fee reductions. The Baillie Gifford and Majedie portfolio have been transferred to CIV, resulting in significant investment fee savings. The Fund has also benefitted from lower fees negotiated by the CIV on its Legal and General Passive Equities Portfolio. Preparatory work continues for the transition of the Longview portfolio to the CIV.

The Fund had its Annual General Meeting in April 2018, which was well attended with presentations from Surrey County Council (the Fund's administration provider), Deloitte (the Fund's independent investment advisor), Council officers and Majedie Asset Management. There were a range of questions from members, and I am pleased that this event continues to be popular.

This will be my last entry for the pension fund annual report as I will step down at the May 2018 local elections. I would like to thank all those involved in the management of the Pension Fund during the year.



Councillor Suhail Rahuja
Chairman of the Pension Fund Committee

Introduction

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

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

Contribution rates for employees and employers are set by the Fund's actuary at the actuarial valuation which is carried out every three years. The most recent revaluation, carried out as at 31 March 2016, was used to set contribution rates with effect from 1 April 2017 through to April 2020.

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

Benefits payable from the Fund are set out in the Local Government Pension Scheme Regulations 2013, as amended, and in summary consist of:

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

The Fund is governed by the Public Service Pensions Act 2013 and the LGPS Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2016. The content and format of this annual report is prescribed by the LGPS Regulations 2013.

Publication of this report gives the Council the opportunity to demonstrate the high standard of governance and financial management applied to the Fund. It brings together a number of separate reporting strands into one comprehensive document that enables both the public and employees to see how the Fund is managed and how well it is performing.

It is in the interest of both employees and the public that the Fund is well managed and continues to provide high returns and excellent value for money.

Introduction (continued)

This annual report comprises the following sections:

- **Management and Financial Performance** which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.
- **Investment Policy and Performance** detailing the Fund's investment strategy, arrangements and performance.
- **Scheme Administration** which sets out how the Scheme's benefits and membership are administered.
The funding position of the Fund with a statement from the Fund's actuary.

- **The Fund's annual accounts** for the year ended 31 March 2018
- **List of contacts** and a glossary of some of the more technical terms
- **Appendices** setting out the various regulatory policy statements of the Fund:
 - Governance Compliance Statement
 - Statement of Investment Principles
 - Communication Policy
 - Funding Strategy Statement
- Further information about the Local Government Pension Scheme can be found at www.westminster.gov.uk/council-pension-fund



2.

Management and Financial Information

Governance Arrangements

PENSION FUND COMMITTEE

Westminster City Council has delegated responsibility for pension matters to the Pension Fund Committee (the Committee). The Committee obtains and considers advice from the Tri-Borough Director of Pensions and Treasury, the Section 151 Officer and, as necessary, from the Fund's appointed actuary, advisors and investment managers.

Terms of Reference for the Pension Fund Committee are set out in Appendix 1 as part of the Governance Compliance Statement.

The Committee is made up of four elected Members of the Council (three from the administration party and one minority party representative) who meet at least four times a year. All members have full voting rights.

The current membership of the Pension Fund Committee is:

- Councillor Suhail Rahuja (Chairman)
- Councillor Peter Cuthbertson
- Councillor Patricia McAllister
- Councillor Ian Rowley

Councillors may be contacted at City Hall, 5 The Strand, London, WC2N 5HR

LOCAL PENSION BOARD

At the start of 2015/16, the Pension Fund Committee established a local pension board in compliance with the requirements of the Public Service Pensions Act. The purpose of the Board is to provide oversight of the Fund Committee.

Terms of Reference for the Local Pension Board can be found on the Pension Fund website at

http://transact.westminster.gov.uk/docstores/publications_store/Pensions/terms_of_reference_final_Mar15.docx

The Board comprises six members – three from the Council representing employers and three employee representatives. The Chair is elected by the Board.

CONFLICTS OF INTEREST

The Pension Fund is governed by elected members acting as trustees and the Code of Conduct for elected members' sets out how any conflicts of interests should be addressed. A copy is available from Legal and Democratic Services at 4th Floor, City Hall, 5 The Strand, London WC2N 5HR or by telephone: 020 7641 3160.

The Code includes general provisions on ethics and standards of behaviour which require elected members to treat others with respect and not to bully, intimidate or do anything to compromise the impartiality of those who work for or on behalf of the Council.

The Code also contains rules about "disclosable pecuniary interests" and sets out the action an elected member must take when they have such an interest in Council business, for instance withdrawing from the room or chamber when the matter is discussed and decided in committee, unless dispensation has been obtained from the Council's Monitoring Officer.

The Code also requires elected members to register disclosable pecuniary interests.

GOVERNANCE COMPLIANCE STATEMENT

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

The key issues covered by the best practice principles are:

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

The Fund's Governance Compliance statement can be found at Appendix 1

Scheme Management and Advisors

EXTERNAL PARTIES

Investment Adviser	Deloitte		
Investment Managers	Equities (Active)	Fixed Income	
	London LGPS CIV Ltd - Baillie Gifford & Co	Insight Investment	
	Longview		
	London LGPS CIV Ltds - Majedie Asset Management	Property	
	Equities (Passive)	Hermes Investment Management Ltd	
	Legal and General Investment Management	Standard Life Investments	
Custodian	Northern Trust		
Banker	Lloyds Bank		
Actuary	Barnett Waddingham		
Auditor	Grant Thornton UK LLP		
Legal Adviser	Eversheds		
Scheme Administrators	Surrey County Council		
AVC Providers	Aegon	Equitable Life Assurance Society	

OFFICERS

City Treasurer and Section 151 Officer Director of People Services	Steven Mair Lee Witham	
Tri-Borough Pensions Team	Phil Triggs from December 2017	Alex Robertson
	Peter Carpenter to July 2017	Yvonne Thompson-Hoyte
	Matt Hopson from August 2017	Sue Hands
	Miriam Adams from October 2017	Jaimina Shah
Pensions and Payroll Officer	Sarah Hay	

Contact details are provided in Section 7 of this report.

Risk Management

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

Responsibility for the Fund’s risk management strategy rests with the Pension Fund Committee.

In order to manage risks a Pension Fund Risk Register is maintained and reviewed quarterly. Risks identified have been reduced through planned actions. The Risk Register is managed by the Tri-Borough Director of Pensions and Treasury and risks have been assigned to “Risk Owners”.

The key risks identified within the Pension Fund risk register are:

Objective area at risk	Risk	Risk rating	Responsible officer	Mitigating actions
Administration	3rd parties undertaking outsourced administration work are unable to facilitate timely and accurate updating of service records. Inaccuracies in service records may impact on actuarial valuations, calculations of pension benefits and on notifications to starters and leavers.	Medium	Director of People Services	This risk has reduced due to work undertaken by BT and Surrey to create automatic files that feed into the system and reduce manual interference Test files are currently with Surrey County Council Actuary undertakes data cleansing on service records as part of the triennial revaluation which should identify the extent of any inaccuracies
Administration	Loss of funds through fraud or misappropriation by 3rd parties could lead to negative impact on reputation of the Fund as well as financial loss.	High	City Treasurer and Director of People Services	Third parties regulated by the FCA. 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.

Risk Management (continued)

Risks arising from financial instruments are outlined in the notes to the Pension Fund Accounts (Note 16).

The Funding Strategy Statement (at Appendix 4) sets out the key risks, including demographic, regulatory, governance, to not achieving full funding in line with the strategy. The actuary reports on these risks at each triennial valuation or more frequently if required.

Objective area at risk	Risk	Risk rating	Responsible officer	Mitigating actions
Regulation	Introduction of European Directive MiFID II results in a restriction of Fund's investment options and an increase in costs	Low	City Treasurer	The fund has successfully opted up with all managers and third parties as required by the deadline. Monitoring in place to ensure the fund remains opted up, with training packages for new members / officers.
Funding	Scheme members live longer leading to higher than expected liabilities.	Medium	City Treasurer	Review at each triennial valuation and challenge actuary as required.
Funding	Assumed levels of inflation and interest rates may be inaccurate leading to higher than expected liabilities.	Medium	City Treasurer	Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises.
Funding	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others	Medium	City Treasurer and Director of People Services	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
Investment	Fund managers fail to achieve the returns agreed in their management agreements.	Medium	City Treasurer	Independent monitoring of fund manager performance against targets. Fund manager performance is reviewed quarterly.

Risk Management (continued)

THIRD PARTY RISKS

The Council has outsourced the following functions of the Fund:

- Investment management;
- Custodianship of assets;
- Pensions administration.

As these functions are outsourced, the Council is exposed to third party risk. A range of investment managers are used to diversify manager risk.

To mitigate the risks regarding investment management and custodianship of assets, the Council obtains independent internal controls assurance reports from the reporting accountants to the relevant service providers. These independent reports are prepared in accordance with international standards. Any weaknesses in internal control highlighted by the controls assurance reports are reviewed and reported as necessary to the Pension Committee.

The Council's internal audit service undertakes planned programmes of audits of all the Councils' financial systems on a phased basis, all payments and income/contributions are covered by this process as and when the audits take place.

Periods covered by the above reports are typically not aligned with the Pension Fund's financial year. The following bridging statements have been provided:

¹ Insight - "To the best of our knowledge there were no material changes, removal or failure of any control or test objective, as stated and tested in the latest available report during the year to March 2018"

² Hermes - "To the best of our knowledge, the AAF 01/06, ISAE 3402 and SSAE 16 report for the year to 31 December

The results of these reviews are summarised below and cover 76% of investment holdings at 31 March 2017.

Fund manager	Type of assurance	Control framework	Compliance with control	Reporting accountant
Baillie Gifford	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Hermes ²	ISAE3402	Reasonable assurance	Reasonable assurance	Deloitte LLP
Insight ¹	ISAE3402	Reasonable assurance	Reasonable assurance	
LGIM ³	ISAE3402	Reasonable assurance	Reasonable assurance	PwC LLP
Longview ⁴	ISAE3000	Reasonable assurance	Reasonable assurance	Earnest and Young LLP
Majedie	SOC 1SMI	Reasonable assurance	Reasonable assurance	KPMG LLP
Standard Life	ISAE3402	Reasonable assurance	Reasonable assurance	PwC LLP
Custodian				
Northern Trust	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP

2016 continues to provide a substantially accurate description of the internal controls environment within Hermes Fund Managers Limited for the period 1 January 2017 to date.

³ LGIM - "We can confirm that since the end of the period covered in the latest ISAE 3402 Assurance Reports on Internal Controls (31 December 2017), there have been no material changes to the operational controls in place, and the business has continued to operate in accordance with the risk management policy and control environment as described in the report."

⁴ Longview - "we herewith confirm that, for the period from 1 January 2017 through to today's date [9/2/2018], internal monitoring carried out by both Longview Partners LLP and ourselves has revealed no significant control deficiency issues nor have there been any material changes to our internal controls"

Financial Performance

The Fund asset value increased by £68m to £1,336m as at 31 March 2018 from £1,268bn as at 31 March 2017 due to the continued recovery in global markets since the uncertainty of 2016/17.

The triennial revaluation was completed in 2016/17 showing an improvement in the overall funding level to 80% compared to 74% in 2013. However funding levels for different employers vary significantly. To improve funding levels, the Council's medium-term financial plan already assumes an increase in employer contributions, which in combination with other employers, will improve the overall funding level to 84% over the next three years.

The new valuation report will be used to determine contribution rates for the period 2017/18 to 2019/20.

ANALYTICAL REVIEW

	2014/15	2015/16	2016/17	2017/18
Fund Account	£'000	£'000	£'000	£'000
Deals with members				
Contributions	(35,007)	(38,401)	(38,715)	(58,868)
Pensions	51,289	51,473	51,632	57,350
Net (additions)/withdrawals from deals with members	16,282	13,372	12,917	(1,518)
Management expense	7,047	7,791	5,052	5,734
Net investment returns	(8,725)	(8,558)	(9,891)	(15,785)
Change in market value	(117,879)	20,024	(209,434)	(56,708)
Net (increase)/decrease in the Fund	(103,275)	32,629	(201,356)	(68,277)

Over the four year period, pensions paid have exceeded contributions by £41m. This reflects the maturity of the Fund membership in that there are fewer contributors than beneficiaries, although increased deficit recovery contributions in 17/18 have reduced this.

Net investment returns in 2016/18 have remained healthy despite falling significantly in comparison to last years, reflecting the fact that 16/17 was a particularly good year for equities compounded with the weakening of sterling.

Both officers and the Pension Fund Committee monitor investment performance closely and refer to independent investment advisers as necessary to ensure the Fund's investments are being managed effectively.

Financial Performance (continued)

	2014/15	2015/16	2016/17	2017/18
Net Asset Statement	£'000	£'000	£'000	£'000
Fixed Interest Securities	145,426	157,123	173,673	183,879
Equities	-	-	-	150
Pooled Investment Vehicles	948,674	896,184	1,085,498	1,129,276
Cash Deposits	1,071	2,598	1,726	10,321
Other	1,745	2,030	996	6,453
Total Investment Assets	1,096,916	1,057,935	1,261,893	1,330,079
Current assets	3,104	9,677	7,010	6,728
Current Liabilities	(1,048)	(1,269)	(1,204)	(831)
Total Net Assets available to fund benefits	1,098,972	1,066,343	1,267,699	1,335,976

The points to note are:

- 89% of pooled investment vehicles comprise equity shareholdings both domestic and overseas, while the remaining 11% is in property pooled funds (90% and 10% respectively in 2016/17)
- The overall value of pooled investment vehicles increased by £44m (4%) during the year
- Bonds are fixed interest securities which provide a hedge against volatility in the global equity markets. Bond values increased by £10m (6%) during the year.

Further details are given in the Investment Policy and Performance Section.

Financial Performance (continued)

ANALYSIS OF DEALINGS WITH SCHEME MEMBERS

	2014/15	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000
Contributions receivable				
- Members	(8,777)	(8,700)	(8,706)	(8,894)
- Employers	(24,717)	(27,244)	(27,200)	(44,982)
- Transfers in	(1,513)	(2,157)	(2,809)	(4,992)
Total Income	(35,007)	(38,101)	(38,715)	(58,868)
Benefits/Expenses				
Pensions	39,895	41,141	41,315	43,802
- Lump sum retirements and death benefits	5,059	7,274	7,894	8,674
- Transfers out	6,292	2,962	2,385	4,807
- Refunds	43	96	38	67
Total Expenditure	51,289	51,473	51,632	57,350
Net Dealings with Members	16,282	13,372	12,917	(1,158)

The key variances were due to the following:

- Lump sums rose due to more members retiring than in previous years.
- Transfers out were higher because more members chose to transfer their benefits to another employer or remove them under the freedom of choice legislation.
- Transfers in were higher, reflecting the number of new starters joining the scheme and members choosing to transfer in benefits on commencement of employment.

Financial Performance (continued)

ANALYSIS OF OPERATIONAL EXPENSES

The costs of running the pension fund are shown below.

	2015/16	2016/17	2017/18
	£'000	£'000	£'000
Administration			
Employees	179	178	167
Supplies and services	228	385	200
Other costs	14	8	19
	441	571	386
Governance and Oversight			
Employees	157	178	263
Investment advisory services	74	73	57
Governance and compliance	13	42	11
External audit	21	21	18
Actuarial fees	17	16	24
	282	330	373
Investment Management			
Management fees	3,260	2,790	3,095
Performance fees	2,550	380	0
Transaction costs	1,182	911	1,817
Custodian fees	76	70	63
	7,068	4,151	4,975
Total	7,791	5,052	5,734

The key variances were due to the following:

- Reduced costs for administrative services in 2017/18 to 2016/17 reflects one-off IT costs and new software licences related to new online pension services for members and employers.
- The reduction in investment management costs in 2017/18 reflects participation in the London CIV which has led to economies of scale through lower management fees and transaction costs
- There has been a significant increase in transition costs as a result of the fund completing two transitions during the year

Administration Management Performance

The administration of the Fund is managed by Westminster City Council, and undertaken by Surrey County Council under a not-for-profit contractual arrangement operational from 1 September 2014.

PERFORMANCE INDICATORS

The contract with Surrey County Council includes a number performance indicators included to ensure that service to members of the pension fund is effective. The targets are set out below, along with actual performance.

Performance Indicators	Target	Performance		
		2015/16	2016/17	2017/18
Letter detailing transfer in quote	30 days	100%	100%	100%
Letter detailing transfer out quote	30 days	100%	86%	99%
Process refund and issue payment voucher	14 days	100%	100%	100%
Letter notifying estimate of retirement benefit	5 days	62%	83%	96%
Letter notifying actual retirement benefit	5 days	91%	96%	99%
Letter acknowledging death of member	5 days	100%	100%	100%
Letter notifying amount of dependant's benefits	5 days	87%	100%	100%
Calculate and notify deferred benefits	30 days	N/A	85%	90%

Staff shortages, new legislative requirements and implementing new online pension systems have all had a negative impact on the performance indicators shown above. However, there have been no delays in processing pension payments and no impact on the accuracy of final calculations made.

Looking forward, staffing issues have been addressed and new legislative requirements are now in place although they do involve more detailed and complex information to be provided to scheme members.

ORBIS

The ORBIS on-line pension system is now in operation with a secure portal which enables members to:

- Update personal details
- Check membership records and calculate pension projections
- View payslips and P60s
- Nominate beneficiaries

Scheme employers can use the new system to:

- Submit starter and leaver details and other changes online
- View and update employee details
- Run benefit calculations, e.g. early retirements

COMPLAINTS RECEIVED

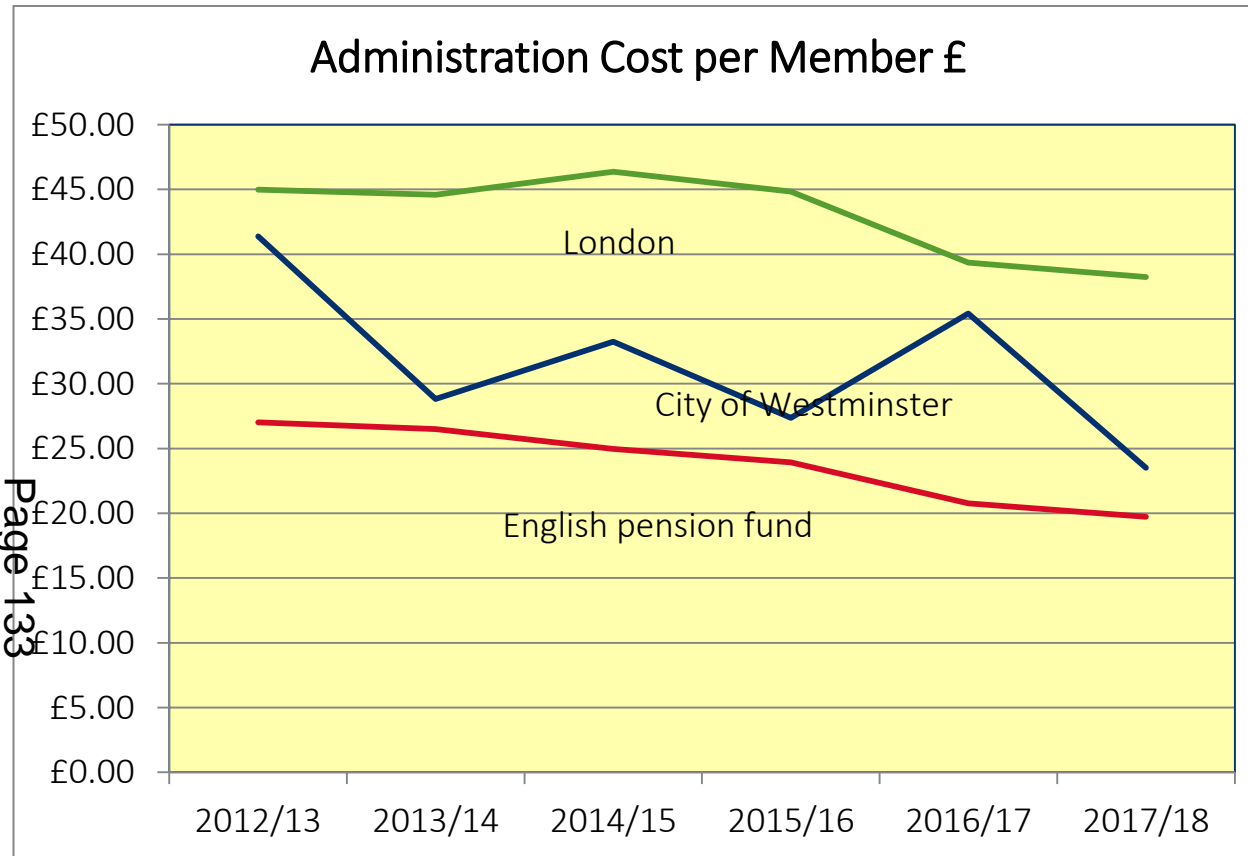
The pension administrators occasionally deal with members of the fund who dispute an aspect of their pension benefits. These cases are dealt with by the Internal Dispute Resolution Procedure (see section 4)

One IDRP case upheld and member awarded compensation.

One IDRP case member case upheld service recognised but no compensation as no financial loss.

No Ombudsman rulings against WCC effective 17/18.

Administration Management Performance (continued)



STAFFING INDICATORS

The administration of the Fund comprises:

- 3 full-time equivalent (fte) staff engaged by Surrey CC working directly on pension administration for Westminster
- 2.25 fte Westminster HR staff to deal with internal administration.
- 1.93 fte Westminster Finance staff, assigned to the oversight and governance of the Pension Fund.

The contract for administering the Fund was tendered in 2014 resulting in Surrey County Council being appointed. Costs rose slightly in 2014/15 as a result of the changeover of administrator, and again in 2016/17 reflecting the implementation of the ORBIS online portal for pension scheme members and employees. Although this has since reduced

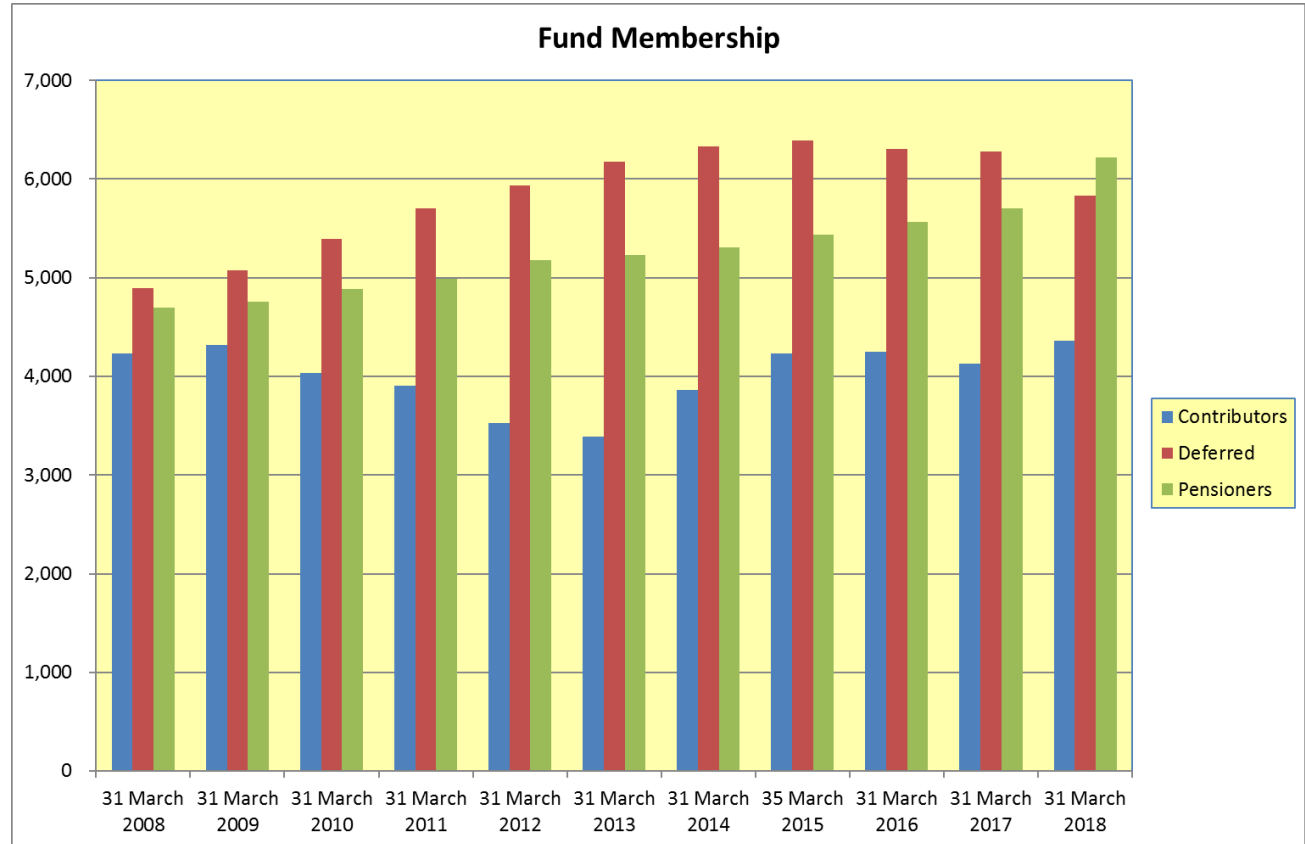
Costs remain below the average for London borough pension funds as shown in the chart, and are subject to regular review.

Administration Management Performance (continued)

MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased almost 20% over the past 11 years from 13,827 to 16,409

However over this period the number of contributing members to the Pension Fund has declined steadily from 2008/09 to 2012/13 as shown in the chart below. The introduction of auto-enrolment in 2013 and the increase in employers admitted into the Scheme has reversed this trend. Nonetheless the number of pensioners and deferred members has continued to rise in common with other local government pension funds, reflecting the increasing maturity of the Fund.



Administration Management Performance (continued)

The total number of pensioners in receipt of enhanced benefits due to ill health or early retirement on the grounds of redundancy or efficiency of the service is given below as at each year on 31 March.

Reason for Leaving	2014/15	2015/16	2016/17	2017/18
Ill Health Retirement	3	6	5	5
Early Retirement	23	40	62	39
Total	27	46	67	44

Administration Management Performance (continued)

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

Below is a list of the current active contributing employers and the contributions received for 2017/18 (Figures include early retirement and deficit funding contributions).

	Employees Contributions ²	Employers Contributions	Total Contributions
	£'000	£'000	£'000
Administering Authority Employers			
Westminster City Council	(5,455)	(35,310)	(40,765)
All Souls	(12)	(31)	(43)
Burdett Coutts	(16)	(68)	(84)
College Park	(39)	(147)	(186)
Dorothy Gardner Centre	(26)	(100)	(126)
Edward Wilson	(15)	(61)	(76)
George Eliot	(18)	(78)	(96)
Hallfield	(42)	(174)	(216)
Mary Paterson Nursery School	(16)	(63)	(79)
Portman Early Childhood Centre	(35)	(132)	(167)
Queen Elizabeth 11	(28)	(119)	(147)
Queen's Park	(23)	(88)	(111)
Soho Parish	(14)	(59)	(73)
St Augustines	(49)	(194)	(243)
St Barnabas	(6)	(21)	(27)
St Clement Danes	(18)	(74)	(92)

	Employees Contributions ²	Employers Contributions	Total Contributions
St Gabriel's	(14)	(58)	(72)
St George Hanover Square	(8)	(32)	(40)
St James & St Michaels	(10)	(42)	(52)
St Joseph's RC Primary School	(19)	(78)	(97)
St Lukes	(13)	(56)	(69)
St Mary Bryanston Square	(12)	(50)	(62)
St Mary Magdalene	(19)	(76)	(95)
St Matthew's	(12)	(44)	(56)
St Peters CE	(15)	(60)	(75)
St Peters Eaton Square	(11)	(45)	(56)
St. Edward's RC Primary School	(22)	(88)	(110)
St. Saviours	(13)	(56)	(69)
St Vincent De Paul Primary School	(11)	(45)	(56)
St. Vincent's RC Primary School	(11)	(47)	(58)
St Stephens CE primary School	(21)	(82)	(103)
Total Contributions from Administering Authority	(6,034)	(37,618)	(43,652)

² Includes early retirement and deficit contributions

Administration Management Performance (continued)

SCHEDULED BODIES

The Fund provides pensions not only for employees of Westminster City Council, but also for the employees of a number of scheduled and admitted bodies.

Scheduled bodies are organisations which have a statutory right to be a member of the Local Government Pension Scheme under the regulations e.g. academy schools.

	Employees Contribution ³	Employers' Contributions	Total Contributions
Scheduled Bodies			
Ark Atwood Primary Academy	(26)	(55)	(81)
Ark Paddington Green Academy	(16)	(67)	(83)
Beachcroft Academy	(19)	(1)	(20)
City West Homes Ltd	(23)	(71)	(94)
Churchill Gardens Academy	(918)	(2,112)	(3,030)
Gateway Academy	(22)	(94)	(116)
Grey Coat Hospital Academy	(64)	(214)	(278)
Harris Westminster Free School	(12)	(40)	(52)
King Solomon Academy	(45)	(72)	(117)
Marylebone Boys School	(27)	(67)	(94)
Millbank Primary Academy	(23)	(93)	(116)
Minerva Academy	(12)	(25)	(37)
Paddington Academy	(81)	(135)	(216)
Pimlico Academy	(89)	(146)	(235)
Pimlico Free School	(11)	(25)	(36)

³ Includes early retirement and deficit contributions

	Employees Contribution ⁴	Employers' Contributions	Total Contributions
Scheduled Bodies			
Quintin Kynaston Academy	(78)	(209)	(287)
Sir Simon Milton University Technical College	(7)	(14)	(21)
St Georges Maida Vale Academy	(7)	(14)	(21)
St Marylebone Academy	(48)	(136)	(184)
St Marylebone Bridge School	(61)	(145)	(206)
Westminster Academy	(14)	(37)	(51)
Westminster City Academy	(50)	(99)	(149)
Wilberforce Academy	(60)	(126)	(186)
Total Contributions From Scheduled Bodies	(1,718)	(4,045)	(5,763)

⁴ Includes early retirement and deficit contributions

Administration Management Performance (continued)

ADMITTED BODIES

Admitted bodies participate in the pension scheme via an admission agreement made between the Council and the employing organisation. Examples of admitted bodies are not for profit organisations linked to the Council and contractors who have taken on delivery of services with Council staff also transferred to third parties.

	Employees Contribution ⁵	Employers Contributions	Total Contributions
Admitted Bodies			
Amey	(7)	(26)	(33)
Creative Education Trust	(87)	(119)	(206)
Hatsgroup	(5)	(23)	(28)
Housing and Communities Agency	(788)	(2,270)	(3,058)
Independent Housing Ombudsman	(186)	(537)	(723)
JPL Catering	(2)	(9)	(11)
Sanctuary Housing	(67)	(335)	(402)
Total Contributions from Admitted Bodies	(1,142)	(3,319)	(4,461)
Grand Total	(8,894)	(44,982)	(53,876)

⁵ Includes early retirement and deficit contributions

EMPLOYER ANALYSIS

The following table summarises the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some outstanding liabilities).

	Active	Ceased	Total
Administering Authority	1	-	1
Scheduled Body	20	-	20
Admitted Body	10	10	20
Total	31	10	41



3.

Investment Policy and Performance

Investment Policy

The Pension Fund Committee sets out a broad statement of the principles it has employed in establishing its investment and funding strategy in the Investment Strategy Statement (ISS).

The ISS sets out responsibilities relating to the overall investment policy of the Fund including:

- asset allocations
- restrictions on investment types
- methods of investment management
- performance monitoring.

The ISS also sets out the Fund's approach to responsible investment and corporate governance issues, and how the Fund demonstrates compliance with the "Myners Principles". These Principles are a set of recommendations relating to the investment of pension funds originally prepared by Lord Myners in 2001 and subsequently endorsed by Government.

The current version of the Myners Principles covers the following areas:

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

The Fund's SIP can be found at Appendix 2.

For 2017/18, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an Investment Strategy Statement (ISS), which replaces the Statement of Investment Principles.

The ISS addresses each of the objectives included in the 2016 Regulations, namely:

- The administering requirement to invest fund money in a wide range of instruments
- The administering authority's assessment of the suitability of particular investments and types of investment
- The administering authority's approach to risk, including the ways in which risks are to be measured and managed
- The administering authority's approach to pooling investments, including the use of collective investment vehicles
- The administering authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

The ISS can be obtained from:

Pensions Fund Team, 5th Floor, City Hall,
5 The Strand, London WC2N 5HR

Email: pensionfund@westminster.gov.uk

Asset Allocation

The strategic asset allocation is agreed by the Pension Fund Committee and the Fund's advisers. The allocation effective during the year ended 31 March 2018 was as follows:

Asset Class	Target Allocation %
UK Equities	22.5
Global Equities (passive)	47.5
Global Equities (active)	
Fixed Income	20.0
Property / Infrastructure	15.0
TOTAL	100

The Pension Fund Committee holds Fund Managers accountable for decisions on asset allocation within the Fund mandate under which they operate. In order to follow the Myners' Committee recommendation, Fund Managers are challenged formally about asset allocation Decisions.

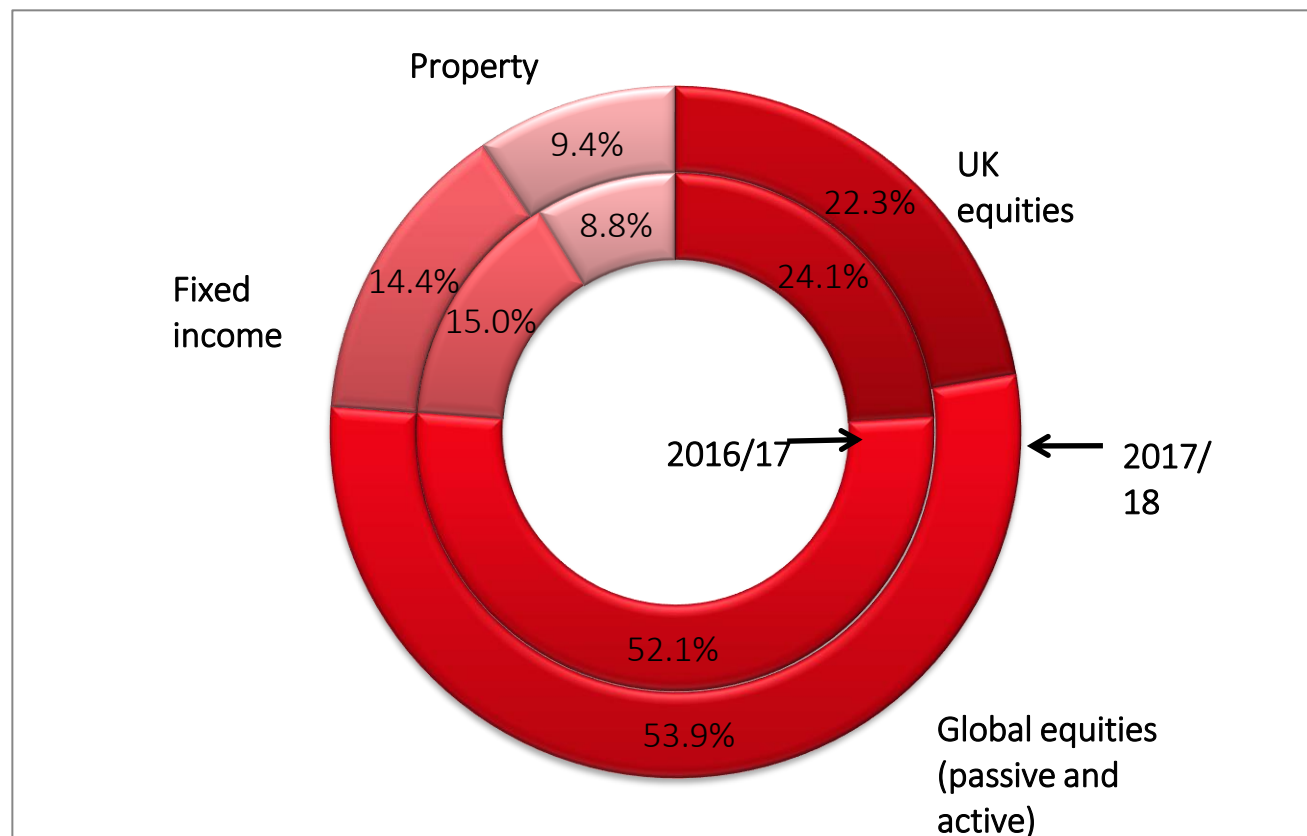
Investment portfolios are reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and Fund Managers are called to a Committee meeting if there are issues that need to be addressed. Officers meet Fund Managers regularly and advice is taken from the Investment Adviser on matters relating to fund manager arrangement and performance.

Fund managers provide a rationale for asset allocation decisions based upon their research resource in an

effort to ensure that they are not simply tracking the peer group or relevant benchmark index. The Fund's asset allocation strategy can be found in the ISS.

The asset allocation of the Pension Fund at the start and end of the financial year is set out below.

These figures are based on market value and reflect the relative performance of investment markets and the impact of tactical asset allocation decisions made by the Pension Fund Committee.

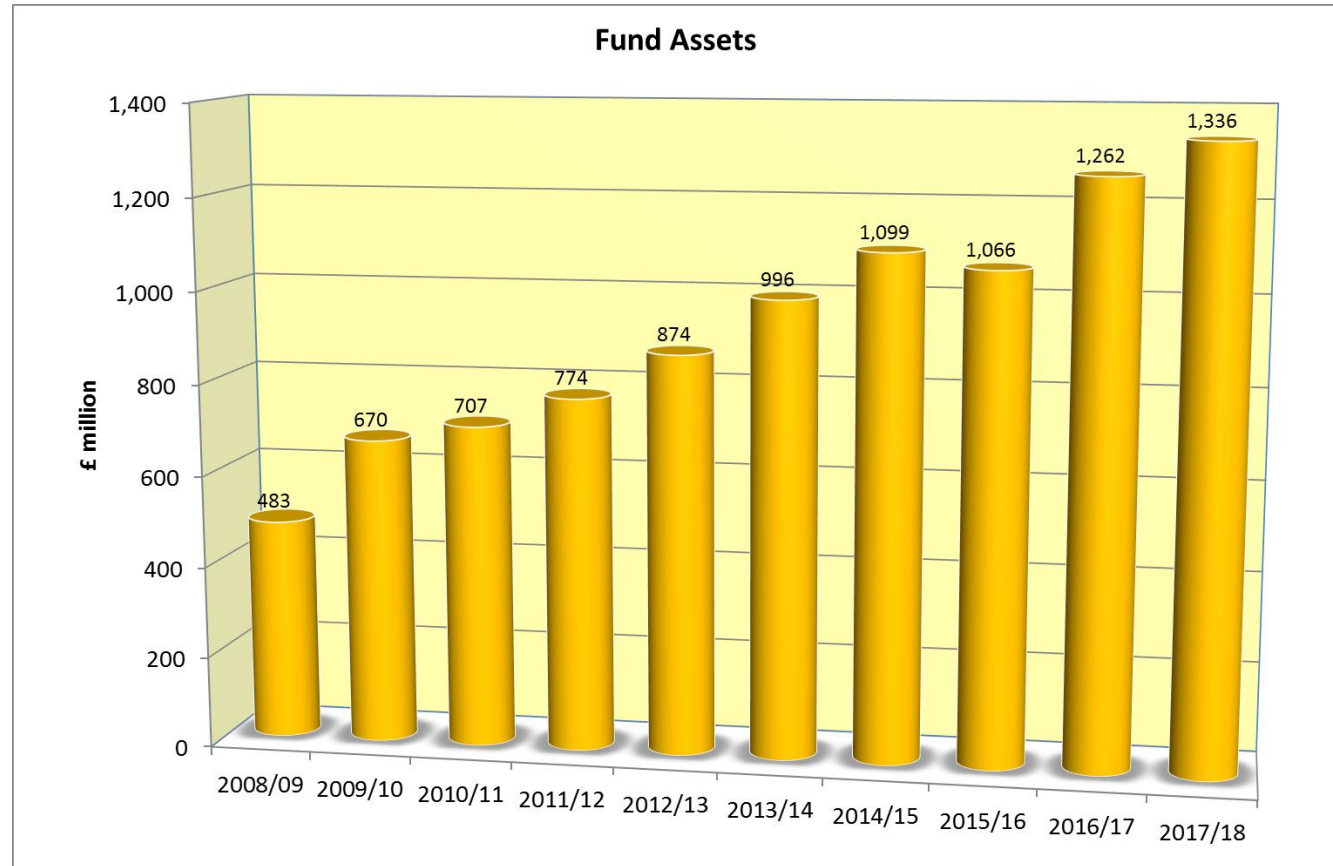


Asset Allocation (continued)

FUND VALUE

The value of the Fund has almost trebled over the past ten years. The slight fall in value in 2015/16 reflected uncertainty around the strength of the global economy and China in particular, but the Fund recovered well and continued to make gains in 17/18 with another 6% increase

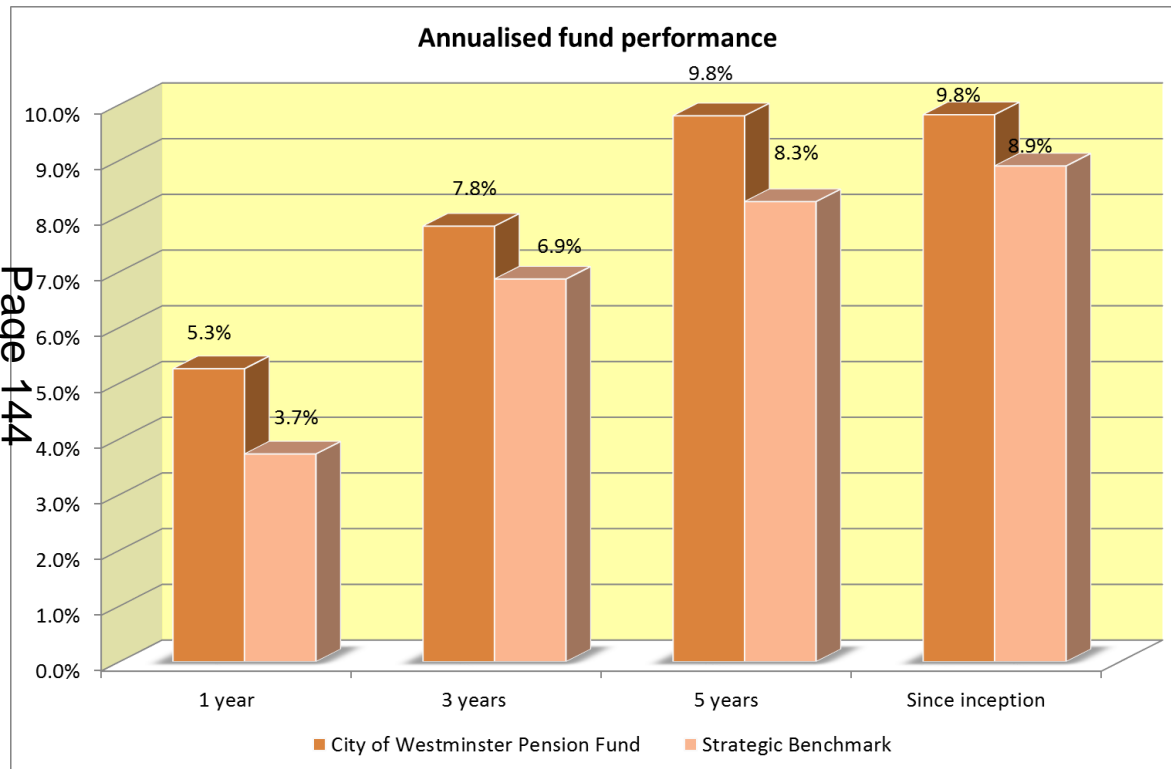
The Fund is invested to meet liabilities over the medium to long-term and therefore its performance should be judged over a corresponding period. Annual returns can be volatile and do not necessarily indicate the underlying health of the Fund.



Investment Performance

The Fund's overall performance in 2017/18 exceeded the benchmark for the year as shown below.

Annualised performance has also exceeded the benchmark since inception, and over the past three and five years.



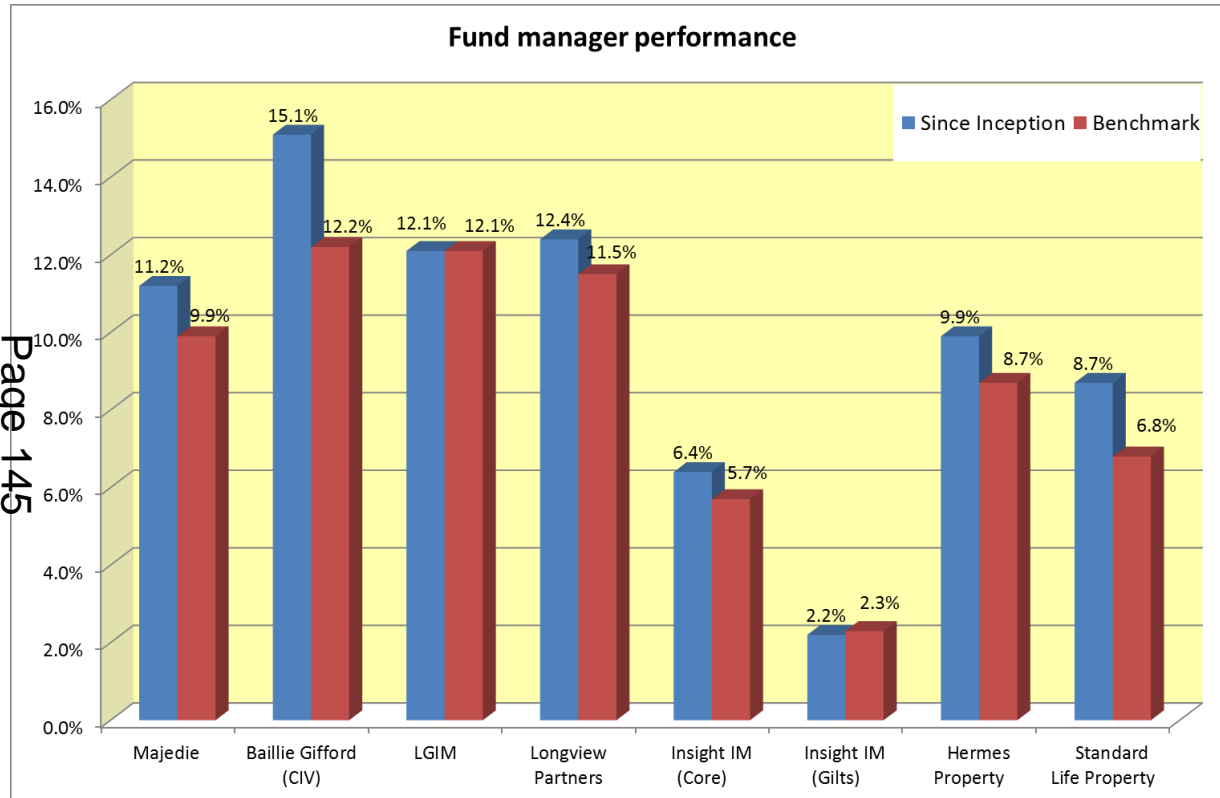
Performance of the Fund is measured against an overall strategic benchmark. Below this, each Fund Manager is given individual performance targets which are linked to index returns for the assets they manage. Details of these targets can be found in the ISS.

Performance of Fund Managers is reviewed quarterly by the Pension Fund Committee which is supported by the Fund's independent investment advisor, Deloitte.

Investment Performance (continued)

The overall performance of each manager is measured over rolling three and five year periods, as inevitably there will be short-term fluctuations in performance.

Overall each Fund Manager has achieved their target since inception.



The portfolio is a mixture of active and passively managed asset classes:

- Targets for active fund mandates are set to out-perform the benchmark by a set percentage through active stock selection and asset allocation. Fund managers with active fund mandates are Majedie, Baillie Gifford (CIV), Longview, and Hermes.
- Targets for passive funds are set to achieve the benchmark through investment in a stable portfolio. Fund managers with passive fund mandates are LGIM, Insight and Standard Life.

Corporate Governance

RESPONSIBLE INVESTMENT POLICY

The Council has a paramount fiduciary duty to obtain the best possible financial return on Fund investments without exposing assets to unnecessary risk. It believes that following good practice in terms of social, environmental and ethical issues is generally likely to have a favourable effect on the long-term financial performance of a company and will improve investment returns to its shareholders.

The Fund investment managers, acting in the best financial interests of the Fund, are expected to consider, amongst other factors, the effects of social, environmental and ethical issues on the performance of a company when undertaking the acquisition, retention or realisation of investments for the Fund.

The Council's investment managers have adopted socially responsible investment policies which are subject to regular review both by officers and by the Council's Pension Committee.

PROFESSIONAL BODIES

The Council is a member of the CIPFA Pensions Network which provides a central coordination point for all LGPS funds and local authority members.

CIPFA staff and the network more generally are able to advise subscribers on all aspects of pensions and related legislation. Relevant training and seminars are also available to officers and members of participating funds.

While the Fund is a member of the Pensions Lifetime and Savings Association (formerly the National Association of Pension Funds), it does not subscribe to nor is it a member of the Local Authority Pension Fund Forum, UK Sustainable Investment & Finance Association or the Institutional Investors Group on Climate change or any other bodies.

VOTING

Fund Managers have the delegated authority to vote at shareholder meetings in accordance with their own guidelines, which have been discussed and agreed with the Pensions Committee. The Committee keeps under close review the various voting reports that it receives from Fund managers.

COLLABORATIVE VENTURES

The Fund has been working closely with other London LGPS funds in the London Collective Investment Vehicle set up to enable greater buying power, reduced fees and enhanced governance arrangements. The City of Westminster is a shareholder in London LGPS CIV Limited.

Following FCA approval in 2016, the CIV has continued to trade and the City of Westminster Pension Fund transferred the Baillie Gifford mandate (valued at £178m) into the CIV in April 2016. This followed by transferring the Majedie portfolio in May 2017 which at the time was valued at £308m

Corporate Governance (continued)

SEPARATION OF RESPONSIBILITIES

The Fund employs a global custodian (Northern Trust), independent to the investment managers, to be responsible for the safekeeping of all of the Fund's investments. Northern Trust is responsible for the settlement of all investment transactions and the collection of income.

The Fund's bank account is held with Lloyd's Bank. Funds not immediately required to pay benefits are held as interest bearing operational cash with Lloyds Bank.

The actuary is responsible for assessing the long term financial position of the pension fund and issues a Rates and Adjustments statement following their triennial valuation of the Pension Fund, which sets out the minimum contributions which each employer in the Scheme is obliged to pay over the following three years.

FUNDING STRATEGY STATEMENT

The Funding Strategy Statement (Appendix 4) sets out the aims and purpose of the pension fund and the responsibilities of the administering authority as regards funding the scheme.

Its purpose is:

- To establish a clear and transparent fund-specific strategy to identify how employers' pension liabilities are best met going forward;
- To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;
- To take a prudent longer-term view of funding those liabilities.

STEWARDSHIP CODE

The Pensions Committee believes that investor stewardship is a key component of good governance, and is committed to exercising this responsibility with the support of its investment managers. In line with this approach, all of the Council's equity investment managers are signatories to the UK Stewardship Code.

The Pensions Committee believes that companies should be accountable to shareholders and should be structured with appropriate checks and balances so as to safeguard shareholders' interests, and deliver long-term returns.

The Pensions Committee encourages Fund Managers to consider a range of factors before making investment decisions, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental and social issues. Such considerations may also be linked to voting choices at company AGMs.

The Pensions Committee's role is not to micro-manage companies but provide perspective and share with boards and management our priorities for investment and approach to corporate governance. The ultimate aim is to work with management, shareholders and stakeholders to bring about changes that enhance long-term performance.

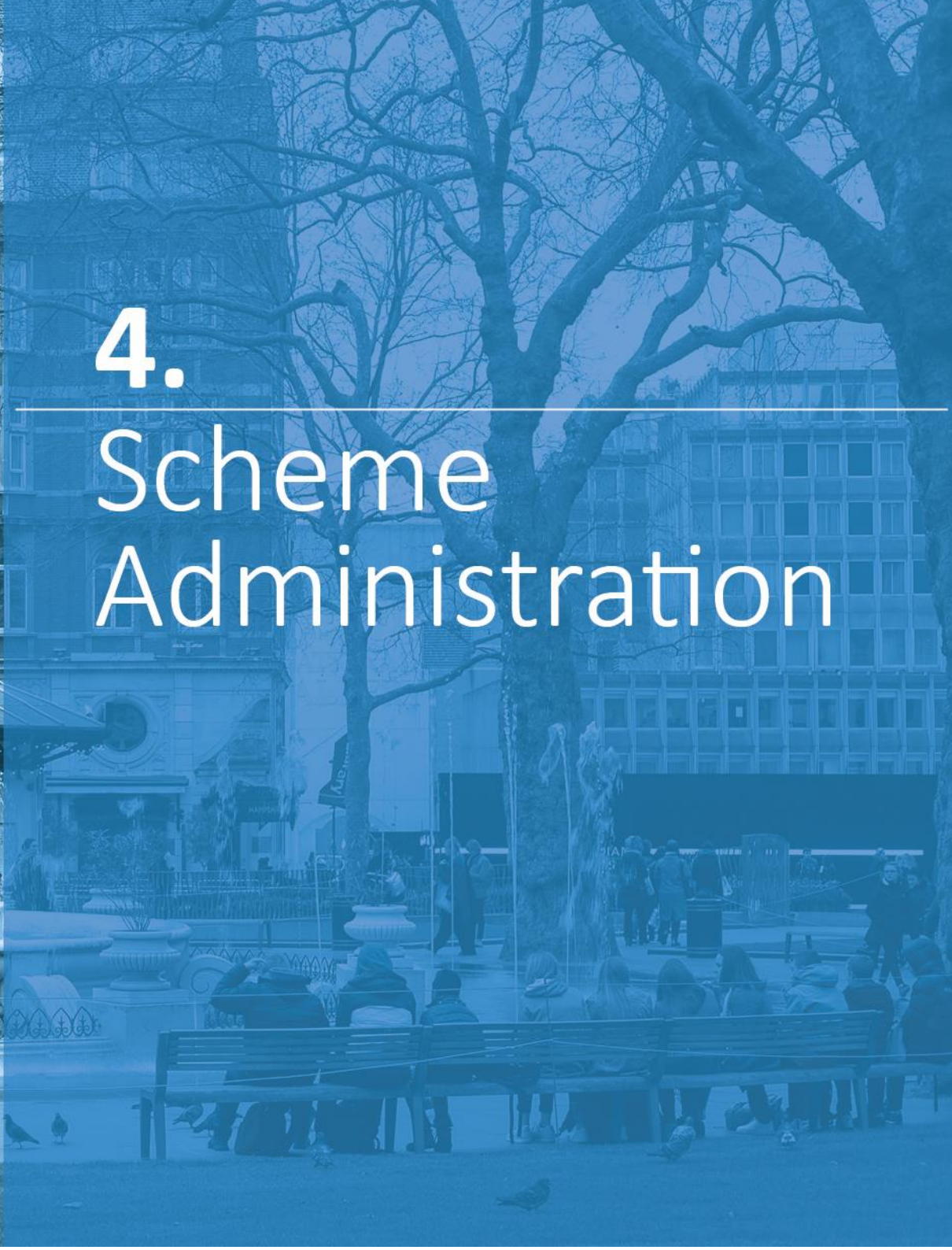
The Stewardship Policy provides further information on the different elements of the Council's commitment to stewardship. It is intended as a guide for investment managers, investee companies and pension fund members and can be accessed via the pension fund website on

http://transact.westminster.gov.uk/docstores/publications_store/Pensions/stewardship_policy_150908_final.docx



4.

Scheme Administration



Scheme Administration

SERVICE DELIVERY

Although the LGPS is a national scheme, it is administered locally. Westminster City Council has a statutory responsibility to administer the pension benefits payable from the Pension Fund on behalf of the participating employers and the past and present members and their dependents.

The City Council administers the scheme for 41 employers (a list of employers is provided in section 2) These employers include not only the City Council, but also academy schools within the borough and a small number of organisations linked to the Council which have been “admitted” to the pension fund under agreement with the City Council.

A not-for-profit contractual arrangement is in place with Surrey CC for the provision of pension administration services. Performance of this service against targets within the contract is reported on page 20. The City Council’s Human Resources provide oversight of the administration service.

COMMUNICATION POLICY STATEMENT

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare, publish and maintain a communication policy statement, which can be found on page 109. The Communication Policy details the overall strategy for involving stakeholders in the pension fund. A key part of this strategy is a dedicated pension fund website, which includes a great deal more information about the benefits of the pension fund and this can be accessed via the following link:

<http://www.wccpensionfund.co.uk/>

INTERNAL DISPUTE RESOLUTION PROCEDURE

Members of pension schemes have statutory rights to ensure that complaints, queries and problems concerning pension rights are properly resolved. To facilitate this process, an Internal Disputes Resolution Procedure (IDRP) has been established. While any complaint is progressing, fund members are entitled to contact The Pensions Advisory Service (TPAS), who can provide free advice.

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

IDRP Stage 2 involves a referral to the administering authority, Westminster City Council to take an independent view.

IDRP Stage 3 is a referral of the complaint to the Pension Ombudsman.

- one complaint was received in 2016/17 but resolved before reaching IDRP Stage 1
- one complaint went to IDRP Stage 1 but was then resolved

No complaints received in 2016/17 have been referred to the Pensions Ombudsman.

Both TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road
Pimlico
London
SW1V 1RB



5. Actuarial Information

Report by Actuary

INTRODUCTION

The last full triennial valuation of the City of Westminster Pension Fund (“the Fund”) was carried out as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2017.

This statement gives an update on the funding position as at 31 March 2018 and comments on the main factors that have led to a change since the full valuation.

2016 VALUATION

The results for the Fund at 31 March 2016 were as follows:

- The Fund as a whole had a funding level of 80% i.e. the assets were 80% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £264m which is lower than the deficit at the previous valuation in 2013.
- To cover the cost of new benefits a total contribution rate of 16.9% of pensionable salaries would be needed.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their share of the deficit.
- Full details of all the assumptions underlying the valuations are set out in our valuation report.

UPDATED POSITION

Using assumptions consistent with those adopted at the 2016 valuation, we estimate that the funding position at 31 March 2018 has improved compared with the position as at 31 March 2016, although the primary rate has also increased due to changes in market conditions.

The next formal valuation will be carried out as at 31 March 2019 with new contribution rates set from 1 April 2020.



Graeme Muir FFA

Partner, Barnett Waddingham LLP



6.

Pension Fund Accounts

Statement of Responsibilities

Responsibility for the Financial Statements, which form part of this Annual Report, is set out in the following declaration.

THE COUNCIL'S RESPONSIBILITIES

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs, in line with statute this is the City Treasurer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

THE CITY TREASURER'S RESPONSIBILITIES

The City Treasurer is responsible for the preparation of the Pension Fund Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present fairly the financial position of the Pension Fund at the accounting date and the income and expenditure for the year then ended.

In preparing these Statements of Accounts, the City Treasurer has:

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

The City Treasurer has also:

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



Steven Mair
City Treasurer, Section 151 Officer

Date: 02nd April 2018

Independent Auditors Report

Independent auditor's report to the members of the City of Westminster Council Pension Fund on the pension fund financial statements published with the pension fund annual report

We have audited the pension fund financial statements of Westminster City Council (the "Authority") for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

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

RESPECTIVE RESPONSIBILITIES OF THE CITY TREASURER AND THE AUDITOR

As explained more fully in the Statement of the City Treasurer's Responsibilities, the City Treasurer is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Independent Auditors Report (continued)

SCOPE OF THE AUDIT OF THE PENSION FUND FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the City Treasurer; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON THE PENSION FUND FINANCIAL STATEMENTS

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and applicable law.

OPINION ON OTHER MATTERS

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the pension fund financial statements.

Paul Dossett

for and on behalf of Grant Thornton UK LLP,
Appointed Auditor

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

15 June 2018

Pension Fund Accounts and Explanatory Notes

FUND ACCOUNT

2016/17	Notes	2017/18
£'000		£'000
Dealings with members, employers and others directly involved in the fund		
Contributions		
(27,200) From Employers	7	(44,982)
(8,706) From Members	7	(8,894)
(2,809) Individual Transfers in from Other Pension Funds		(4,992)
(38,715)		(58,868)
Benefits		
41,315 Pensions	8	43,802
7,894 Commutation, Lump Sum Retirement and Death Benefits	8	8,674
Payments to and on Account of Leavers		
2385 Individual Transfers Out to Other Pension Funds		4,807
0 Bulk transfers		0
38 Refunds to Members Leaving Service		67
51,632		57,350

Pension Fund Accounts and Explanatory Notes (continued)

2016/17	Notes	2017/18
£'000		£'000
12,917	Net (Additions)/Withdrawals from Dealings with Members	(1,518)
5,052	Management Expenses	5,734
17,969	Net (additions)/withdrawals including management expenses	4,216
Returns on Investments		
(9,891)	Investment Income	(15,785)
-	Other Income	-
-	Taxes on Income (Irrecoverable Withholding Tax)	-
(9,891)		(15,785)
(209,434)	(Profit) and loss on disposal of investments and changes in the market value of investments	(56,708)
(219,325)	Net return on investments	(72,493)
(201,356)	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year	(68,277)
(1,066,343)	Opening Net Assets of the Scheme	(1,267,699)
(1,267,699)	Closing Net Assets of the Scheme	(1,335,976)

Net Assets Statement for the year ended 31 March 2018*

2016/17		Notes	2017/18
£'000			£'000
Investment assets			
173,673	Bonds	17	183,879
150	Equities		150
1,085,348	Pooled Investment Vehicles		1,129,276
Derivative Contracts:			
286	Futures	14	282
98	Forward Foreign Exchange	14	55
Other Investment Balances:			
2,499	Income Due		2,790
0	Debtors		13,218
1,726	Cash Deposits		10,321
1,263,780			1,339,971
Investment Liabilities			
Derivative Contracts:			
(43)	Futures	14	(173)
(134)	Forward Foreign Exchange	14	(56)
(177)			(229)

Net Assets Statement for the year ended 31 March 2018* (continued)

2016/17		Notes	2017/18
£'000			£'000
(1,710)	Amounts payable for purchases of investments	12	(9,663)
1,261,893	Net Value of Investment Assets	11	1,330,079
7,010	Current Assets	20	6,728
(1,204)	Current Liabilities	21	(831)
1,267,699	Net Assets of the Fund Available to Fund Benefits at the Period End		1,335,976

* 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 19

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 2016.

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 2018. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was as at 31 March 2016. Currently employer contribution rates range from 10.1% to 38.8% 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.

The City of 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

In accordance with the LGPS (Management and Investment of Funds) Regulations 2009 the Committee approved a Statement of Investment Principles in 2015 (available on the Council's website). The Statement shows the Authority's compliance with the Myners principles of investment management.

The Committee has delegated the management of the Fund's investments to external investment managers (see Note 11) appointed in accordance with 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 pension 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 2017		31 March 2018
30	Number of employers with active members	31
4,129	Active members	4,359
5,706	Pensioners receiving benefits	5,830
6,281	Deferred Pensioners	6,220
16,116		16,409

Note 2 Basis of preparation of financial statements

The Statement of Accounts summarise the Fund's transactions for 2017/18 and its position at year end as at 31st March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (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 summarise the transactions of the Fund and report on the net assets available to pay pension benefits.

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. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Authority has opted to disclose this information in an accompanying report to the accounts, which is disclosed in Note 19. The Pension Fund Accounts have been prepared on a going concern basis.

Note 3 Accounting Standards issued but not yet adopted

At the balance sheet date, the following new standards and amendments to existing standards had been published but not yet adopted by the Code of Practice on Local Authority Accounting in the United Kingdom:

- **IFRS 9 Financial Instruments**, which introduces extensive changes to the classification and measurement of financial assets, and a new “expected credit loss” model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to amortised cost. There are not expected to be any changes in the measurement of financial assets and the Fund does not at this stage anticipate any adjustments for impairments.
- **IFRS 15 Revenue from Contracts with Customers**, presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Fund does not have any revenue streams within the scope of the new standard.

- **IAS 7 Statement of Cash Flows (Disclosure Initiative)**, will potentially require some additional analysis of Cash Flows from Financing Activities, however since the Fund is not currently required to prepare a Cash Flow Statement it does not anticipate any additional disclosure.
- **IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses)**, applies to deferred tax assets related to debt instruments measured at fair value. Currently the Fund does not hold such financial instruments.

Note 4 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. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

c) Investment Income

Investment income is 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 either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as a cash dividend to support the Fund's outgoing cash flow requirements.

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 in the net asset statement.

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.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits and losses during the year..

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 4 Summary of significant accounting policies (continued)

f) Management Expenses

Pension fund management expenses are accounted for in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs 2016.:

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 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.

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. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the value of the asset are recognised in the Fund account.

The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 15).

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 (see Note 14).

Note 3 Summary of significant accounting policies (continued)

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 payable 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 19).

m) Additional Voluntary Contributions

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, but are disclosed as a note only (Note 22).

n) Recharges from the General Fund

The LGPS (Management and Investment of Funds) Regulations 2016 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 23.

Note 5 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 6 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 £182m. A 0.2% increase in assumed earnings would increase the value of liabilities by approximately £5m and a year increase in life expectancy would increase the liability by about £75m..

VALUATION OF INVESTMENTS LEVEL 3

The Pension Fund contains investments in unitised pooled property funds that are classified within the financial statements as level 3 investments (as detailed in note 15). These funds are valued according to non-exchange based market valuations. As a result of this, the final realised value of those pooled units may differ slightly from the valuations presented in the accounts.

Note 7 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

	2016/17	2017/18
	£'000	£'000
25,928 Administering Authority		(43,652)
5,856 Scheduled bodies		(5,763)
4,122 Admitted bodies		(4,461)
	35,906	(53,876)

BY TYPE

	2016/17	2017/18
	£'000	£'000
8,706 Employees' normal contributions		(8,894)
Employer's contributions:		
15,680 Normal contributions		(18,981)
9,957 Deficit recovery contributions		(24,863)
1,563 Augmentation contributions		(1,138)
	35,906	(53,876)

Note 8 Benefits payable

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

BY TYPE

2016/17		2017/18
£'000		£'000
41,315	Pensions	43,802
7,292	Commutation and lump sum retirement benefits	7,034
602	Lump sum death benefits	1,640
49,209		52,476

BY AUTHORITY

2016/17		2017/18
£'000		£'000
39,469	Administering Authority	41,206
1,885	Scheduled Bodies	2,020
7,855	Admitted Bodies	9,250
49,209		52,476

Note 9 Management Expenses

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

2016/17		2017/18
£'000		£'000
571	Administration Expenses	386
330	Oversight and Governance	373
4,151	Investment Management Expenses	4,975
5,052		5,734

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

2016/17		2017/18
£'000		£'000
2,790	Management fees	3,095
380	Performance fees	-
70	Custody fees	63
911	Transaction costs	1,817
4,151		4,975

External audit fee payable for 2017/18 is £21,000 (2016/17 £21,000).

Note 10 Investment Income

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

2016/17		2017/18
£'000		£'000
6,522	Bonds	6,762
2	Equity dividends	
1,095	Pooled investments - unit trust and other managed funds	6,713
2,276	Pooled property investments	2,265
(4)	Interest and cash deposits	45
9,891	Total before taxes	15,785
9,891	Total	15,785

Note 11 Investment Management Arrangements

As at 31 March 2018, the investment portfolio was managed by seven external managers:

- 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, managed by the London CIV), 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.

The Fund became a shareholder in the London LGPS CIV Ltd (the organisation set up to run pooled LGPS investments in London) in 2015 and holds £150,000 of regulatory capital in the form of unlisted UK equity shares.

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 2018 was as follows:

31 March 2016 Market Value	%	Fund Manager	Mandate	31 March 2018 Market Value	%
£'000				£'000	
303,639	24.1%	Majedie	UK Equity (Active)	297,503	22.4%
150	-	London CIV	UK Equity (Passive)	150	-
303,789	24.1%	UK Equity	Sub-Total	297,653	22.4%
233,835	18.5%	London LGPS CIV Ltd - Baillie Gifford	Global Equity (Active)	264,319	19.9%
282,705	22.4%	LGIM	World Equity (Passive)	310,073	23.3%
140,970	11.2%	Longview	Global Equity (Active)	142,754	10.7%
657,510	52.1%	Global Equity	Sub-Total	717,146	53.9%
18,867	1.5%	Insight	Fixed Interest Gilts	18,626	1.4%
170,313	13.5%	Insight	Sterling non-Gilts	173,103	13%
189,180	15.0%	Bonds	Sub-Total	191,729	14.4%
56,572	4.5%	Hermes	Property	62,983	4.7%
54,773	4.3%	Standard Life	Property	60,474	4.5%
111,345	8.8%	Property	Sub-Total	123,457	9.2%
1,261,824	100.0%	Total (excluding cash)	Sub-Total	1,329,985	100%
69		Other (cash deposits)		94	
1,261,893	100.0%	Total Investments at 31 March 2017	Total	1,330,079	100.0%

Note 12 Reconciliation in movement in investments

2016/17	Market value 1 April 2016	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 2017
	£'000	£'000	£'000	£'000	£'000
Bonds	157,123	65,146	(55,646)	7,050	173,673
Equities	-	-	-	-	-
Pooled equity investments	790,373	231,435	(244,880)	197,831	974,759
Pooled property investments	105,811	-	(260)	5,188	110,739
Derivatives:					
Futures	20	2,044	(2,971)	1,150	243
Forward foreign exchange	(104)	3,200	(1,440)	(1,692)	(36)
Cash Instruments	-	-	-	-	-
Total	1,053,223	301,825	(305,197)	209,527	1,259,378
Cash deposits	2,598	-	-	(99)	1,726
Amounts receivable for sales of investments	-	-	-	-	-
Investment income due	2,440	-	-	-	2,499
Spot FX contracts	3	-	-	6	-
Amounts payable for purchases of investments	(329)	-	-	-	(1,710)
Net investment assets	1,057,935	-	-	209,434	1,261,893

Note 12 Reconciliation in Movement in Investments (continued)

2017/18	Market value 1 April 2017	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 2018
	£'000	£'000	£'000	£'000	£'000
Bonds	173,673	127,645	(112,775)	(4,664)	183,879
Equities	150	-	-	-	150
Pooled equity investments	974,609	393,201	(410,211)	51,010	1,008,609
Pooled property investments	110,739	-	(333)	10,261	120,667
Derivatives:					
Futures	243	1,205	(987)	(352)	109
Forward foreign exchange	(36)	816	(1,232)	451	(1)
Cash Instruments	-	-	-	-	-
Total	1,259,378	522,867	(525,538)	56,706	1,313,413
Cash deposits	1,726	-	-	47	10,321
Amounts receivable for sales of investments	-	-	-	-	13,218
Investment income due	2,499	-	-	-	2,785
Spot FX contracts	-	-	-	(1)	5
Amounts payable for purchases of investments	(1,710)	-	-	(44)	(9,663)
Net investment assets	1,261,893	-	-	56,708	1,330,079

Purchases and sales of derivatives are recognised in Note 12 above as follows:

- **Futures** – on close out or expiry of the futures contract the variation margin balances held in respect of unrealised gains or losses are recognised as cash receipts or payments, depending on whether there is a gain or loss;
- **Forward currency contracts** – forward currency contracts settled during the period are reported on a gross basis as gross receipts and payments.

Note 13 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 2017 Market Value		Holding	31 March 2018 Market Value	
£'000	% Holding		£'000	% Holding
303,636	24.1%	Majedie - Institutional Trust Class B Shares		
		London LGPS CIV Ltd – LCIV MJ UK Equity A GBP INC	292,703	22.0%
282,706	22.4%	L&G - World Equity Index - GBP Hedged/GB Hedged OFC	310,073	23.3%
233,313	18.5%	London LGPS CIV Ltd – Baillie Gifford Life Global Alpha Sub Fund	261,977	19.7%
140,969	11.2%	Longview - Conventum Asset Management	142,754	10.7%
960,624	76.2%	Total Top Holdings	1,007,507	75.7%
1,261,893		Total Value of Investments	1,330,079	

Note 14 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.

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 2017	Type	Expires	Economic Exposure	Market Value 31 March 2017
£'000	£'000			£'000	£'000
Assets					
18,882	282	UK Fixed Income	less than 1 year	14,861	278
(1,353)	4	Overseas fixed income	less than 1 year	547	4
	286	Total Assets			282
Liabilities					
(11,199)	(43)	Overseas Fixed Income	less than 1 year	(5,927)	(173)
	(43)	Total Liabilities			(173)
Net futures					
	243				109

Note 14 Analysis of Derivatives (continued)

FORWARD CURRENCY CONTRACTS

Outstanding exchange traded forward currency contracts are as follows:

Settlement	Currency bought	Local Value (£'000)	Currency sold	Local Value (£'000)	Asset Value (£'000)	Liability Value (£'000)
One to six months	GBP	855	EUR	(966)	7	0
Up to one month	GBP	8,222	USD	(11,561)	27	(44)
Up to one month	GBP	13,549	EUR	(15,438)	12	(8)
One to six months	GBP	1,802	USD	(2,524)	9	(3)
Open forward currency contracts at 31 March 2018					55	(55)
Net forward currency contracts at 31 March 2018						
Prior year comparative:						
Open forward currency contracts at 31 March 2017					98	(134)
Net forward currency contracts at 31 March 2017						(36)

Note 15 Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Description of asset	Valuation hierarchy 16/17	Valuation hierarchy 17/18	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments - Equity Funds UK and Overseas Managed Funds	Level 1	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets.	Evaluated price feeds	Not required
Quoted UK and Overseas Bonds	Level 2	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	Evaluated price feeds	Not required
Futures	Level 2	Level 2	Published exchange prices at the year-end.	Evaluated price feeds	Not required
Forward Foreign Exchange Derivatives	Level 2	Level 2	Market forward exchange rates at the year-end.	Exchange rate risk	Not required
Pooled Long Lease Property Fund	Level 2	Level 2	The Standard Life Long Lease Property Fund is priced on a Single Swinging Price.	In house evaluation of market data	Not required
Pooled Investments – Property Funds	Level 3	Level 3	Closing bid price where bid and offer prices are published.	Adjusted for net capital current assets	Estimated acquisition and disposal costs

SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018.

Description of asset	Assessed Valuation Range (+/-)	Value at 31 March 2018	Value on increase	Value on decrease
		£000	£000	£000
Pooled investments - Property funds	3%	60,343	62,153	58,533
Total		60,343	62,153	58,533

As at 31st March 2017 – Restated due to cash balances held within the portfolio

Description of asset	Assessed Valuation Range (+/-)	Value at 31 March 2017	Value on increase	Value on decrease
		£000	£000	£000
Pooled investments - Property funds	3%	56,117	57,800	54,433
Total		56,117	57,800	54,433

Note 15a 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 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. Level 3 restated due to cash balances held within the portfolio

31 March 2017				31 March 2018		
Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3		Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3
£'000	£'000	£'000		£'000	£'000	£'000
Financial Assets						
962,654	236,555	56,117	Financial assets at fair value through profit and loss	282	1,251,920	60,343
(44)	(1,844)	-	Financial liabilities at fair value through profit and loss	(173)	(9,719)	-
962,610	234,711	56,117		109	1,242,201	60,343
1,253,438		Grand Total		1,302,653		

Note 15b Transfers between Levels 1 and 2

£1,007.506m of pooled equity investments with Legal and General Investment Management, Ballie Gifford, Longview and Majedie were transferred from level 1 to level 2 during the year as a result of additional pricing information becoming available (note 15).

Note 15c Reconciliation of Fair Value Measurements within Level 3

2017/18	Opening balance	Transfers into Level 3	Transfers out of Level 3	Purchases	Sales	Unrealised gains/losses	Realised gains/losses	Closing balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equity	150	-	-	-	-	-	-	150
Pooled investments - property funds	55,967	-	-	-	-	4,226	-	60,193
Total	56,117	-	-	-	-	4,226	-	60,343

Transferred from level 2 to level 3 due to reappraisal of property valuation techniques – balances restated due to cash balances held in the property portfolio

2016/17	Opening balance	Transfers into Level 3	Transfers out of Level 3	Purchases	Sales	Unrealised gains/losses	Realised gains/losses	Closing balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equity		150	-	-	-	-	-	150
Pooled investments - property funds		54,660	-	-	-	1,307	-	55,967
Total		54,810	-	-	-	1,307	-	56,117

Note 16a 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.

31-Mar-17			31-Mar-18		
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					
26,553	-	-	-	-	-
82,913	-	-	98,537	-	-
782	-	-	-	-	-
61,463	-	-	85,342	-	-
1,962	-	-	-	-	-
Pooled funds - investment vehicles					
819,804	-	-	864,903	-	-
110,739	-	-	120,667	-	-
154,955	-	-	143,856	-	-
Derivative Contracts					
286	-	-	282	-	-
98	-	-	55	-	-
-	5,544	-	-	4,668	-
2,499	-	-	-	2,790	-
-	1,726	-	-	10,321	-
-	1,434	-	-	14,611	-
1,262,054	8,704	-	1,313,642	32,390	-

31 March 2017				31 March 2018		
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						
(43)	-	-	Futures	(173)	-	-
(134)	-	-	Forward Foreign Exchange	(56)	-	-
-	-	-	Other Investment Balances	-	-	-
-	-	(2,323)	Creditors	-	-	(9,904)
(177)	-	(2,323)		(229)	-	(9,904)
1,261,877	8,704	(2,323)	Total	1,313,413	32,390	(9,904)
1,268,258				1,335,899		

Note 16b 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 2016		31 March 2017
£'000		£'000
Financial Assets		
209,527	Designated at fair value through profit and loss	56,706
(99)	Loans and receivables	2
209,428		56,708
Financial Liabilities		
6	Designated at fair value through profit and loss	-
-	Financial liabilities at amortised cost	-
6		-
209,434	Total	56,708

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 17 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 instrument 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.

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 2017	1,259,457	1,385,403	1,133,511
As at 31 March 2018	1,330,079	1,463,088	1,197,072

Note 17 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 14).

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	Average Duration	Value	Value on 1% increase	Value on 1% decrease
	Yrs	£'000	£'000	£'000
UK public sector quoted	3.63	26,553	25,590	27,516
UK quoted	6.80	82,913	77,275	88,551
Overseas public sector quoted	8.62	782	715	849
Overseas quoted	5.96	61,463	57,798	65,128
Overseas public sector Index linked	24.67	1,962	1,478	2,446
As at 31 March 2017		173,673	162,856	184,490

Assets exposed to interest rate risk	Average Duration	Value	Value on 1% increase	Value on 1% decrease
	Yrs	£'000	£'000	£'000
UK quoted	6.83	98,536	91,810	105,263
Overseas quoted	8.13	85,342	78,403	92,282
As at 31 March 2018		183,878	170,213	197,545

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 14). 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 16 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 2017	811,085	892,194	729,977
As at 31 March 2018	750,881	825,969	675,793

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 2018, liquid assets were £1,209m representing 91% of total fund assets (£1,158m at 31 March 2017 representing 91% of the Fund at that date). The majority of these investments can in fact 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 or managing changes in fund managers. The facility was not used in the year.

Note 18 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 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 2016 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 31 March 2017. The report and Funding Strategy Statement are both available on the Council's website.

The actuary's smoothed market value of the scheme's assets at 31 March 2016 was £1,056.7m and the Actuary assessed the present value of the funded obligation at £1,320.8m. This indicates a net liability of £264.1m, which equates to a funding position of 80% (2013: £297.3m 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 %
Bonds	3.3	20
Equities	7.4	65
Property	5.9	15

Financial assumptions	2016 %	2013 %
Discount rate - scheduled bodies	5.1	5.9
Discount rate - admitted bodies	4.5	4.9
RPI	3.3	3.5
CPI	2.4	2.7
Pension increases	2.4	2.7
Short-term pay increases	2.4	1.0
Long-term pay increases	3.9	4.5

The 2016 valuation certified an aggregate employer contribution rate of 33.9% of pensionable pay (2013: 29.8%). 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 22 years, as set out in the Funding Strategy Statement (2013: 25 years). The common future service contribution rate for the Fund was set at 16.9% of pensionable pay (2013: 13.3%).

The triennial valuation also sets out the individual contribution rate to be paid by each employer from 1 April 2017 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.

Note 19 Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2018. 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 pension's legislation.

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

	31 March 2017		31 March 2018
	£'000		£'000
(2,052,314)	Present Value of Promised Retirement Benefits	(2,014,651)	
1,274,628	Fair Value of Scheme Assets (bid value)	1,335,977	
(777,686)	Net Liability	(678,674)	

Present Value of Promised Retirement Benefits comprise of £1,967.2m (2016/17: £1,998.1m) and £47.5m (2016/17: £54.2m) in respect of vested benefits and non-vested benefits respectively as at 31 March 2018.

ASSUMPTIONS

To assess the value of the Fund's liabilities at 31 March 2018, the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2016 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 2016, hence they are different from those used for the 2017/18 statement of accounts. The post retirement mortality tables adopted are the S1PA tables with a multiplier of 80%, for males and 85% for females. These base tables are then projected using the CMI 2015 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 2017	31 March 2018
Retiring today	Males	24.4	24.5
	Females	26.0	26.1
Retiring in 20 years	Males	26.6	26.8
	Females	28.3	28.4

FINANCIAL ASSUMPTIONS

The main financial assumptions are:

	31 March 2017	31 March 2018
	%	%
RPI increases	3.60	3.30
CPI increases	2.70	2.30
Salary increases	4.20	3.80
Pension increases	2.70	2.30
Discount rate	2.70	2.55

Note 20 Current Assets

31 March 2017		31 March 2018
£'000		£'000
	Debtors:	
719	Contributions due - employers	1,228
179	Contributions due - employees	165
568	Sundry debtors	667
5,544	Cash balances	4,668
7,010		6,728

ANALYSIS OF DEBTORS

31 March 2017		31 March 2018
£'000		£'000
32	Central Government Bodies	667
1,434	Other entities and individuals	1,393
1,466	Total	2,060

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Note 21 Current Liabilities

31 March 2017		31 March 2018
£'000		£'000
(1,204)	Sundry creditors	(831)
(1,204)	Total	(831)

ANALYSIS OF CREDITORS

31 March 2017		31 March 2018
£'000		£'000
(591)	Central government bodies	(589)
(613)	Other entities and individuals	(242)
(1,204)	Total	(831)

Note 22 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 2017 Market Value		31 March 2018 Market Value
£'000		£'000
1,318	Aegon	956
409	Equitable Life	438
1,727	Total	1,394

Additional voluntary contributions of £0.1m were paid directly to Aegon during the year (2016/17: £0.1m).

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, 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 23 Related Party Transactions

The Fund is administered by Westminster City Council. The Council incurred costs of £0.43m in the period 2017/18 (2016/17: £0.37m) 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..

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 and Treasury Management and the Director of People Services. Total remuneration payable to key management personnel is set out below:

31 March 2017		31 March 2018	
£'000		£'000	
55	Short-term benefits	42	
91	Post-employment benefits	83	
7	Termination benefits	-	
153		125	Total

Note 24 External audit costs

The external fee payable to the Fund's external auditors Grant Thornton UK LLP was £21,000 (£21,000 in 2016/17). A refund of £3,120 was also received from Public Sector Audit Appointment (PSAA).

31-Mar-17		31 March 2018	
£'000		£'000	
21	External audit fees		21
-	PSAA refund		(3)
21	Total		18

Note 25 Related Party Transactions

Management have reviewed and can confirm that there are no significant events occurring after the reporting period.

7.

Glossary and Contacts



Glossary of Terms

ACCOUNTING POLICIES

The rules and practices adopted by the authority that determine how the transactions and events are reflected in the accounts.

ACCRUALS

Amounts included in the accounts for income or expenditure in relation to the financial year but not received or paid as at 31 March.

ACTIVE MANAGEMENT

Active management or active fund management is where the fund manager makes specific investments with the aim of outperforming an investment benchmark.

ACTIVE MEMBER

Current employee who is contributing to a pension scheme.

ACTUARIAL GAINS AND LOSSES

These arise where actual events have not coincided with the actuarial assumptions made for the last valuations (known as experience gains and losses) or the actuarial assumptions have been changed.

ACTUARY

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

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

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

ADMITTED BODY

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

ASSET ALLOCATION

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

BENCHMARK

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

BONDS

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

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTING)

CIPFA is the professional institute for accountants working in the public services. CIPFA publishes the Code.

CREDITORS

Amounts owed by the Council for goods and services received but not paid for as at 31 March.

DEBTORS

Amounts owed to the Council for goods and services provided but where the associated income was not received as at 31 March.

DEFERRED MEMBERS

Scheme members, who have left employment or ceased to be active members of the scheme whilst remaining in employment, but retain an entitlement to a pension from the scheme.

DEFINED BENEFIT SCHEME

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

Glossary of Terms (continued)

DERIVATIVE

A derivative is a financial instrument which derives its value from the change in price (e.g. foreign exchange rate, commodity price or interest rate) of an underlying investment (e.g. equities, bonds, commodities, interest rates, exchange rates and stock market indices), which no net initial investment or minimal initial investment and is settled at a future date

EMPLOYER CONTRIBUTION RATES

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

EQUITIES

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

EXCHANGE TRADED

This describes a financial contract which is traded on a recognised exchange such as the London Stock Exchange or the London International Financial Futures Exchange.

FINANCIAL ASSETS

Financial assets are cash, equity instruments within another entity (eg shares) or a contractual right to receive cash or another asset from another entity (eg debtors) or exchange financial assets or financial liabilities under potentially favourable conditions (eg derivatives).

FINANCIAL INSTRUMENT

Any contract giving rise to a financial asset in one entity and a financial liability or equity in another entity.

FINANCIAL LIABILITIES

Financial assets are contractual obligations to deliver cash or another financial asset (eg creditors) or exchange financial assets or financial liabilities under potentially unfavourable conditions (eg derivatives).

FORWARD FOREIGN EXCHANGE DERIVATIVE

Forward foreign exchange derivatives are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.

INDEX

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

OVER THE COUNTER

This describes a financial contract which is potentially unique as they are not usually traded on a recognised exchange

PASSIVE MANAGEMENT

Passive management is where the investments mirror a market index.

POOLED INVESTMENT VEHICLES

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

PROJECTED UNIT METHOD – PENSION FUND VALUATION

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases, and
- the accrued benefits for members in service on the valuation date.

Glossary of Terms (continued)

RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party, to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or

the parties, in entering a transaction, are subject to influence from the same source, to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Advice from CIPFA is that related parties to a local authority include Central Government, bodies precepting or levying demands on the Council Tax, members and chief officers of the authority and its pension fund.

RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party, irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the pension fund;
- the provision of services to a related party, including the provision of pension fund administration services; and
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, rents and payments of benefits.

RETURN

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

SCHEDULED BODY

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

THE CODE

The Code incorporates guidance in line with IFRS, IPSAS and UK GAAP Accounting Standards. It sets out the proper accounting practice to be adopted for the Statement of Accounts to ensure they 'present fairly' the financial position of the Council. The Code has statutory status via the provision of the Local Government Act 2003.

UNREALISED GAINS/LOSSES

The increase or decrease in the market value of investments held by the fund since the date of their purchase.

NOTE: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.

Contact Information

This document gives details of Westminster City Council's Annual Accounts and is available on the Council's website at westminster.gov.uk.

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8.

Appendices

Governance Compliance Statement

BACKGROUND

The City of Westminster is the administering authority for the City of Westminster Pension Fund (“the Fund”) and it administers the Local Government Pension Scheme on behalf of the participating employers.

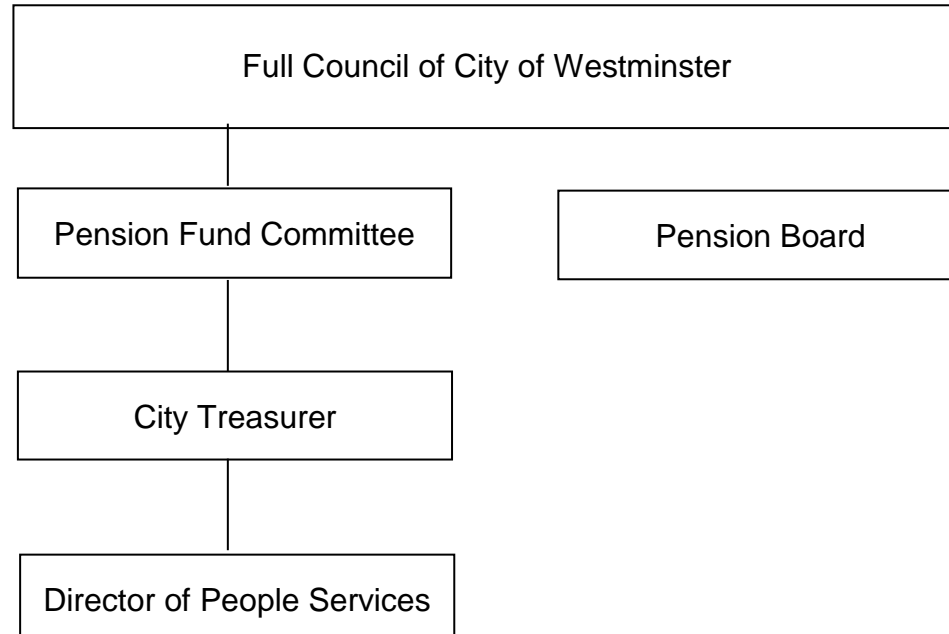
Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires all administering authorities for local government pension schemes to publish a Governance Compliance Statement setting out the Fund’s governance arrangements.

Information on the extent of the Fund’s compliance with guidance issued by the Secretary of State for Communities and Local Government is also a requirement of this regulation.

GOVERNANCE STRUCTURE

The diagram below shows the governance structure in place for the Fund.

Full Council has delegated its functions in relation to the Pension Fund regulations, as shown in the diagram. The sections below explain the role of each party and provide the terms of reference.



Governance Compliance Statement (continued)

PENSION FUND COMMITTEE

Full Council has delegated all decisions in relation to the Public Service Pensions Act 2013 to the Pension Fund Committee.

The role of the Pension Fund Committee is to have responsibility for all aspects of the investment and other management activity of the Fund.

The Committee comprises four elected members - three Majority Party councillors and one opposition councillor. The Committee may co-opt non-voting independent members, including Trade Unions and representatives from the admitted and scheduled bodies in the Pension Fund.

All Councillors on the Committee have voting rights. In the event of an equality of votes, the Chair of the Committee shall have a second casting vote. Where the Chair is not in attendance, a Vice-Chair will be elected.

The Committee meets four times a year and may convene additional meetings as required. Three members of the Committee are required to attend for a meeting to be quorate.

The terms of reference for the Pension Fund Committee are:

1. To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.
2. To monitor performance of the Superannuation Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable;
3. To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
4. To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
5. To approve the final statement of accounts of the Superannuation Fund and to approve the Annual Report.
6. To receive actuarial valuations of the Superannuation Fund regarding the level of employers' contributions necessary to balance the Superannuation Fund.
7. To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.
8. To make and review an admission policy relating to admission agreements generally with any admission body.
9. To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
10. To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
11. To receive and consider the Auditor's report on the governance of the Pension Fund.
12. To determine the compensation policy on termination of employment and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
13. To determine policy on the award of additional membership of the pension fund and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
14. To determine policy on the award of additional pension and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

Governance Compliance Statement (continued)

15. To determine policy on retirement before the age of 60 and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

16. To determine a policy on flexible retirement and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

17. To determine questions and disputes pursuant to the Internal Disputes Resolution Procedures

18. To determine any other investment or pension fund policies that may be required from time to time so as to comply with Government regulations and to make any decisions in accordance with those policies other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

PENSION BOARD

With effect from 1st April 2015, all administering authorities are required by the Public Services Pensions Act 2013 to establish a Pension Board to assist them. The City of Westminster Pension Board was established by the General Purposes Committee on 25th February 2015.

The role of the Pension Board is to assist the administering authority with securing compliance with Local Government Pension Scheme regulations and other legislation relating to the governance and administration of the scheme. The Board does not have a decision making role in relation to management of the Fund, but is able to make recommendations to the Pension Fund Committee.

The membership of the Board is as follows:

- Three employer representatives comprising one from an admitted or scheduled body and two nominated by the Council; (Councillors)
- Three scheme members representatives from the Council or an admitted or scheduled body.

All Board members are entitled to vote, but it is expected that as far as possible Board members will reach a consensus. Three Board members are required to attend for a meeting to be quorate. The Board will meet a minimum of twice a year but is likely to meet on a quarterly basis to reflect the same frequency as the Pension Fund Committee.

COMPLIANCE WITH STATUTORY GUIDANCE

It is a regulatory requirement that the Fund publishes the extent to which it complies with statutory guidance issued by the Secretary of State for Communities and Local Government. The guidance and compliance levels are set out in Appendix 1.

REVIEW OF STATEMENT

This statement will be kept under review and updated as required. Consultation with the admitted and scheduled bodies of the Fund will take place before the statement is finalised at each change.

Governance Compliance Statement (continued)

Compliance Requirement	Compliance	Notes
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	As set out in terms of reference of the Pension Fund Committee.
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Pension Fund Committee.
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Not applicable	All Pension Fund matters are considered by the Pension Fund Committee
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel	Not applicable	All Pension Fund matters are considered by the Pension Fund Committee
Committee membership and representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- <ul style="list-style-type: none"> i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an <i>ad hoc</i> basis). 	Compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Pension Fund Committee. Expert advisers attend the Committee as required
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights	Not applicable	All Pension Fund matters are considered by the Pension Fund Committee
Selection and role		
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	Compliant	As set out in terms of reference of the Pension Fund Committee
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Compliant	This is a standing item on the Pension Fund Committee agendas
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	As set out in terms of reference of the Pension Fund Committee

Governance Compliance Statement (continued)

Compliance Requirement	Compliance	Notes
Training, facility time and expenses		
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process	Compliant	As set out in the Council's allowances policy and the Pension Fund Knowledge and Skills policy
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum	Compliant	As set out in the Council's constitution
Meetings		
That an administering authority's main committee or committees meet at least quarterly.	Compliant	As set out in terms of reference of the Pension Fund Committee
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits	Not applicable	All Pension Fund matters are considered by the Pension Fund Committee.
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	Compliant	Represented on the Pensions Board
Access		
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Compliant	As set out in the Council's constitution
Scope		
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Compliant	as set out in terms of reference of the Pension Fund Committee
Publicity		
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements	Compliant	All meeting minutes, reports and Pension Fund policies are published on the Council's website

Communication Policy

BACKGROUND

Regulation 61 of the Local Government Pension Scheme Regulations 2013 requires administering authorities to prepare, publish and maintain a policy statement setting out its communication strategy for communicating with:

- Scheme Members
- Members' Representatives

Prospective members

Employers participating in the Fund

This document sets out the mechanisms that we use to meet our communication responsibilities. We aim to use the most appropriate communication method for the audiences receiving the information. This may involve using more than one medium of communication.

GENERAL COMMUNICATIONS

Correspondence:

Wherever possible we prefer to use electronic systems to receive and send correspondence and data, however hard copy postal services are also available.

Telephone:

Surrey County Council is our third party pension's administrator, their contact information is publicised in the scheme literature and on the website.

The telephone number for general enquiries and complaints: 0208 541 9293

Briefing Sessions and Pension Surgeries:-

The WCC HR Team will organise pension briefing sessions and pension surgeries on an annual basis to ensure staff have access to both personal and general scheme information.

During times of uncertainty including regulation amendments and reorganisation exercises additional briefing sessions and surgeries will be arranged to meet the demand.

Pension's Intranet site:

We have a website which has been designed to communicate and promote the benefits of the Local Government Pension Scheme, this is regularly updated.

It also contains:

- information to help potential members to understand the pension scheme,
- a link that allows current members to see their records online and calculate their own estimates
- online forms,
- advice on how to purchase additional membership,
- and, links to other useful websites

We also have information about recent scheme updates, provide fund investment information, and have a section for feedback.

We are committed to making this website as best as it can possibly be and therefore we have a section for feedback.

We consider this website to be one of our key methods of communication.

<http://www.wccpensionfund.co.uk/>

Communication Policy (continued)

PROSPECTIVE SCHEME MEMBERS

Scheme Guides

Scheme guides are available on the website or can be requested from Surrey County Council.

We promote to all potential members the benefits of the LGPS via the website posters and new starter information.

We also publicise information regarding auto-enrolment to staff via the website and we will liaise with all other scheme employers to remind them of their responsibilities to members on Auto-enrolment periodically offering support as necessary.

OTHER EMPLOYERS

Other employers that form part of our fund are invited to Employer Forums meetings that are held periodically. In the recent past these have been used to as a mechanism for communicating major strategic issues, significant legislation changes, triennial valuation matters and the Funding Strategy Statement.

Employers' are kept informed throughout the process of the tri-annual valuation which is carried out by the Councils actuaries. The employers' comments are always encouraged and welcomed and where appropriate taken into consideration.

OTHER BODIES

London Pensions Officer's Group:

Pensions Officers from London Boroughs meet regularly in order to share information and ensure uniform interpretation of Local Government Pension Scheme, and other prevailing regulations.

National Association of Pension Funds (NAPF):

All administering Authorities who are members of the NAPF are invited to attend, these meetings provide an opportunity to discuss issues of common interest and share best practice.

Seminars

Representatives of the Council regularly participate at seminars and conferences.

Communication Policy (continued)

The table below shows the availability of Fund publications along with their publication frequency and review periods.

Communication Material	Paper Based	Electronic Form	Intranet for staff	When Published	When reviewed
Pension Scheme Guide	√	√	√	Constantly available	Quarterly
Purchase of Additional Membership	√	X	√	Constantly available	Quarterly
Annual Benefit Statement	√	X	√	Annually	Annually
Statutory Notifications	√	X	X	On Joining & ABS	Annually
Pensions Updates	√	√	√	As required	After each Publication
Annual Pension Fund report	√	X	√	Annually	Annually
Early Leaver Information	√	√	√	Sent with Deferred benefits statement	Annually
Retirement Information	√	√	√	Sent with retirement details	Annually
Pensions Increase Letters	√	X	X	Annually	Annually
Actuarial Valuation Report	√	X	X	Tri-annually	Tri-annually
Pension Fund Committee	√	√	√	Quarterly	Quarterly
Communication Policy	√	√	√	Upon request	Quarterly
Governance Policy	√	√	√	Upon Request	Quarterly

Communication Policy (continued)

FURTHER INFORMATION

If you need more information about the Scheme you should contact Surrey County Council at the following address:

SURREY COUNTY COUNCIL

Pension Services (WCC Team)
Surrey County Council
Room 243, County Hall
Penrhyn Road
Kingston upon Thames
Surrey KT1 2DN
Email: *myhelpdeskpensions@surreycc.gov.uk*

General enquiries and complaints:

Phone: 0300 200 1031

Funding Strategy Statement

This is the Funding Strategy Statement of the City of Westminster Superannuation Fund, which has been prepared following consultation with the Fund's employers and advisers. It was approved by the Superannuation Committee on 18 March 2014. The next formal review will take place in conjunction with the next triennial valuation due as at 31st March 2016, but it will be updated in the interim if required.

1. PURPOSE OF THE FUNDING STRATEGY STATEMENT

1.1 This Funding Strategy Statement is prepared in accordance with regulation 35 of the Local Government Pension Scheme Administration Regulations 2008. The purpose is to explain the funding objectives of the Fund in a clear and transparent way and in particular:

- How the costs of the benefits under the Local Government Pension Scheme are met through the Fund;
- The objectives in setting employer contribution rates;
- The prudent long term funding strategy being adopted to meet the Fund's liabilities.

2. AIMS AND PURPOSE OF THE FUND

2.1 The aims of the Fund are to:

- Ensure that sufficient resources are available to meet all liabilities as they fall due;
- Maximise the returns from investments within reasonable risk parameters;
- Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled and admitted bodies;
- Manage employers' liabilities effectively and in particular minimise irrecoverable debt when an employer ceases to participate.

2.2 The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits under the Regulations;
- Meet the costs associated in administering the Fund;
- Receive monies in respect of contributions, transfer values and investment income.

3. RESPONSIBILITIES OF KEY PARTIES

3.1 There are three key parties involved in the administration of the Fund and funding the liabilities. Their relative responsibilities are set out below:

The Administering Authority

3.2 The Administering Authority for the Superannuation Fund is the City of Westminster and the main responsibilities are:

- Collect employer and employee contributions from all employers;
- Pay benefits to scheme members;
- Ensure cash is available to meet benefit payments when they fall due;
- Invest the Fund's assets;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain a Funding Strategy Statement and Statement of Investment Principles in consultation with interested parties;
- Monitor all aspects of the Fund's performance.

Funding Strategy Statement (continued)

Individual Employers

3.3 In addition to the Administering Authority, various scheduled and admitted bodies participate in the Fund. The main responsibilities of all these employers including the Administering Authority in its role as an employer, are to:

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority within statutory timescales;

- Notify the Administering Authority of any new scheme members and any other membership changes promptly;

Exercise the discretions permitted under the regulations as appropriate;

Meet the costs of augmentation, early retirement strain costs and any other additional costs in accordance with agreed policies and procedures.

The Fund Actuary

3.4 The Pension Fund's Actuary is Barnett Waddingham LLP. Their main responsibilities are to:

- Prepare valuations, including the setting of employers' contributions rates, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement;
- Agree a timetable for the valuation process with the Administering Authority to provide timely advice and results;
- Prepare advice and calculations in connection with bulk transfer and individual benefit related matters.

4. FUNDING TARGET, SOLVENCY AND METHODS

4.1 The funding target for the Fund is to secure the solvency of the Fund by having sufficient assets in the Fund to meet all liabilities. This is measured via the funding level and with the aim of achieving a funding level of 100% over a reasonable period of time.

4.2 In accordance with the Local Government Pension Scheme Regulations, the Fund Actuary carries out a valuation of the Fund every three years to measure the funding level and to set employer contribution rates to achieve the funding target.

4.3 The last actuarial valuation was carried out as at 31st March 2013 and the actuarial method applied for open employers (those still admitting new members) was the Projected Unit Method. This considers separately the benefits in respect of service built up before the valuation date ("past service") and service expected to be completed after the valuation date ("future service"). This approach provides:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay for pensions in payment. A funding level in excess of 100 per cent indicates a surplus of assets over liabilities; while a funding level of less than 100 per cent indicates a deficit; and
- The future service funding rate which is the level of contributions required from the individual employers, which in combination with employee contributions, is expected to support the cost of benefits accruing in future.

Funding Strategy Statement (continued)

4.4 For employers closed to new entrants, the funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over the remaining expected working lifetime of active members.

4.5 The introduction of the revised Local Government Pension Scheme (LGPS 2014) from 1st April 2014 was incorporated into the Fund Actuary's calculations of future service funding rates at the 2013 valuation.

VALUATION ASSUMPTIONS

5.1 In undertaking the actuarial valuation calculations, it is necessary to make a number of assumptions about the future. These can be categorised as:

- Financial assumptions which determine the estimates of the amount of benefits and contributions payable and their current or present value; and
- Statistical assumptions which are estimates of the likelihood of benefits and contributions being paid.

Financial Assumptions: Future Price Inflation

5.2 The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (or "RPI").

Financial Assumptions: Future Pay Inflation

5.3 Future levels of pay increases will determine the level of some of the benefits to be paid in future in respect of pre 1 April 2014 service for active members as well as the contributions that will be received by the Fund. At the 2013 valuation it has been assumed that long term pay inflation will be 1.8% above the Consumer Prices Index (CPI), but in recognition of the current economic climate, a short term assumption has been made that pay inflation will be equal to CPI for two years.

Financial Assumptions: Pension Increases

5.4 Pension increases are linked to changes in the level of the Consumer Price Index (or "CPI"). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. An adjustment is therefore made to the RPI assumption to derive the CPI assumption.

Financial Assumptions: Future Investment Returns/Discount Rate

5.5 To determine the value of accrued liabilities and derive future contribution requirements, it is necessary to discount future payments to and from the Fund to present day values.

5.6 The discount rate that is applied reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date.

Financial Assumptions: Value of Assets

5.7 For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

Statistical Assumptions

5.8 The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Funding Strategy Statement (continued)

6. DEFICIT RECOVERY OR SURPLUS AMORTISATION PERIODS

6.1 Whilst the funding target for the Fund is to have sufficient assets in the Fund to meet all liabilities, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally be either in deficit or surplus.

6.2 Where the actuarial valuation discloses a deficit, the period of time over which the deficit will be funded is set – this is the deficit recovery period. The deficit recovery period varies according to the type of employer, but is never more than the period set for the overall Fund. The table overleaf describes the general approach, but the approach for each employer will be determined by their particular circumstances.

Employer	Recovery period
Administering Authority	A period equal to the overall Fund deficit recovery period reflecting the strength of covenant of the Council and its tax raising powers (currently 25 years)
Scheduled bodies and open community admission bodies)	A period no longer than the overall Fund deficit recovery period, depending on the strength of the covenant and any guarantees in place
Closed admission bodies	Generally a period no longer than the expected future working lifetime of the active scheme members, but this will depend on the strength of the covenant and any guarantees or bond in place.
Transferee admission bodies	A period no longer than the length of their current contract, depending on the strength of the covenant and any guarantees or bond in place

6.3 If the actuarial valuation shows a significant surplus, the relevant employers' contribution rates will be adjusted to amortise it over a period of time agreed with the Fund Actuary. However, if the surplus is not significant relative to the employer's liabilities or there is any concern about the strength of the covenant of the employer, then it will remain in the Fund.

7. POOLING OF EMPLOYERS

7.1 The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

7.2 However, certain groups of individual employers may be pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of scheme members is small. The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst, recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

Funding Strategy Statement (continued)

7.3 Employers can request to be considered as part of a pool and the decision to permit this will be made by the Administering Authority in conjunction with the Fund Actuary. Once an employer is part of a pool, it can only opt to exit it in exceptional circumstances.

8. ADMISSION OF NEW EMPLOYERS

8.1 The admission of new employers will be in accordance with the Regulations and will be determined as below:

Employer	Recovery period
Scheduled bodies	New bodies added to the schedule of the Local Government Pension Scheme Regulations by central government will be automatically admitted to the Fund
Community admission bodies	Bodies which have a link to the Administering Authority will only be admitted to the Fund if a bond has been provided or a guarantee from another employer in the Fund has been provided.
Transferee admission bodies	Bodies which take on a contract for the Administering Authority or a scheduled body will be admitted to the Fund providing their admission meets the requirements of the regulations and the provision of a bond or guarantee has been agreed

8.2 The Fund Actuary will assess all new employers to the Fund at the time of admission and set an appropriate employer contribution rate in accordance with the funding strategy. They will also undertake a risk assessment on behalf of the Fund to recommend the appropriate level of bond.

9. CESSATION VALUATIONS

9.1 On the cessation of an employer's participation in the Fund, the Fund Actuary will be asked to make a termination assessment, in accordance with the requirements of the Local Government Pension Scheme Regulations. If another employer in the Fund is taking over responsibility for the liabilities of the departing employer, they will be transferred to that employer on an on-going basis applying the discount rate applicable to the Fund as a whole.

9.2 If there is no employer in the Fund to take responsibility for the liabilities of a departing employer, then the Fund Actuary will adopt a discount rate based on gilt yields when calculating the termination assessment. This approach ensures that the other employers in the Fund are protected from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

10. LINKS TO THE STATEMENT OF INVESTMENT PRINCIPLES

10.1 The funding and investment strategies are inextricably linked. The investment strategy is set after taking investment advice and a prudent assessment of the expected return from the agreed strategy is used to determine the Fund's discount rate, which is a key element in the funding strategy. This process ensures consistency between the funding strategy and the investment strategy.

11. KEY RISKS AND CONTROLS

11.1 The Administering Authority is developing a risk register which is to be reviewed regularly by the relevant Committee. Below is a summary of the key risks which could impact the ability of the Fund to achieve the funding target.

Financial Risks

11.2 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

Funding Strategy Statement (continued)

11.3 To mitigate this risk, the Superannuation Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the investment advisers and officers on investment strategy. The Committee may also seek advice from the Fund Actuary on valuation related matters.

11.4 In addition, from 2014, the Fund Actuary will be providing regular funding updates between valuations to enable the Committee to see whether the funding strategy continues to be on track to meet the funding target.

Demographic Risks

11.5 Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity.

11.6 The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

11.7 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements. However, the Administering Authority monitors the incidence of early retirements; and additional contributions towards the costs are collected from employers as appropriate.

Regulatory Risks

11.8 The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by central government. The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

11.9 The Administering Authority participates in the consultation process of any proposed changes in regulations to attempt to mitigate this risk and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

Governance Risks

11.10 Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; or
- An employer ceasing to exist without having fully funded their pension liabilities.

11.11 To mitigate this risk, the Administering Authority monitors the position of employers participating in the Fund, particularly those which

may be susceptible to the events outlined, and

takes advice from the Fund Actuary when required.

11.12 In addition, the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

12. MONITORING

12.1 This Funding Strategy Statement is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process. However it will be updated in the interim if required.

12.2 The Administering Authority monitors the investment performance and funding level of the Fund on a quarterly basis through the Superannuation Committee and keeps the strength of covenant of the employers under continuous review.

City of Westminster Pension Fund Investment Strategy Statement 2017/18

1. Introduction

1.1 This is the first Investment Strategy Statement (ISS) adopted by the City of Westminster Pension Fund (“the Fund”).

Under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Fund is required to publish this ISS. It replaces the Statement of Investment Principles which was previously required under Schedule 1 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Regulations require administering authorities to outline how they meet each of 6 objectives aimed at improving the investment and governance of the Fund.

1.2 This Statement addresses each of the objectives included in the 2016 Regulations:

- ☒ A requirement to invest fund money in a wide range of instruments
- ☒ The authority’s assessment of the suitability of particular investments and types of investment
- ☒ The authority’s approach to risk, including the ways in which risks are to be measured and managed
- ☒ The authority’s approach to pooling investments, including the use of collective investment vehicles
- ☒ The authority’s policy on how social, environmental or corporate governance considerations are taken into account in the selection,

non-selection, retention and realisation of investments

- ☒ The authority’s policy on the exercise of rights (including voting rights) attaching to investments

We deal with each of these in turn below.

1.3 The Pension Fund Committee (the “Committee”) of the City of Westminster Pension Fund oversees the management of the Fund’s assets. Although not trustees, the Members of the Committee owe a fiduciary duty similar to that of trustees to the council-tax payers and guarantors of other scheme employers, who would ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

1.4 The relevant terms of reference for the Committee within the Council’s Constitution are:

The Pension Fund Committee’s responsibilities are set out in their terms of reference and are to have responsibility for all aspects of the investment and other management activity of the Council’s Pension Fund, including, but not limited to, the following matters:

- ☒ To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.
- ☒ To monitor performance of the Superannuation Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable;
- ☒ To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
- ☒ To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the

Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.

- ☒ To approve the final accounts and balance sheet of the Superannuation Fund and to approve the Annual Report..

☒ To receive actuarial valuations of the Superannuation Fund regarding the level of employers’ contributions necessary to balance the Superannuation Fund.

☒ To oversee and approve any changes to the administration arrangements, material contracts and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries.

☒ To make and review an admission policy relating to admission agreements generally with any admission body.

☒ To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.

☒ To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.

☒ To receive and consider the Auditor’s report on the governance of the Pension Fund.

☒ To determine the compensation policy on termination of employment and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

☒ To determine policy on the award of additional membership of the pension fund and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

☑ To determine policy on the award of additional pension and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub- Committee).

☑ To determine policy on retirement before the age of 60 and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub- Committee).

☑ To determine a policy on flexible retirement and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub- Committee).

☑ To determine questions and disputes pursuant to the Internal Disputes Resolution Procedures.

☑ To determine any other investment or pension policies that may be required from time to time so as to comply with Government regulations

and to make any decisions in accordance with those policies other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

The Committee has responsibility for:

☑ Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes

☑ Appointing the investment managers, an independent custodian, the actuary, the investment advisor(s) and any other external consultants considered necessary

☑ Reviewing on a regular basis the investment managers' performance against benchmarks,

portfolio risk and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls

☑ Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents

☑ Reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights

The City Treasurer and the appointed consultants and actuaries support the Committee. The day-to-day management of the Fund's assets is delegated to investment managers.

1.5 This ISS will be reviewed at least once a year, or more frequently as required - in particular following valuations, future asset/liability studies and performance reviews, which may indicate a need to change investment policy, or significant changes to the FSS.

1.6 Under the previous Regulations the Statement of Investment Principles required to state how it complies with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles. Although not formally required under the 2016 Regulations this information is given in Appendix A. In addition, Appendix B includes a disclosure of the Fund's policy on how the Committee discharge their stewardship responsibilities.

2. Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments

2.1 Funding and investment risk is discussed in more detail later in this ISS. However, at this stage it is important to state that the Committee is aware of the risks it runs within the Fund and the consequences of these risks.

2.2 In order to control risk the Committee recognises that the Fund should have an investment strategy that has:

☑ Exposure to a diverse range of sources of return, such as market, manager skill and through the use of less liquid holdings.

☑ Diversity in the asset classes used

☑ Diversity in the approaches to the management of the underlying assets.

2.3 This approach to diversification has seen the fund dividing its assets into 4 broad categories: UK equities, global equities, Fixed Income and Property. The size of the assets invested in each category will vary depending on investment conditions. However, it is important to note that each category is itself diversified.

A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

2.4 The main risk the Committee are concerned with is to ensure the long-term ability of the fund to meet pension, and other benefit obligations, as they fall due is met. As a result the Committee place a high degree of importance on ensuring the expected return on the assets is sufficient to do so, and does not have to rely on a level of risk which the Committee considers excessive.

The Fund currently has a negative cash flow position. The Committee is mindful that this position may change in future and keeps the liquidity within the Fund monitored.

At all times the Committee seeks to ensure that their investment decisions, including those involving diversification, are the best long term interest of Fund beneficiaries.

2.5 To mitigate these risks the Committee regularly reviews both the performance and expected returns from the Fund's investments to measure whether it has met and is likely to meet in future its return objective. In addition to keeping their investment strategy and policy under regular review the Committee will keep this ISS under review to ensure that it reflects the approaches being taken.

3. Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment

3.1 When assessing the suitability of investments the Committee takes into account a number of factors:

- ☐ Prospective return
- ☐ Risk

☐ Concentration

☐ Risk management qualities the asset has, when the portfolio as a whole is considered

☐ Geographic and currency exposures

☐ Whether the management of the asset meets the Fund's ESG criteria.

3.2 Suitability is a critical test for whether or not a particular investment should be made.

3.3 Each of the Fund's investments has an individual performance benchmark which their reported performance is measured against.

3.3 The Committee monitors the suitability of the Fund's assets on a quarterly basis. To that end they monitor the investment returns and the volatility of the individual investments together with the Fund level returns and risk. This latter point being to ensure the risks caused by interactions between investments within the portfolio is properly understood. Where comparative statistics are available the Committee will also compare the Fund asset performance with those of similar funds.

3.4 The Committee relies on external advice in relation to the collation of the statistics for review.

4. Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed

4.1 The Committee recognises that there are a number of risks involved in the investment of the assets of the Fund amongst which are the following:

4.2 Geopolitical and currency risks:

☐ are measured by the value of assets (the concentration risk), in any one market leading to the risk of an adverse influence on investment values arising from political intervention; and

☐ are managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

4.3 Manager risk:

☐ is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and

☐ is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager(s) investment process.

4.4 Solvency and mismatching risk:

☐ are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies; and

☐ are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

4.5 Liquidity risk:

☐ is measured by the level of cash flow required over a specified period; and

☐ managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy

4.6 Custodial risk:

☐ is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

4.7 Employer contributions are based upon financial and demographic assumptions determined by the actuary. The main risks to the Fund are highlighted within sections 12 to 15 of the Funding Strategy Statement (FSS). The risks to the Fund are controlled in the following ways:

☐ The adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the investment managers from deviating significantly from the intended approach while permitting the flexibility for managers to enhance returns

☐ The appointment of more than one manager with different mandates and approaches provides for the diversification of manager risk

4.8 The investment management agreements constrain the manager's actions in areas of particular risk and set out the respective responsibilities of both the manager and the Fund.

4.9 The Committee are aware investment risk is only one aspect of the risks facing the Fund. The other key risk they are aware of is the ability of the Fund to meet the future liabilities, support the investment risk (i.e. the level of volatility of investment returns) and underwrite actuarial risk, namely the volatility in the

actuarial funding position and the impact this has on contributions.

4.10 The Committee are of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy the Committee carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate.

Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and also the correlation between them. These can be based on historic asset class information for some of the listed asset classes the Fund uses. However, for other private market and less liquid assets it is much more difficult.

The Committee is also mindful that correlations change over time and at times of stress can be significantly different from they are in more benign market conditions.

To help manage risk the Committee uses an external investment adviser to monitor the risk. In addition when carrying out their investment strategy review the Committee also had different investment advisers assess the level of risk involved.

4.11 The Fund targets a long-term return 5.1% as aligned with the latest triennial valuation from the Actuary. The investment strategy is considered to have a low degree of volatility.

4.12 When reviewing the investment strategy on a quarterly basis the Committee considers advice from their advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable.

4.13 At each review of the Investment Strategy Statement the assumptions on risk and return and their impact on asset allocation will be reviewed.

5 Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles

5.1 The Fund recognises the Government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost.

5.2 The Fund has joined the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

5.3 The Fund has already transitioned assets into the London CIV with a value of £178m as at the 28th February 2017 and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

5.4 The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy requirements.

5.5 The Fund holds 22.3% £280m of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the

time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

5.6 The Fund holds £110m or 8.8% of the Fund held in illiquid assets and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

City of Westminster Total Fund	Available on the CIV	Transferred
UK Equities Majedie	May-17 (£301m)	
Global Equities Baillie Gifford LGIM Longview Partners	Yes Jun-17 (£140m)	£178m
Fixed Income Insight IM (Core) Insight IM (Gilts)		
Real Estate Hermes Property Standard Life Property		
Cash In-House Cash		

5.7 The Committee are aware that certain of the assets held within the Fund have limited liquidity and moving them would come at a cost. Whilst it is the expectation to make use of the London CIV for the management of the majority of the Fund assets in the longer term, the Committee recognises that transitioning from the current structure to the London CIV will be a protracted exercise spread over a number of years to ensure unnecessary costs are not incurred.

5.8 At each review of the investment strategy, which will happen at least every three years, the investment of the above assets will be actively considered by the City of Westminster Pension Fund, and in particular whether a collective investment option is appropriate.

5.9 More information on the London CIV and its operation is included in Appendix D of this statement.

6 Objective 7.2(e): How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

6.1 A review of the Fund's approach to Socially Responsible Investments (SRI) was completed in March 2015 and is contained in the existing SIP. The Fund adopted an SRI Policy which outlines its approach to the management of Environmental, Social and Governance (ESG) issues within its investment portfolio. The existing SRI Policy now needs reviewing as the last update was undertaken 2 years ago, although as funds are moved across to the London CIV, the Council will need to understand and apply the London CIV's principles.

The Present ESG Policy

6.2 The Fund recognises that the neglect of corporate governance and corporate social responsibility may lead to poor or reduced shareholder returns. The Committee has considered how the Fund may best implement a corporate social responsibility policy, given the current resources available to the Fund. Accordingly, the Committee has delegated social, environmental and ethical policy to the investment managers, but also approved a Governance Strategy. The Committee believes this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and there is appropriate disclosure and reporting of actions taken. To that extent, the Committee maintains a policy of non-interference with the day-to-day decision making of the investment managers.

The London Collective investment vehicle (LCIV) ESG Policy (Wording)

6.3 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills.

6.4 The Fund requires its investment managers to integrate all material financial factors,

including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed

6.5 The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making

6.6 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes

6.7 The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

6.8 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

The Fund in preparing and reviewing its Investment Strategy Statement will inform stakeholders, including but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate.

Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments

The Present Policy

7.1 The Committee has delegated the Fund's voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Committee expects the investment managers to vote in the best interests of the Fund

The London Collective Investment Vehicle (CIV) ESG Policy (Wording)

7.2 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

7.3 The Fund has delegated responsibility for voting rights to the Fund's external investment managers and expects them to vote in accordance with the Fund's voting policy as set out in Sections 6.2 and 7.1.

7.4 The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Pension Fund website: (we do not do this at the moment)

7.5 The Fund has reviewed the London CIV Statement of Compliance with the Stewardship Code and has agreed to adopt this Statement.

7.6 In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

7.7 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests

In addition the Fund:

7.8 Is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners

7.9 Joins wider lobbying activities where appropriate opportunities arise.

8 Feedback on this statement

Any feedback on this investment Strategy Statement is welcomed. If you have any comments or wish to discuss any issues then please contact:

Matt Hopson – Strategic Investment Manager
– Tri-Borough Treasury and Pensions
mhopson@westminster.gov.uk
020 7641 4126

Investment Strategy Statement: Appendix A

Compliance with CIPFA Pensions Panel Principles for investment decision making in the local government pension scheme in United Kingdom

Decision Making

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners' Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012",

The Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is also recognised as important to demonstrate how the Fund meets such principles and best practice.

The Secretary of State has previously highlighted the principle contained in Roberts v. Hapwood whose administering bodies exercise their duties and powers under

regulations governing the investment and management of Funds:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others".

The Myners' Principles are seen as supporting this approach. The principles, together with the Fund's position on compliance, are set out below:

Principle 1 - Effective decision-making

Administrating authorities should ensure that:

- ☑ **Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation;**
- ☑ **Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

Full Compliance

The Council has delegated the management and administration of the Fund to the Committee, which meets at least quarterly. The responsibilities of the Committee are described in paragraph 1.4 of the ISS. The Committee is made up of elected members of the Council who each have voting rights.

The Committee obtains and considers advice from and is supported by the City Treasurer, Tri-Borough Director of Treasury & Pensions, and as necessary from the Fund's appointed actuary, investment managers and advisors.

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

Business plans are presented to the Committee annually.

Several of the Committee members have extensive experience of dealing with Investment matters and training is made available to new Committee members.

Principle 2 - Clear objectives

An overall investment objective(s) should be set for the Fund that takes account of the pension

liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Full Compliance

The aims and objectives of the Fund are set out within the FSS and within the ISS. The main fund objective is to meet the cost of pension liabilities and to enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the taxpayers and admitted bodies.

The investment strategy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Fund while achieving a good return on investment (see paragraphs 4 and 5 above). The approach taken reflects the Fund's liabilities and was decided upon without reference to any other funds. The Fund's performance is measured against the investment objective on a quarterly basis. The Fund's strategy is regularly reviewed.

Principle 3 – Risk and liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax

payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Full Compliance

The Committee has, in conjunction with its advisers, agreed an investment strategy that is related to the Fund's liabilities. An actuarial valuation of the Fund takes place every three years, with the most recent triennial valuation taking place in 2016. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

The asset allocation of the Fund is set to maximise the potential to close the funding deficit over future years. The current allocation is outlined in paragraph 4.3 of the SIP.

Principle 4 – Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members

Full Compliance

The IAC has appointed investment managers with clear index strategic benchmarks (see paragraph 4.2 above) within an overall Investment objective which place maximum

accountability for performance against that benchmark on the manager.

The managers are monitored at quarterly intervals against their agreed benchmarks, and independent detailed monitoring of the Fund's performance is carried out by Deloitte, the Fund's advisor and by Northern Trust, the Fund's custodian who provide the performance figures. Moreover portfolio risk is measured on quarterly basis and the risk/return implications of different strategic options are fully evaluated.

The advisor is assessed on the appropriateness of asset allocation recommendations and the quality of advice given.

The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the OJEU procedures.

The Committee monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition the Committee receives quarterly reports as to how the Fund has performed against their investment objective.

Principle 5 – Responsible Ownership

Administering authorities should:

☑ Adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents.

☐ Include a statement of their policy on responsible ownership in the statement of investment principles.

☐ Report periodically to scheme members on the discharge of such responsibilities.

Full Compliance

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in paragraph 8 of the ISS and in the Fund's SRI Policy. Authority has been delegated to the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports.

The Fund believes in using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests – the Fund's approach to this is outlined in paragraph 7 of the ISS and in the Fund's SRI Policy.

Principle 6 – Transparency and reporting

Administering authorities should:

☐ Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.

☐ Provide regular communications to scheme members in the form they consider most appropriate.

Full Compliance

Links to the Governance Compliance Statement, the ISS, the FSS, and the Communications Statement are all included in the Pensions Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council's web site, and a website developed specifically for the Fund. All Committee meetings are open to members of the public and agendas and minutes are published on the Council's website and internal intranet.

Investment Strategy Statement: Appendix B

Compliance with the Stewardship Code

The **Stewardship Code** is a set of principles or guidelines released in 2010 and updated in 2012 by the Financial Reporting Council directed at institutional investors who hold voting rights in United Kingdom companies. Its principal aim is to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries.

The Code applies to pension funds and adopts the same "comply or explain" approach used in

the UK Corporate Governance Code. This means that it does not require compliance with principles but if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so.

The seven principles, together with the council's position on compliance, are set out below:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Stewardship responsibilities are outlined in section 1.4 of the ISS, which outlines the terms of reference of the Committee. Investment Managers, authorised under the regulations, are appointed to manage virtually

all the assets of the Fund. The Committee actively monitor the Fund Managers through quarterly performance analysis, annual and periodic meetings with the Fund Managers and through direct monitoring by the Fund's investment advisor, which includes monitoring and reporting on:

- ☐ Fund manager performance
- ☐ Investment Process compliance and changes
- ☐ Changes in personnel (joiners and leavers)
- ☐ Significant portfolio developments
- ☐ Breaches of the IMA
- ☐ Business wins and losses; and
- ☐ Corporate and other issues.

Voting is delegated to Fund Managers through the Investment Management Agreement (IMA).

The fund will ensure that all its equity, fixed income and diversified managers sign up to the FRC Stewardship Code including: Majedie, Baillie Gifford, LGIM, Longview Partners, Insight, Hermes and Standard Life.

2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed

The Committee encourages its fund managers to have effective policies addressing potential conflicts of interest.

Committee members are also required to make declarations of interest prior to all Committee meetings.

3. Monitor their investee companies.

Day-to-day responsibility for managing the Fund's investments are delegated to the relevant fund managers, who are expected to monitor companies, intervene where necessary, and report back regularly on activity undertaken.

The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy.

Fund Manager Internal Control reports are monitored, with breaches reported back to the Committee.

4. Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy.

The Fund Managers are expected to have their own SRI/ESG policy and to disclose their guidelines for such activities in their own statement of adherence to the Stewardship Code.

5. Willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies.

6. Have a clear policy on voting and disclosure of voting activity.







The Fund currently votes on all decisions and this is reported via Northern Trust. The Fund's approach to voting is clearly outlined in the ISS and SRI Policy,








7. Report periodically on their stewardship and voting activities.







A section on voting is included in each quarterly Business Plan Update, with a yearly review of the policy.







The Fund's annual report includes information about the Fund's voting and engagement work

Investment Strategy Statement:
Appendix C – Risk Register

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Next 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.	<ul style="list-style-type: none"> 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	March 2016
2	STRATEGIC: INVESTMENT Fund managers fail to achieve the returns agreed in their management agreements.	<ul style="list-style-type: none"> 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	March 2016
3	STRATEGIC: INVESTMENT Failure of custodian or counterparty.	<ul style="list-style-type: none"> 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	3	Low 6 	City Treasurer	March 2016
4	STRATEGIC: FUNDING The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	<ul style="list-style-type: none"> 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	March 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.	<ul style="list-style-type: none"> 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	March 2016
6	STRATEGIC: FUNDING Scheme members live longer than expected leading to higher than expected liabilities.	<ul style="list-style-type: none"> Review at each triennial valuation and challenge actuary as required. 	4	2	Low 8 	City Treasurer	March 2016

7	STRATEGIC: FUNDING Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	<ul style="list-style-type: none"> 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	March 2016
8	STRATEGIC: REGULATION Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	<ul style="list-style-type: none"> 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	March 2016
9	STRATEGIC: REGULATION Introduction of European Directive MIFID II results is a restriction of Fund's investment options and an increase in costs	<ul style="list-style-type: none"> 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. 	2	2	Very Low 4 	City Treasurer	March 2016
10	OPERATIONAL: GOVERNANCE Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	<ul style="list-style-type: none"> Officers maintain knowledge of legal framework for routine decisions. Eversheds retained for consultation on non-routine matters. 	2	2	Very Low 4 	City Treasurer	March 2016
11	OPERATIONAL: GOVERNANCE Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	<ul style="list-style-type: none"> External professional advice is sought where required Knowledge and skills policy in place (subject to Committee Approval) 	3	3	Low 9 	City Treasurer	March 2016
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.	<ul style="list-style-type: none"> 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	March 2016
13	OPERATIONAL: GOVERNANCE Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	<ul style="list-style-type: none"> 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	March 2016

14	OPERATIONAL: GOVERNANCE London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	<ul style="list-style-type: none"> Pension Fund Committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV. 	3	2	Low 	City Treasurer	March 2016
15	OPERATIONAL: FUNDING Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	<ul style="list-style-type: none"> 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	March 2016
16	OPERATIONAL: FUNDING Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	<ul style="list-style-type: none"> 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	March 2016
17	OPERATIONAL: FUNDING Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	<ul style="list-style-type: none"> 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	March 2016
18	OPERATIONAL: ADMINISTRATION Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	<ul style="list-style-type: none"> 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	March 2016
19	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.	<ul style="list-style-type: none"> 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	March 2016

20	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.	<ul style="list-style-type: none"> 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 	2	2	Very Low 4 	City Treasurer	March 2016
21	OPERATIONAL: ADMINISTRATION Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	<ul style="list-style-type: none"> 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	March 2016
22	OPERATIONAL: ADMINISTRATION Failure to pay pension benefits accurately leading to under or over payments.	<ul style="list-style-type: none"> 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	March 2016
23	OPERATIONAL: ADMINISTRATION Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	<ul style="list-style-type: none"> 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	March 2016
24	OPERATIONAL: ADMINISTRATION Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	<ul style="list-style-type: none"> 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 typed 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	March 2016
25	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.	<ul style="list-style-type: none"> 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	March 2016

Investment Strategy Statement: Appendix D

Information on London CIV Stewardship Statement is attached – Other London CIV details are included in ISS main Statement

The London Collective Investment Vehicle (CIV) was formed as a voluntary collaborative venture by the London Local Authorities in 2014 to invest the assets of London Local Government Pension Scheme (LGPS). The London CIV and its London Local Authority investors recognise the importance of being long term stewards of capital and in so doing supports the UK Stewardship Code, which it recognises as best practice.

The London LGPS CIV Limited (“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 (ACS Fund). The London CIV in the management of its investments has appointed a number of external investment managers. We therefore see our role as setting the tone for the effective delivery of stewardship managers on our behalf and on behalf of our investing Funds. We are clear that we retain

responsibility for this being done properly and fully in the interests of our own shareholders. This Statement sets out how the London CIV implements the seven principles of the Code.

Principle 1 Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The London CIV on behalf of its London Local Authority Shareholders recognises its position as an investor on their behalf with ultimate responsibility to members and beneficiaries and recognises that effective stewardship can help protect and enhance the long-term value of its investments to the ultimate benefit of all stakeholders in the LGPS.

As we do not invest directly in companies, we hold our fund managers accountable for the delivery of stewardship on our behalf in terms of day-to-day implementation of its stewardship activity. We require the appointed fund management teams to be responsible for holding to account the management and boards of companies in which they invest. The London CIV believes that this approach is compatible with its stewardship responsibilities as it is the most effective and efficient manner in which it can promote and carry out stewardship activities in respect of its investments, and ensure the widest reach of these activities given the CIV’s investment arrangements.

A key related area where stewardship is integrated into the wider process is in the

selection and monitoring of external investment managers. When considering the appointment of external investment managers the consideration of Environmental Social and Governance (ESG) integration and stewardship activity of each investment manager is part of the selection process.

The London CIV expects its equity investment managers to adhere to the principles within the UK Stewardship Code. This position is communicated to the Fund’s investment managers and forms the basis of the approach to monitoring the investment managers as outlined in this document. Whilst the Stewardship Code is primarily directed at UK equity investments, the CIV encourages its investment managers to apply the principles of the Code to overseas equity holdings where possible.

The primary mechanisms for the application of effective stewardship for the CIV are exercise of voting rights and engagement with investee companies. The CIV expects its external equity investment managers that invest directly in companies, to pursue both these mechanisms. We receive quarterly reporting from managers which includes their stewardship and voting activities where appropriate. We seek consistently to ensure that these stewardship activities are carried out actively and effectively in the furtherance of good long-term investment returns

We expect all of the CIV’s equity managers to be signatories to the Code and have publicly

disclosed their policy via their Statements on how they will discharge their stewardship responsibilities. We expect managers that invest in companies directly to discharge their responsibilities by:

- having extensive dialogue with the company's management throughout the year on a range of topics such as governance, financial performance and strategy; and
- voting, either directly or via the services of voting agencies.

Principle 2

Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

Day-to-day implementation of the Fund's stewardship activity has been delegated to external investment managers. The CIV expects its investment managers to document their approach to stewardship, which should include how they manage any conflicts of interest that arise to ensure that the interests of the CIV's Investors are prioritised. The CIV will review annually the conflicts of interest policy of its managers and how any conflicts have been managed during the year. The London CIV has policies in place to manage conflicts of interest that may arise for the Board and its officers when making decisions on its behalf. The Conflicts of Interest policy is reviewed by the CIV board on a

regular basis. A Conflicts of Interest Register is maintained. Shareholders of the CIV attending the Pensions Sectoral Joint Committee are required to declare any conflicts of interest at the start of any meeting.

Principle 3

Institutional investors should monitor their investee companies.

We recognise that active and ongoing monitoring of companies is the foundation of good stewardship, reminding companies in which we invest that they have obligations to their shareholders to deliver returns over the appropriate long-term investment timeframe and, consistent with this, to manage any related environmental and social risks responsibly.

The CIV requires its external investment managers to monitor investee companies. Issues to be monitored are likely to vary, however typically these might include a company's corporate strategy, financial performance, risk (including those from environmental and social factors), capital structure, leadership team and corporate governance. The CIV encourages its investment managers to satisfy themselves that investee companies adhere to the spirit of the UK Corporate Governance Code. The CIV reviews investment managers in this area as part of their regular meetings. For equity investment managers this includes consideration of:

- who has overall responsibility for ESG risk analysis and integration;
- resources and experience of the team;
- at what stages of the process ESG risks are considered;
- exposures to environmental, social or governance risk within the portfolio; and
- the investment manager's willingness to become an insider and, if so, whether the manager has a policy setting out the mechanisms through which this is done.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

The CIV recognises that constructive engagement with company management can help protect and enhance shareholder value. Typically, the CIV expects its investment managers to intervene with investee companies when they view that there are material risks or issues that are not currently being adequately addressed.

The CIV reviews investment managers in this area as part of their regular meeting. For equity investment managers that invest directly in Companies, this includes consideration of:

- whether voting activity has led to any changes in company practice;

- whether the investment manager’s policy specifies when and how they will escalate engagement activities;
 - overall engagement statistics (volume and areas of focus);
 - example of most intensive engagement activity discussed as part of the manager’s annual review meeting; and
 - the estimated performance impact of engagement on the strategy in question.
- Given the range of fund managers and Fund investments, the CIV carries out its monitoring at the manager level to identify:
- trends to ensure progress is being made in stewardship activities;
 - specific managers where progress or the rate of progress is not adequate; and
 - appropriate specific actions necessary.

Principle 5
Institutional investors should be willing to act collectively with other investors where appropriate.

As day-to-day management of the Fund’s assets has been delegated to external investment managers, the CIV expects its investment managers to get involved in collective engagement where this is an efficient means to protect and enhance long-term shareholder value.

In addition the London CIV will work collectively with other investors including other LGPS Asset pools and the Local Authority Pension Fund Forum (LAPFF) to

enhance the impact of their engagement activities

Principle 6
Institutional investors should have a clear policy on voting and disclosure of voting activity.

The CIV has delegated its voting rights to the Fund’s investment managers and requires them to vote, except where it is impractical to do so. The CIV also monitors the voting alerts of the LAPFF and where these are issued, requires the investment managers to take account of these alerts as far as practical to do so. Where the investment manager does not vote in line with the LAPFF voting alerts, the CIV will require detailed justification for non compliance.

The CIV reviews and monitors the voting policies and activities of its investment managers, this includes consideration of:

- the manager’s voting policy and, what areas are covered;
- the level of voting activity
- whether the investment manager typically informs companies of their rationale when voting against or abstaining (and whether this is typically in advance of the vote or not);
- if securities lending takes place within a pooled fund for the strategy, whether the stock is recalled for all key votes for all stocks held in the portfolio; and
- whether a third party proxy voting service provider is used and, if so, how.

Principle 7
Institutional investors should report periodically on their stewardship and voting activities.

The London CIV encourages transparency from its investment managers and expects its managers to report publicly on their voting in an appropriate manner. In addition the London CIV receives reviews and monitors quarterly the voting and stewardship engagement activities of its investment managers. The CIV reports quarterly to its investors and will include information on voting and engagement activities from investment managers where appropriate including updates as required on updated stewardship and voting policies of managers. The CIV also requires its managers to provide it with annual assurances on internal controls and compliance through recognised framework such as the AAF01/06 or equivalent.

This statement will be reviewed regularly and updated as necessary.

Pension administration Strategy

Contents

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1. Introduction

The delivery of a high quality, cost effective pensions administration service is not just the responsibility of the Administering Authority (Westminster City Council), it also depends upon collaborative working with all stakeholders to ensure that Scheme members, and other interested parties, receive the appropriate level of service and ensure that statutory requirements are met.

The aim of this Pension Administration Strategy (PAS) is to ensure that the Administering Authority along with their Admitted and Scheduled body employers are aware of their responsibilities under the Local Government Pension Scheme (LGPS).

This document also shows the relationship and details the split of responsibilities between the Administering Authority and the Admitted and Scheduled body employers (Employers).

For clarity Westminster acting as Administering Authority (WAA) for the pension fund will treat Westminster the main fund employer (WFE) exactly the same as all the other fund employers.

It should be noted that the Administering Authority is working with Surrey County Council (SCC) to provide the main pension

administration service to all fund employers under a 101 shared service arrangement.

Throughout this document contractual and best practice levels of performance are referenced with the aim of incrementally improving the provision of timely accurate data and levels of pension administrative services.

Failure to comply with the standards shown in this document could result in charges being levied by the Administering Authority to Employers in accordance with the terms set out in the schedule of charging in Section 6.

2. Pension Administration Strategy Statement

This statement sets out the aims and objectives of the PAS and references other documents which together make up the overall pensions administration management system.

Statutory background

Regulation 59 of the Local Government Pension Scheme Regulations 2013 (LGPS 2013) enables an Administering Authority to prepare a document detailing administrative standards, performance measurement, data flows and communication vehicles with employers.

Regulation 70 of the LGPS 2013 allows an Administering Authority to recover costs from an Employer where costs have been incurred because of an Employer's non-compliant level of performance in carrying out its functions under the Regulations.

Aims & Objectives

In creating this strategy, the aim of the Administering Authority is to have in place a pension management system that meets the needs of the stakeholders by:

- clarifying the roles and responsibilities of all the major stakeholders
- ensuring the services provided by all the major stakeholders are accessible, equitable and transparent
- assisting Employers to provide the effective provision of timely and accurate data

To support these aims this PAS document introduces:

- the standard of expected service between the Administering Authority and Employers
- a schedule of charges that apply when standards of service fall below expectations
- a strategy in place to develop web enabled services for Employers and employees.

Other documents which make up the overall strategy

- Local Government Pension Scheme Communications Policy

3. Roles and responsibilities

Administering Authority

The responsibilities of the Administering Authority are:

1. To decide how any previous service or employment of an employee is to count for pension purposes, and whether such service is classed as a 'period of membership'.
2. To notify each member regarding the counting of membership in the scheme following notification from the member's employer of the relevant service details.
3. To set up and maintain a record for each member of the scheme which contains all the information necessary to produce an accurate benefit calculation following the employer providing useable and accurate financial data.
4. To calculate and pay the appropriate benefits at the correct time, based on membership details held the termination date and the final pay details provided by the employer when an employee ceases employment, or ceases membership of the Scheme.
5. To supply beneficiaries with details of their entitlements including the method of calculation.
6. To set up and maintain a record for each pensioner member.
7. To increase pensions periodically in accordance with the provisions of Pensions Increase Acts and Orders.
8. To pay benefits to the correct beneficiaries only and to take steps to reduce the possibility of fraud taking place.
9. To ensure that sufficient information is issued to satisfy the requirements of Regulation 61 of the LGPS 2013. This relates to fund communication more details are contained within section 4 of this document or alternatively see the communications policy which is also available on the Westminster Pension fund website.
10. To maintain an appointed person for the purposes of the scheme internal dispute resolution procedure (IDRP). The appointed person will in general be the Director of People Services or where the Director had previously been involved in the case an officer of equivalent level will be asked to make a determination. The appointed person will be able to access advice from the funds appointed legal advisors where necessary.
11. To appoint all necessary advisors to enable the appointed person to perform the duties required by the IDRP.
12. To appoint an actuary for the purposes of the triennial valuation of the Pension Fund and provide periodical actuarial advice when required.
13. To arrange and manage the triennial valuation of the pension fund.
14. To ensure compliance with the Data Protection Act 1998.
15. The Administering Authority and its agents will respond to queries from employers external or internal auditors within 5 working days or advise when a full response can be sent if not possible within that time frame.

16. The Administering Authority and its agents will respond to relevant Freedom of Information requests within 14 working days if possible or advise when a full response can be sent if not possible within that time frame.

17. The Administering Authority will reply to any Pension Ombudsman query within 30 days of receipt or advise of reason for further delay.

Employers

The main duties of the Employer are:

1. To decide who is eligible to become a member of the Scheme. The employer must abide by any admission agreement entered into with the administering authority if applicable. If there is a closed admission agreement only the named employees can be entered into the LGPS.
2. To decide whether that person is employed in a full time, part time, variable time or casual capacity. If the employee is part time the employer must determine the proportion which the employees' contractual hours

relate to the hours of a comparable full time, employee.

3. To determine the pay of employees for the purposes of calculating the pension contributions.
4. To determine final pay for the purposes of calculating benefits due from the Scheme.
5. To issue a notification to any employees who cannot become members of the Scheme explaining the reason(s) why.
6. Where, after reasonable efforts, an employee fails to provide information relating to previous service, provide basic information to the Administering Authority.
7. At cessation of membership of the Scheme, to determine the reason for leaving and entitlement to benefit and notify the Administering Authority and the Scheme member of the decision.
8. To supply timely and accurate information to the Administering Authority to ensure the correct

calculation of benefits payable from the Scheme.

9. To deduct Additional Voluntary Contributions (AVCs) from a member's pay and pay over to the provider within the statutory deadlines.
10. To be responsible for exercising the discretionary powers given to Employers by the regulations. These regulations also require the Employer to publish its policy in respect of these key discretions.
11. To provide a notice, drawing the employee's attention to their right of appeal under the LGPS, with any statement issued to an employee relating to any decision made about the Scheme.
12. To use an Independent Registered Medical Practitioner qualified in Occupational Health medicine that has been approved by the Administering Authority in determining ill health retirement.
13. To repay to the Scheme member any incorrectly deducted employee's contributions.

14. To provide the Administrating Authority with Monthly and Year-end information as at 31 March each year in an approved format.
15. To provide the Administrating Authority with an audited copy of the final statement which shall also contain the name and pensionable pay of each employee who is an active member, the amounts which represent pension deductions from pay for each of those employees and the periods covered by the deductions and any other information requested. The information should also distinguish those amounts representing deductions for voluntary contributions and the employees paying those voluntary contributions.
16. To be responsible for complying with the requirements for funding early retirement for whatever reason as required by the Administering Authority using actuary factors.
17. To cover any professional costs for legal or actuarial services that are incurred by the administering authority on behalf of any employer investigating any amendment in relation to its members of the scheme. An example of this would be where an (transferee) employer wishes to tupe eligible staff to another employer (transferor) and the transferor wishes to become an admitted body within our fund. The transferee employer would be expected to meet the actuarial and legal costs associated with the process and will be invoiced for this. Costs may occur in other circumstances where employers require an individual response on either a legal or actuarial matter.
18. Pay the Administrating Authority interest on payments due from the Employer which are overdue by more than one month.
19. Where a member leaves the Scheme and full contributions have not been deducted for whatever reason, immediately make payment of outstanding member's and Employer's contributions to the Administrating Authority.
20. To ensure compliance with Data Protection Act 1998.
21. The employer and it's agents will respond to queries from the Administering Authorities external or internal auditors within 5 working days or advise when a full response can be sent if not possible within that time frame.
22. The employer will reply to the Administering Authority on any query relating to a Pension Ombudsman issue with 14 days of request to allow the Administering Authority to respond to the Pension Ombudsman.
23. The employer must advise the Administering Authority of any change of contact details for the payroll or finance functions for communication purposes.
24. The employer is responsible for all Auto enrolment functions and must advise the Administering Authority of anyone auto enrolled as per the normal new starter process. Employers are advised to contact the pension regulator directly if they have any queries see link to website. <http://www.thepensionsregulator.gov.uk/>

4. Liaison, engagement and communication strategy

The Administrating Authority will issue and annually review their Local Government Pension Scheme Communications Policy

The policy will include a strategy for communicating with:

- Scheme Members
- Members' Representatives
- Prospective members
- Employers participating in the Fund

This policy document will set out the mechanisms that the Administrating Authority will use to meet their communication responsibilities it will also include details of what is communicated and the frequency.

Annually the Administrating Authority will issue an engagement plan that will include events for employers, members of the scheme and perspective members of the scheme.

The Communications policy will be updated on the Westminster Pension Fund where it can be found under the Forms and Publications sub heading under the About us main tab.

See link to the pension fund website below.

<http://www.wccpensionfund.co.uk/>

5. Standard of expected service between the Administrating Authority and the employers

Who *	Administration Description	Performance Targets
	<u>New Starters and Transfers In</u>	
E	<p>New starter: The Employer must advise all eligible employees of their membership of the scheme. Members should be given the details of the Pension Fund website http://www.wccpensionfund.co.uk/</p> <p>Members must be advised that transfers into the scheme must be requested in the first year of joining or thereafter at their employer's discretion.</p> <p>Members must be advised that all necessary forms and contact details are available on the Pension Fund website.</p>	On the first day of the members employment if not provided prior to the start.
E	<p>New scheme member: Employer to send to the Administrating Authority the details of the new member. Completing the new starter form available on the website or by sending a file in an approved format by WAA to SCC.</p>	Details to be provided to SCC by the last working day of the month following the first payroll deduction of pension.
AA	<p>New scheme member Administrating Authority to create a new pensions record from the completed notification from the Employer.</p>	By the last working day of the month following the data submission by the employer.

Who *	Administration Description	Performance Targets
AA	<p>New scheme member: Administrating Authority to request a transfer quote from the new member's previous scheme.</p>	Within 30 days of receipt of authorisation from the employee. If transfer factors are currently available. If not the member is to be advised of the delay within the same timescale.
AA	<p>New scheme member: Administrating Authority to credit member record with membership due from transfer of previous pension benefits.</p>	Within 30 days of receipt of payment from previous scheme.
AA	<p>New Scheme member: Notification of service purchased by an incoming transfer to be provided to the scheme new member.</p>	Within 30 days of receipt of the all the information
	<u>Existing members and schemes</u>	
AA	<p>Changes to data which materially affect actual or potential benefit calculations to be processed and provided to the member concerned.</p>	Within 30 days of occurrence or receipt of all necessary information, whichever is later.
AA	<p>Admissions and Inter Fund Adjustment (IFA) in to be notified to the members concerned.</p>	Within 30 days of receipt of all necessary information.
AA	<p>Transfers and Inter Fund Adjustment IFA out to be notified to the receiving scheme.</p>	Within 30 days of receipt of all necessary information
AA	<p>The terms of purchasing additional pension to be notified to the member concerned.</p>	Within 15 days of receipt of all necessary information.
AA	<p>Refund of contributions, where due under the Regulations, to be calculated and paid.</p>	Within 14 days of receipt of all necessary information
AA	<p>Upon notification of a death notification of a pensioner, arrangements put in place for pension payments to cease immediately.</p>	Within 1 working day of receipt of all necessary information

Who	Administration Description	Performance Targets
AA	Letters will be sent to next of kin or other relevant party. Setting up of any dependents pension	Within 5 days of receipt of notification of a death or within 5 days of receipt of all relevant information. Within 14 days of receipt of all necessary information.
Leavers and Transfers out		
E	Leaver: Employer to send the Administrating Authority a completed leaver notification.	By the Last working day of the month following the month in which the members final pensionable pay was processed.
AA	Leaver: Administrating Authority to issue a statement of deferred benefits as appropriate.	Within 30 days of receipt of all necessary information.
AA	Leaver: Administrating Authority to issue quote for Cash Equivalent Transfer Value (CETV).	Within 30 days of receipt of all necessary information.
E	Retirements: Employer to send the Administrating Authority a completed notification.	By the final working day of the month in which the members final pay is processed but employers should be looking to provide leavers final details to SCC before the member leaves if possible to do so.
AA	Retirements: Administrating Authority to send benefit options to member together with relevant forms required for payment of retirement benefits.	Within 5 working days of receiving notification from the Employer.
AA	Retirements: Administrating Authority to arrange the payment of Lump Sum.	Within 5 working days of receiving all required information from the Employer and the Member.
AA	Retirements: Administrating Authority to arrange payment of Annual Pension (paid monthly).	The pension to be processed on the next available pay period following the release of any lump sum and the member notified in writing.
AA	Deferred Benefits Into Payment: Administrating Authority to send a letter to the leaver that includes the benefits that are payable and/or the options for early payment (together with relevant forms to enable payment).	Within one month of the potential due date of any benefit into payment SCC will write to the member.

Deductions		
E	Monthly deductions: Employer to send funds and schedule of deductions from salary to the Administering Authority.	By the 19th day of the month following the month in which contributions were deducted.
Pensioners		
AA	Payslips: Every pensioner to receive a monthly pension advice payslip in the months of April and May. Thereafter, a hard copy payslip will be generated only where the net pension alters by ten pounds (£5) or more from the previous month.	Pensioners can access all their payslips via the member self service option on the website. http://www.wccpensionfund.co.uk/ 3 Working days prior to pay day.
AA	Increases: Notify the pensioners of the increase and its effect on their pension by standard letter.	In the month of the payment increase.
Advisory & Communications		
AA	Contact centre Answer phone calls and deal with queries from members and employers.	On working days between the hours of 9.00 am and 5.00 pm.
Complaints		
AA	All complaints to be acknowledged. A full written response to a complaint must be sent to the complainant.	Within 5 working days Within 20 working days of its receipt by Surrey, subject to all necessary information being available to Surrey to enable a full response to be given.

6. Pensions Administration Strategy - Schedule of Charging

Westminster acting as Administering Authority (WAA) wishes to support its fund employers to enable them to provide all relevant data to both members and to WAA as per the requirements of the PAS set out above. Any employer who is unclear on the requirements of the PAS or is struggling with any aspect of the requirements should inform WAA of any concern as soon as possible, WAA will provide support where it can. WAA's first priority is to ensure compliance for the benefit of members and employers, ensuring that accurate data is stored for members, that pension can be processed quickly and accurately when required and that WAA and its employers all meet their statutory obligations.

Where additional costs have been incurred by the Administering Authority as a direct result of an Employer's poor performance these costs will be recovered from the Employer.

The Administering Authority will give the reasons for doing so in accordance with the regulations.

In addition to the schedule below other circumstances could generate a charge:

- Instances where the performance of the Employing Authority has resulted in fines being levied against the Administering Authority by the Pension Regulator, Pensions Ombudsman, HMRC or other regulatory body.
- Additional cost incurred in providing specialist third party advice in administering the Scheme on behalf of the employer, including but not exclusive to actuarial services, occupational medical practitioner services and legal services.
- Persistent failure to resolve issues in a timely and satisfactory fashion.

In these circumstances the Administering Authority will set out the calculations of any loss or additional cost incurred, in writing, stating the reason for the cost(s) and the basis for the calculation.

WAA will monitor aspects of the PAS on a quarterly basis, the aspect monitored may change and not all employers data will necessarily be reviewed on each occasion. WAA will be reviewing data from SCC to ensure its own compliance which will be reported on to the Pension fund Committee and the Pension board. WAA will also seek evidence from SCC of employer compliance

with the PAS but may also request data directly from the employer who will be expected to respond with relevant evidence or assurance of compliance where relevant. If an employer does not respond to any request for information within **30 days** of request then this will also be chargeable at **£200** an occasion.

Administration Description	Performance Targets	Charge
<u>New Starters and Transfers In</u>		
New scheme member: Employer to send to the Administrating Authority the details of the new member.	Within 25 working days after the start date.	£50 per case
<u>Leavers and Transfers out</u>		
Scheme Leaver: Employer to send the Administrating Authority a completed leaver notification.	Within 25 working days from the employee's last day in the Scheme.	£50 per case
Retirements: Employer to send the Administrating Authority a completed notification.	At least 15 working days before their final paid day of work.	£50 per case
<u>Deductions</u>		
Monthly deductions: Employer to send funds and schedule of deductions from salary to the Administering Authority.	By the 19th day of the month following the month in which contributions were deducted.	£100 per instance of late payment.
Payment of Other Sums Due: Employer's should make payment of any invoiced sums as set out within this PAS within 30 days of invoice date.		

7. Strategy to develop web enabled services for employers and employees.

In 2016/17 the Administrating Authority will implement, develop and engage employers in an on line portal. Initially, the portal will be used for data sharing with employers and information communication with employees.

Whilst forms will be restricted to being downloaded completed and resent, it is anticipated that the portal will be developed to allow members of the scheme to self-serve e-forms direct to the scheme administrators.

8. Further Information

Sarah Hay

Pensions and Payroll Officer

3rd Floor City Hall,

Email: shay@westminster.gov.uk

Tel: 0207 641 6015

Annual Report of the Pension Board

1. Executive Summary

1.1 This Board's terms of reference requires that it should prepare an annual report on its activities and its compliance with the terms of reference. This report is addressed to full Council each year and submitted to the Pension Fund Committee for noting prior to submission to Council.

1.2 The report summarises the work undertaken by the Board and recommendation made to the Investment Committee and officers during the year.

1.3 The Board has acted in accordance with its terms of reference and has not identified any breaches of legislation or regulation by the pension fund. Recommendations to improve governance have been made to the Pensions Committee.

2. Key Matters for the Board

2.1 The Board are asked to review the contents of the report, which will be forwarded to the Pension Fund Committee and Full Council in line with paragraph 7 of the terms of reference.

3. Detail

3.1 Local Pension Boards were established under the 2013 Pensions Act. Each pension administering authority is required to establish a Board to assist with the effective and efficient governance and administration of the scheme. The Board is also tasked with ensuring compliance with the various legislative requirements and those of the pension's regulator, and this adds to the already well developed governance structure which underpins the Westminster pension scheme.

3.2 The Westminster Pension Board held its first meeting on 27th July 2015. During the 2016/17 the Board held 4 meetings. In addition, members of the Board attended a joint meeting with the Pensions Committee in March 2017 to agree the joint allocation of work. The Members of the Board are listed below. Members of the Board are invited to attend the Pension Fund Committee as observers. Officers of the Council

also attend Board meetings to support the members. There have been no reported conflicts of interest at meetings this year.

Employer Representatives:

Cllr Peter Cuthbertson (Chairman to 31st January 2017)
Cllr Angela Harvey (Vice-Chairman from 31st January 2017)
Cllr Adnan Mohammed

Marie Holmes

Employee Representatives:

Susan Manning
Dr Norman Perry (Vice-Chairman to 31st January 2017, Chairman from 31st January 2017)
Christopher Smith

3.3 Terms of reference

Please see Appendix A

3.4 Training undertaken

Please see Appendix B

3.5 Four meetings were held during the 2016/17 financial year. The agenda items discussed were:

10 May 2016

Pension Fund Committee Minutes from 22 March 2016
 Pension Fund 2015-16 Annual Accounts and Audit Update
 Risk Register Review
 Key Performance Indicators Update
 Training Update and Proposals
 Pension Fund Benchmarking Costs
 London Collective Investment Vehicle Update
 Future Work Plan

23 August 2016

Appointment of Chair and Vice Chair for the 2016/17 Municipal Year
 Pension Fund Committee Minutes from 21 June 2016
 Pension Board Annual Report
 Risk Register Review
 Surrey Pension Administration Performance – Key Performance Indicators Update
 Annual Benefit Statement Timeline 2016
 Structure of Fees and Costs
 Future Work Plan

29 November 2016

Pension Fund Committee Minutes from 20 September 2016
 Risk Register Review
 Future Work Plan
 Surrey Pension Administration Performance – Key Performance Indicators Update
 Pension Board Training Update
 Promotion of Scheme Membership

Pension Administration Strategy and Discretionary Policies
 London Collective Investment Vehicle Governance Arrangements

6 March 2017

Pension Fund Committee Minutes from 15 November 2016
 Briefing on Triennial Valuation Results
 Risk Register Review
 Future Work Plan and Allocation of Work Areas
 Surrey Pension Administration Performance – Key Performance Indicators Update
 Year End Pensions Administration Update

3.6 The second year of operation has seen the Board further developing its role and ensuring that members receive the training necessary to undertake the role. It actively reviewed the governance of the Pension Fund in determining ways in which the Board can add value.

3.7 The Board have undertaken focussed reviews on different sections of the Pension Fund risk register during the year. The risks which have been reviewed to date were as follows:

10th May 2016

Strategic – Pensions Regulation and Regulation Changes

- It was noted that DCLG consults with scheme

managers (and this includes Westminster) on any proposed changes in legislation and that this is reported to the Pension Fund Committee.

- In addition, briefings are received by officers from various professional bodies
- Examples of recent changes in legislation and regulation were provided to the Board

Strategic – Introduction of European Directive MiFID II

- It was noted that this directive (which could reclassify local authorities as retail client status from their current professional client status, thus restricting products available for investment) would be delayed and not progressed in its current form
- It was suggested that financial institutions would seek to offer greater protection for pension scheme members

23rd August 2016

Funding – Inflation and Interest Rates Assumed in the Valuation are Inaccurate (Risk 4)

Funding – Scheme Members Live Longer than Expected (Risk 6)

- As the Triennial Revaluation was being carried out the funds Actuary would be

- taking into account inflation.
- Overall life expectancy had increased over the past decade more quickly than predicted which reflected the equivalent of 1.5 years additional expectancy every decade. This again is was being reflect in the work being undertaken by the Actuary on the Triennial Revaluation of the fund.

29th November 2016

Members also requested that Officers put in place steps to mitigate the following risks: Operational Governance – Officers do not have appropriate skills and knowledge to perform their roles (Risk 12), and Operational Administration – Administrators do not have staff or skills to manage the service (Risk 23).

- Person specifications are used to appoint Officers with the relevant skills and experience.
- Officers could also access guidance from Professional Organisations who also offered training events and update publications.
- In addition, as a Tri-borough team, there was an inbuilt resilience built in from the Economy of Scale of delivering the service across three Councils.

- The Fund also used Specialist Advisors who could attend the Pensions Committee or the Pensions Board.
 - Key performance indicators had been put in place to monitor Administration functions more closely.
- 3.8 The Board scrutinised in detail, as a standing item in all meetings, the performance of its Pensions Administration provider Surrey County Council and the respective inputs into the Administration process. This included:
- The delivery of a suite of Output based performance indications were delivered and scrutinised at meetings
 - Getting a clearer understanding of the problems being encountered in the end to end process and what steps and work was required to rectify the process.
 - There is now a recovery plan in place for Administrative activities which links to the reporting bought to each Board Meeting.
- 3.9 At the March meeting, the Fund’s Actuary Barnett Waddingham was present to allow the Members of the Board to scrutinise both the process that had taken place to arrive at the

- final figures and also those final costs to Admitted and Scheduled Bodies.
- 3.10 A key element of the Board’s role is to ensure the effective and efficient governance and administration of the pension scheme. Audit arrangements have been reported to the Board during the year and the following points made:
- A Pensions Administration internal audit has taken place during 2016/17.
- 3.11 There has been minimal cost in running the Pension Board during the year. This has been the cost of the training session held in August and January and that of Officers servicing the Board meetings.
- 3.12 Looking forward, 2017/18 will be a year of embedding following a significant period of Legislative change. The Board will need to properly scrutinise the Funds implementation of new Funding Strategy and Investment Strategy Statements. In addition, with further funds being transferred to the London Collective Investment Vehicle, the Funds relationship with the London CIV will require further scrutiny. Relationships and communication with Members will also be a significant area for review.
- 3.13 The LGPS is becoming increasingly complex and 2017/18 will add to that complexity. The Board in developing its role will seek to assist and

constructively challenge the administering authority in continuing to deliver effective management of the scheme.

4. RECOMMENDATIONS

- 4.1 The Board are asked to review the contents of the report to ensure it complies with the Terms of Reference as required by paragraph 1.1 above.
- 4.2 The Report will be forwarded to the Pension Fund Committee and Full Council in line with paragraph 7 of the terms of reference.



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Audit Findings

Year ending 31 March 2018

City of Westminster Council Pension Fund

23 April 2018

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Contents



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Appendices

- A. Follow up of prior year recommendations
- B. Audit adjustments
- C. Fees
- D. Audit Opinion

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. 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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Headlines

Introduction

This table summarises the key issues arising from the statutory audit of City of Westminster Council Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2018 for those charged with governance.

Financial Statements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year, and have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting;

We received the draft pension fund financial statements on 1 April 2018. Our audit work was completed on site during the first two weeks in April and we substantially completed our audit testing by 13 April 2018. Completing the audit in this timeframe reflects very positively on the Council's commitment to timely financial statements.

Our findings are summarised on pages 4 to 12. The set of financial statements provided to us on 1 April 2018 were prepared on investment balances as at 28 February 2018 as per the agreed plan and timelines. Subsequently, the 31 March 2018 balances were made available by the Fund's global custodian on 10 April 2018, again, as per agreed timelines, and adjustments were made to the original draft financial statements.

As a result of a material movement, adjustments were made to the investment income and investment valuation in the financial statements that resulted in a decrease of £28.6m to the Fund's reported financial position.

Audit adjustments are detailed in Appendix C. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

Subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion, as detailed in Appendix D, on 15 June 2018 following the closure of the period for the exercise of public rights. The current outstanding items include:

- receipt of the management representation letter and;
- Final review of the Pension Fund Annual Report.

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Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit and Performance Committee.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK), 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.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its systems and controls;
- Testing of the Pensions Administration system; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks
- Obtained an understanding of the City of Westminster Council Pension Fund arrangements in respect of its investments in the London Collective Investment Vehicle.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the closure of the period for the exercise of public rights, as detailed in Appendix D.

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Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Our assessment of the value of materiality has been adjusted to reflect the revised value of the Pension Fund Net Assets. We detail in the table below our assessment of materiality for Westminster City Council Pension Fund.

	Amount (£)
Materiality for the financial statements	13,360,000
Performance materiality	10,020,000
Trivial matters	668,000
Materiality for specific transactions, balances or disclosures	We have not set any specific materiality limits, but we have reported any misstatements we identify in cash, related parties and key management personnel remuneration within this report.

Going concern

Our responsibility

As auditors, we are required to “obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern” (ISA (UK) 570).

Going concern commentary

Management's assessment process

Management have reviewed the Fund's funding position and cash flows.

Auditor commentary

- The Pension Fund has more than sufficient assets to meet its liabilities as they fall due over the next 12 months. Local Government Pension schemes are effectively underwritten by the tax payer with deficits financed by increased contributions agreed with the actuary that are financed through Council and Admitted and Scheduled bodies contributions.
- There is no plan by the Ministry of Housing, Communities and Local Government to wind up the City of Westminster Council Pension Scheme.
- The Pension Fund continues to operate as usual in 2018/19. Contributions and investment income continue to be received as expected.

Work performed

Detail audit work performed on management's assessment

Auditor commentary

- We have reviewed managements assessment that the financial statements are prepared on a going concern basis.
- We are satisfied that there are sufficient assets to meet liabilities as they fall due. The last triennial actuarial valuation also demonstrated an improvement in the funding level to 80%.
- The Council have utilised £10m of new capital receipts under the freedoms of the Flexible Capital Receipts regulations to fund the Pension Deficit Recovery Plan
- The fund continues to operate as usual.

Concluding comments

Auditor commentary

- We are satisfied that the Pension Fund Financial Statements are prepared on a Going Concern basis.

Significant audit risks

Risks identified in our Audit Plan

Commentary

1

Improper revenue recognition

Under ISA 240 (UK) there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption was rebutted as we concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.

Auditor commentary

Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the 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; and
- the culture and ethical frameworks of local authorities, including the City of Westminster Council, mean that all forms of fraud are seen as unacceptable

Therefore we do not consider this to be a significant risk for the City of Westminster Council Pension Fund.

Management override of controls

Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.

We identified management override of controls as a risk requiring special audit consideration.

Auditor commentary

We have undertaken the following work in relation to this risk:

- review of entity controls;
- review of accounting estimates, judgements and decisions made by management; and
- review of unusual significant transactions

Our audit work has not identified any issues in respect of management override of controls.

Significant audit risks

Risks identified in our Audit Plan

Commentary

3 The valuation of Level 3 investments is incorrect Auditor commentary

Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.

We identified the valuation of level 3 investments as a risk requiring special audit consideration.

We have undertaken the following work in relation to this risk:

- gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls;
- reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment;
- considered the competence, expertise and objectivity of any management experts used; and
- verified the investment balances to the fund manager and custodian report

As the draft financial statements were based on 28 February 2018 balances all types of investment (Levels 1-3) were subsequently updated to reflect the valuation at 31 March 2018. This led to a total decrease of £28.6m to the Fund's reported financial position.

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

5

Contributions

Contributions from employers and employees' represents a significant percentage (75%) of the Fund's revenue. We therefore identified occurrence and accuracy of contributions as a risk requiring particular audit attention

Auditor commentary

We have undertaken the following work in relation to this risk:

- evaluated the Fund's accounting policy for recognition of contributions for appropriateness;
- gained an understanding of the Fund's system for accounting for contribution income and evaluated the design of the associated controls;
- tested a sample of contributions to source data to gain assurance over their accuracy and occurrence; and
- rationalised contributions received with reference to changes in member body payrolls and the number of contributing members to ensure that any unusual trends are satisfactorily explained.

Our audit work identified that Augmentation Contributions of £687k had been incorrectly classified as normal contributions. This had no impact on the Fund Account and the Council has made the appropriate adjustment in the amended financial statements.

6

Pension Benefits Payable

Pension benefits payable represents a significant percentage (83%) of the Fund's expenditure.

We identified completeness of pension benefits payable as a risk requiring particular audit attention:

Auditor commentary

We have undertaken the following work in relation to this risk:

- **evaluated** the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness;
- gained an understanding of the Fund's system for accounting for pension benefits expenditure and evaluated the design of the associated controls;
- tested a sample of individual pensions in payment by reference to member files; and
- rationalised pensions paid with reference to changes in pensioner numbers and increases applied in year to ensure that any unusual trends are satisfactorily explained.

Our audit work has not identified any issues in respect of the risk identified.

Reasonably possible audit risks

Risks identified in our Audit Plan

Commentary

7

The valuation of Level 2 investments is incorrect

While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.

We identified valuation of level 2 investments as a risk requiring particular audit attention.

Auditor commentary

We have undertaken the following work in relation to this risk:

- gained an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls;
- evaluated the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments;
- reviewed the reconciliation of information provided by the pension fund's individual fund manager's custodian and the Pension Scheme's own records and sought explanations for variances; and
- we have reviewed the latest AAF 01/06 or ISAE 3402 audited reports on internal controls, published by the respective investment managers and Custodian.

As the draft financial statements were based on 28 February 2018 balances all types of investment (Levels 1-3) were subsequently updated to reflect the valuation at 31 March 2018. This led to a total decrease of £28.6m to the Fund's reported financial position.

Significant matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

1

Significant matter

Consideration of governance issues at the London Collective Investment Vehicle

Commentary

The City of Westminster Council Pension Fund has £562 million invested in the London Collective Investment vehicle representing 42% of the Investments balance.




The Pension Fund Committee has (meeting of 23 January 2018) has reviewed and commented on the Willis Towers Watson report produced for London LGPS CIV Limited which has highlighted some issues with the governance arrangements at the London CIV. London CIV are currently implementing the recommendations from the report.

We are satisfied that the London CIV does not make investment decisions on behalf of the City of Westminster Pension Fund. Transactions such as the purchases and sales of the investments are still undertaken by Baillie Gifford and Majedie (the relevant fund managers). We have obtained direct confirmations from the London CIV on the investments held for City of Westminster Council Pension Fund and reconciled these to independent confirmations provided by the Fund's custodian (Northern Trust). We are satisfied that the valuation of the investments within the London CIV are fairly stated.




Council officers review the investment statements produced by the London CIV and the control reports produced by the relevant fund managers. The control reports demonstrate that there are appropriate processes and controls at the fund managers that would prevent and detect any material misstatement in the investment balances. These reports also act as a form of self-governance and review for senior management on the robustness of internal controls operating at the fund managers. We have reviewed all the control reports which all contain unqualified audit opinions. We are satisfied that there are no exceptions impacting on the valuations of City of Westminster Council Pension fund investments.

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Accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	<ul style="list-style-type: none"> Normal contributions, both from the members and from the employer, are accounted for on an accruals basis 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. Individual transfers into the funds are accounted for when received. Investment income arising from the underlying investments of the Pooled Investment Vehicles is either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as a cash dividend to support the Fund's outgoing cash flow requirements Distributions from pooled funds are recognised at the date of issue Interest income is recognised in the fund account as it accrues. 	The revenue recognition policy is consistent with the Code of Practice of Local Authority Accounting. Management have followed the policy in accounting for the funds revenue streams.	 (Green)
Judgements and estimates	Key estimates and judgements include : <ul style="list-style-type: none"> Valuation of level 3 investments The assumptions within the IAS26 calculation of the present value of future retirement benefits The assumptions within the triennial valuation 	<p>The policies adopted for material accounting estimates appear to be appropriate under the Code of Practice of Local Authority Accounting.</p> <p>The fund increased the disclosures in the judgements, estimates and assumptions within Note 6 to the financial statements to include reference to Level 3 Investments.</p> <p>Our testing indicates that the material estimates included in the financial statements have been calculated based on reasonable judgements and assumptions from experts.</p>	 (Green)
Other critical policies		We have reviewed the Pension Fund's policies against the requirements of the CIPFA Code of Practice. The Pension Fund's accounting policies are appropriate and consistent with previous years.	 (Green)

Assessment

-  Marginal accounting policy which could potentially be open to challenge by regulators
-  Accounting policy appropriate but scope for improved disclosure
-  Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
① Matters in relation to fraud	<ul style="list-style-type: none"> We have previously discussed the risk of fraud with the Audit and Performance Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
② Matters in relation to related parties	<ul style="list-style-type: none"> We are not aware of any related parties or related party transactions which have not been disclosed.
③ Matters in relation to laws and regulations	<ul style="list-style-type: none"> You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
④ Written representations	<ul style="list-style-type: none"> A standard letter of representation has been requested from the Pension Fund.
⑤ Confirmation requests from third parties	<ul style="list-style-type: none"> We requested from management permission to send confirmation requests to your custodian, fund managers and banks. This permission was granted and the requests were sent. Requests were returned with positive confirmations of the balances.
⑥ Disclosures	<ul style="list-style-type: none"> Our review found no material omissions in the financial statements.
⑦ Significant difficulties	<ul style="list-style-type: none"> We have not had any issues with accounts closedown, production of draft accounts or working papers.
⑧ Matters on which we report by exception	<ul style="list-style-type: none"> We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We propose to issue our 'consistency' opinion on the Pension Funds Annual Report on 15 June 2018. We have not yet received the Pension Fund Annual Report.

Independence and ethics

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 Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No non-audit services were identified.

Follow up of prior year recommendations

We identified the following issue in the audit of Westminster City Councils Pension Fund's 2016/17 financial statements, which resulted in one recommendation being reported in our 2016/17 Audit Findings report. We are pleased to report that management have implemented all of our recommendation

	Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
<p>1</p> <p>Page 266</p>	<p>✓</p>	<p>The interface between the managed services system and Pensions Administration system did not go live as expected during 2016/17. This means that manual interfaces were performed which are labour intensive. There remains a backlog in processing changes to member data in the pensions administration system due to the service provider not providing correct and timely pension data to the administrator.</p>	<ul style="list-style-type: none"> The interface between the managed services system and Pensions Administration system operated throughout 2017/18. Our testing of member data did not identify any issues.

Assessment

- ✓ Action completed
- X Not yet addressed

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year.

Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000
<p>1 The Net Value of Investment balances of £1,358,658k within the draft financial statements were as at 28 February 2018. The March 31 2018 balance of £1,330,079k was not available until 10 April 2018 after the submission of the draft financial statements.</p> <p>The same issue also impacted on the Investment Income balance which was amended from £13,120k to £15,785k.</p> <p>The overall impact was a reduction in total net assets of £28,579k.</p> <p>The associated amendments impacted on all the relevant investment disclosure notes in the financial statements.</p>	<p>Dr Profit and loss on disposal of investments and changes in the market value of investments</p> <p>31,244</p> <p>Cr Investment Income</p> <p>2,665</p>	<p>Cr Net Value of Investments</p> <p>28,579</p>	<p>Decrease of total net assets</p> <p>28,579</p>
Overall impact	£28,579	£28,579	£28,579

Audit Adjustments continued

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure / omission/classification	Detail	Action taken	Adjusted?
Disclosure of Membership data (Note 1f)	The membership figures in the draft financial statements were prepared on a report run as at 28/02/2018. Surrey County Council set the report to run on 31/03/2018 - over the bank holiday weekend - and the Fund received this on Tuesday 03/04/2018 after which the draft accounts had already been provided. Therefore, the figures in the draft version are to be changed to reflect the new year-end report.	Management have adjusted note 1f to the financial statements.	✓
Classification of contributions (Note 7)	Augmentation Contributions of £687k had been incorrectly classified as normal contributions.	Management have adjusted Note 7 to the financial statements.	✓
Actuarial Present Value of Promised Retirement Benefits (Note 19)	The Actuarial Present Value of future retirement benefits at 31 March 2018 per Note 19 to the financial statements was £665,255k. This has been amended due to a revised actuarial report which states £678,674k.	Management have adjusted Note 19 to agree to the revised actuarial report.	✓
Key Management Personnel Remuneration (Note 23)	The Post employment benefits balance disclosed in Note 23 of £86k did not agree to the IAS19 actuary report of £83k. As a potentially sensitive note we are disclosing this error despite the small adjustment.	Management have adjusted Note 23 to agree to IAS19 actuary report.	✓

Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit or audit related services.

Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	£21,000	£21,000
Total audit fees (excluding VAT)	£21,000	£21,000

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report

Independent auditor's report to the Members of City of Westminster council on the pension fund financial statements

Opinion

We have audited the pension fund financial statements of City of Westminster (the 'Authority') for the year ended 31 March 2018 set out on pages *** to ** which comprise the Fund Account, the Net Assets Statement for the year ended 31 March 2018 and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2018 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Section 151 Officer's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Section 151 Officer has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Annual Accounts set out on pages [**xx to xx**], the Narrative Report and the Annual Governance Statement, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Audit opinion

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

Our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Annual Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Section 151 Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities set out on page(s) x to x, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer. The Section 151 officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Section 151 Officer determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Section 151 Officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit and Performance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

Audit opinion

A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Paul Dossett

Paul Dossett
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP
30 Finsbury Square
London
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1 June 2018



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City of Westminster

Committee Report

Decision Maker:	Pension Fund Committee
Date:	21 June 2018
Classification:	Public
Title:	London Collective Investment Vehicle Governance Review
Wards Affected:	All
Policy Context:	Effective control over Council Activities
Financial Summary:	Although no direct impact on the general fund, the Pension Fund has in excess of £500m invested directly with the London CIV and consequently has vested interests its operations
Report of:	Steven Mair <i>City Treasurer</i> smair@westminster.gov.uk 020 7641 2904

1. EXECUTIVE SUMMARY

- 1.1 This paper updates the Committee on:
- The progress made on the London Collective Investment Vehicle's (CIV) governance review.
 - Details on what is to be discussed at the annual general meeting on 12 July 2018.
 - A brief overview of the investment propositions to be launched with the CIV in the coming months.

2. RECOMMENDATIONS

- 2.1 That the Committee notes the update

3. LONDON CIV GOVERNANCE UPDATE AND AGM

- 3.1 After the London CIV (LCIV) approved its new governance structure at the (Pensions Sectoral Joint Committee (PSJC)), it has begun taking steps to implement it. This included the creation of a Shareholders Committee that will report to the Board, with the two non-executive directors to be appointed to the Board by London Local Authorities.
- 3.2 Discussions of the memberships of these governance structures are ongoing with nominations to be presented at the AGM where Committee Chairs will be able to vote on proposals. At the time of writing no names have officially been submitted.
- 3.3 There are to be amendments to the Shareholders Agreement and Terms of Reference that reflect the changes in the governance structure which will need to be signed by the Chairman.
- 3.4 One other issue that will need to be agreed by all shareholders is the guarantee of the pensions liability for LCIV staff. Currently LCIV is an admitted body to the City of London Pension Fund, whose wish is that all shareholders in LCIV should assume an equal responsibility of the liability guarantee. All shareholders must sign the agreement, otherwise alternative options to insure against this guarantee will be considered.
- 3.5 Further details of what will be in the AGM will be released to officers and Members imminently.

4. INVESTMENT STRATEGY UPDATES

Fixed income

- 4.1 LCIV has recently launched five new sub-funds in fixed income as listed below:
 - LCIV MAC (multi-asset credit) Fund: £344m at launch. The fund aims to utilise a range of long only strategies across a range of fixed income investment to generate returns during different market cycles.
 - LCIV Global Bonds Fund: A traditional global bonds fund that seeks to minimise turnover and secure quality bond purchases with low risk of default.
 - LCIV Global Liquid Loans Fund: Floating rate loans fund providing more secure covenant opportunities than a traditional bond portfolio.
 - LCIV Private Debt Fund: Illiquid Loans that provide higher returns at the cost of less liquidity and higher perceived risk.
 - LCIV Long/Short MAC: A multi asset credit fund that also takes short positions on debt as opposed to only long positions.

4.2 Currently the Fund's fixed income portfolio is solely with the recently acquired buy and maintain portfolio with Insight. The Committee is welcome to explore these other fixed income strategies should they so wish.

Asset Class and Asset Strategy Consultation

4.3 LCIV has launched an asset class and asset strategy consultation to assist local authorities with finding a solution to their investment strategies within their platform.

4.4 Currently the City of Westminster Pension Fund investment strategy and asset allocation is traditional, with four long only equity managers (three active, one passive), a global bonds fixed income strategy and two property managers. The Fund's assets would translate quite well to LCIV which is illustrated by the assets under currently under management.

4.5 The Fund does have a policy allocation of 5% to infrastructure which has yet to be progressed. The Fund did have representation on the LCIV infrastructure working group but activity has cooled in this area since the departure of the previous LCIV CIO. If LCIV is able to offer an investment solution in this area it will be in the Fund's interest to monitor the situation closely.

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

Matt Hopson mhopson@wesminster.gov.uk or 0207 641 4126

BACKGROUND PAPERS: None

APPENDICES:

None

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