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City of Westminster

Committee Agenda

Title:	**Pension Fund Committee**
Meeting Date:	**Monday 10th December, 2018**
Time:	**7.00 pm**
Venue:	**Room 3.4, 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 **(Pages 5 - 10)**

To approve the minutes of the Pension Fund Committee held on 18 October 2018.

4. PENSION ADMINISTRATION UPDATE **(Pages 11 - 16)**

Report of the Director of People Services.

5. ADMINISTERING AUTHORITY DISCRETIONS

Report of the Director of People Services.

To follow.

6. FUND FINANCIAL MANAGEMENT **(Pages 17 - 34)**

Report of the Tri-Borough Director of Treasury and Pensions.

7. INFRASTRUCTURE MANAGER SELECTION **(Pages 35 - 38)**

Report of the Tri-Borough Director of Treasury and Pensions.

8. QUARTERLY PERFORMANCE REPORT **(Pages 39 - 82)**

Report of the Tri-Borough Director of Treasury and Pensions.

9.	**INTEGRATED BUSINESS CENTRE IMPACT CHANGES TO EMPLOYEE CONTRIBUTIONS BANDINGS** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 83 - 86)**
10.	**REPORT OF THE GOVERNMENT ACTUARIES DEPARTMENT** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 87 - 140)**
11.	**ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT**	
12.	**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 items of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information:

Item Nos	Grounds	Para. of Part 1 of Schedule 12A of the Ac
3, 7 (appendix), 13 and 14	Information relating to the financial and business affairs of an individual including the authority holding the information and legal advice	3

13.	**VOLUNTARY SCHEME PAYS** Report of the Director of People Services. To follow.	
14.	**FUND COSTS SUMMARY** Report of the Tri-Borough Director of Treasury and Pensions.	

Stuart Love
Chief Executive
5 December 2018

CITY OF WESTMINSTER

MINUTES

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Thursday 18th October, 2018**, Room 3.4, 3rd Floor, 5 Strand, London, WC2 5HR.

Members Present: Councillors Antonia Cox (Chairman), Melvyn Caplan, Patricia McAllister and Eoghain Murphy.

Officers Present: Phil Triggs (Tri-Borough Director of Treasury and Pensions), Matthew Hopson (Strategic Investment Manager, Tri-Borough Director of Treasury and 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 There were no declarations of interest.

3 MINUTES

3.1 **RESOLVED:**

1. That the minutes of the meeting held on 21 June 2018 be signed by the Chairman as a correct record of proceedings.

2. That the minutes of the meeting held on 20 August 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 and advised that the last four months had witnessed a stable performance for pension administration. Most key performance indicators were rated green, apart from two that were amber because of a single case in each instance. He advised that Hampshire County Council (HCC) was due to take over payroll responsibilities from BT on 1 December 2018. Officers had been testing the new payroll system and feedback to date had been positive. Lee Witham advised that every effort would be made to ensure that the transfer to the HCC payroll system would go smoothly.

4.2 Sarah Hay (Senior Pensions and Payroll Officer) updated Members concerning the involvement of Western Union in confirming the existence of overseas based pensioners. To date, 168 people had been contacted, however others would take longer to trace due to their full names not being recorded, particularly those retiring in the 1980s.

4.3 During discussions, the Chairman acknowledged that the City Council's actuary, Barnett Waddingham, had advised that a data quality cleanse was not necessary. In respect of information on overseas based pensioners, she sought clarification that this was due to the need to acquire further data, as opposed to an actual data lapse. The Chairman asked what the current lifetime allowance was for pensions and requested that information be provided to the Committee at a future meeting if there were any significant changes to this.

4.4 A Member asked how long would the exercise to obtain all data on overseas pensioners would take and what steps would be taken in the event of the necessary validation not being able to be completed. Action also needed to be taken to ensure that the correct person was receiving pension payments. A Member commented that the Chancellor was due to make changes in taxation for high earners and she asked if simplified guidance could be provided to the Committee on this.

4.5 In reply to the issues raised by Members, Sarah Hay advised that in respect of overseas pensions, the lack of a full name would not prevent someone from receiving their pension, but for security reasons it was important that their full name was obtained. She confirmed that the main need was to acquire additional data and The Pensions Regulator was now required to measure data, including details such as National Insurance number and date of birth. Sarah Hay advised that there would be big push to collect additional data for overseas pensioners in January 2019 to prevent disruption of payments during the Christmas period and to allow the transfer of payroll responsibilities to HCC to bed in. She stated that a Data Improvement Plan was needed and additional resources would be required to undertake this. Sarah Hay advised that overseas data collection exercise should be completed by March 2019.

4.6 Phil Triggs (Tri-Borough Director of Treasury and Pensions) advised that in respect of the Chancellor's changes that taxation was a complicated issue and expert advice would be required. Members noted Sarah Hay's comment that Barnett Waddingham had workshops coming up on this. Matthew Hopson (Strategic Investment Manager, Tri-Borough Treasury and Pensions) advised that the current pension lifetime allowance was £1.05m.

5 EQUITY PROTECTION STRATEGY

5.1 Matthew Hopson introduced the report which set out the various equity protection strategies available. Kevin Humpherson (Deloitte) was then invited to comment and stated that the Fund could achieve protection on the downside by relinquishing some on the upside. Management fees could be negotiated on a case by case basis. Kevin Humpherson stated that an equity protection strategy should only be pursued if the City Council did not wish to reduce its exposure to equity.

5.2 During discussions, the Chairman asked if equity assets could be transferred to gilts bonds. She felt that a reduction in the equities portfolio was desirable because of the situation concerning Longview. In respect of transferring assets to infrastructure or gilts, she felt that this would not be as lucrative as transferring to multi asset credit. She commented that efforts should be made to protect the Fund against reversals in the equity market. A Member commented that there was a risk of over exposure to equities and that this needed to be re-balanced accordingly. Another Member asked if there was any information forthcoming on the next actuarial valuation.

5.3 In reply to the issues raised, Kevin Humpherson suggested that securing equity protection strategy was not in the Fund’s best interests, especially given the costs involved. He felt that a gradual transfer of funds to other asset classes, such as multi asset credits and infrastructure, would be preferable. Kevin Humpherson added that an equity protection strategy could only be beneficial in the short term.

5.4 Phil Triggs advised that high quality gilts were considered an expensive option and this was why multi asset credit and infrastructure were considered preferable. Matthew Hopson advised than an update on the next actuarial valuation could be presented at a future meeting and Kevin Humpherson added that he could provide a briefing paper on this.

5.5 The Chairman requested that an update be provided on the next actuarial valuation for the March 2019 meeting. The Committee agreed to the Chairman’s suggestion not to pursue an equity protection strategy in view of the advice received.

5.6 **RESOLVED:**

1. That the different types of equity protection strategies available be noted.

2. That it be agreed not to pursue an equity protection strategy.

6 INFRASTRUCTURE INVESTMENT STRATEGY

6.1 Matthew Hopson presented the report and advised that the Infrastructure Investment Strategy should address the following key areas to meet the Fund’s investment objectives:

- High income yield as this is required to help bridge the current gap in

negative cashflow
- Avoidance of “mega cap projects” where high valuations and intense competition has made these assets a less attractive proposition
- Focus be given to expected drawdown and speed of deployment to avoid holding over fees and to provide access to the market earlier.

6.2 Matthew Hopson advised that it was proposed that Deloitte draw up a list of its highest rated infrastructure manages and officers meet with Deloitte to draw up a short list of three who can present to Committee before it makes a selection following discussions with Deloitte and officers.

6.3 During discussions, a Member suggested that it would be desirable and appropriate to have some investment in infrastructure involving renewable energy. Another Member suggested that investing in infrastructure in renewable energy should only be undertaken if it met the key areas to be addressed to meet the Fund’s investment objectives.

6.4 In reply to the issues raised, Phil Triggs advised that consideration could be given to investing in infrastructure relating to renewable energy providing it offered the appropriate investment return. The Chairman concurred that such an option could be considered provided if it met this criteria.

6.5 **RESOLVED:**

1. That the commencement of an infrastructure manager search offering a product in line with the characteristics described in section 4 of the report be agreed.

2. That it be agreed that the value of the contract search be 5% (circa £71m) of the total value of the City of Westminster Pension Fund.

7 ENVIRONMENTAL, SOCIAL AND GOVERNANCE MONITORING REPORT

7.1 The Committee had before it the annual Environmental, Social and Governance (ESG) report that reported on each of the Fund’s investment managers’ approach to ESG over the last year.

7.2 The Chairman commented on the wide variation of the extent of reporting that investment managers undertook on ESG and noted that Legal and General (LGIM) seemed more committed than most to ESG. She added that discussions on advancing ESG causes could be discussed at the next meeting of the Local Authority Pension Fund Forum (LAPFF) that she was due to attend.

7.3 **RESOLVED:**

That the ESG monitoring report in appendix 1 be noted.

8 QUARTERLY PERFORMANCE REPORT

8.1 Kevin Humpherson presented the report and advised that the Fund had outperformed its benchmark by 0.8% over the quarter to 30 June 2018. He advised that data was now available for the latest quarter up to 30 September 2018, which again had shown that the Fund had performed above the benchmark, despite a relatively poor performance from Majedie. In respect of Insight's buy and maintain credit portfolio, Kevin Humpherson did not anticipate a great deal of change since the restructuring of the mandate had been completed.

8.2 Matthew Hopson advised that the Fund was placed in the 13th quartile of the Local Government Pension Scheme universe for investment asset growth. The Chairman welcomed this achievement and requested further updates on this matter at future meetings.

8.3 **RESOLVED:**

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

9 FUND FINANCIAL MANAGEMENT

9.1 The Chairman asked that risks marked red or amber on the Risk Register be highlighted and she sought further details in respect of cashflow. In respect of the Committee's Forward Plan, a Member asked if the Discretionary Policy could be considered as part of wider People Services policy rather than this Committee.

9.2 In reply to issues raised, Matthew Hopson advised that the only matter to report for cashflow was the one-off payment to the Fund to address the funding deficit. Members welcomed this as a good use of funds and commented that it would be interesting to see the state of play regarding the funding for the next actuarial valuation. Phil Triggs advised that the Discretionary Policy was usually considered by this Committee, however thought could be given as to whether it should also be considered elsewhere. He added that an update on multi asset credit fund would be provided for the December meeting.

9.3 **RESOLVED:**

1. That the Pension Fund's Risk Register be noted.

2. That the cashflow position and three year forecast be noted.

3. That the Committee's Forward Plan and draft Forward Plan for 2019/20 be noted.

10 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

10.1 A Member asked if there was anything to report in respect of an earlier proposal to transfer Legal Services to LGSS Law Ltd to the Fund. In reply, Phil Triggs advised that this had not been taken forward.

The Meeting ended at 8.54 pm.

CHAIRMAN: ________________________ **DATE** ______________________

Pension Fund Committee

Date:	**10 December 2018**
Classification:	**General Release**
Title:	**Pension Administration Update**
Report of:	**Jo Meagher, Head of Operational 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 Westminster City Council Pensions Team, Surrey County Council the final update on BT. WCC went live with Hampshire County Council (HCC), our new providers for Payroll, HR and Finance, on December the 1st. The report gives an update on the Key Performance Indicator (KPI) performance of the pension administrators Surrey County Council (SCC) for the period October 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 October 2018. The last period reported to committee covered the period June 2018 to September 2018. I have included September 2018 KPI data for reference along with October data. November data was not available at the time of drafting this report.

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

2.3.1. **Correspondence.** There is only one reported failure in October and that is one correspondence was not responded to in 10 working days. Due to the number of correspondence in the month, an increase to 48 cases from 18 in

September, the percentage is within timescale at 98%. Although we are pushing Surrey to meet KPI deadlines for all cases we do not consider this a major concern.

2.3.2. **Retirement Survey Response.** The survey response reported in October remains exactly the same as was reported for the prior period at 87.5% positive response rates as either satisfied or very satisfied but as the survey is anonymous people do not have to give details of any concern that they have. It is possible negative feedback is linked to delays or errors that BT have been responsible for. WCC people services will be working closely with Hampshire to make sure that the retirement process is seamless for members going forward.

2.4. A further update regarding one minor employer in the fund with five active members. This employer provided data late to the fund and the initial file that they did send was inaccurate. A revised file provided after the 31st of August means the five members now have an annual statement. We will be writing to this employer to remind them of their responsibilities under the PAS and reporting the late submission to the Pensions Regulator. Although the PAS gives us the option to fine this employer we have elected not to do so on this occasion but this is considered to be a final warning and any future issues by this employer will result in a fine.

2.5. We are carrying out a data cleansing exercise with Surrey CC who have provided us with our common and scheme specific data scores that the regulator now requires us to monitor. Common data relates to an individuals personal information such as NI number, address etc. Scheme specific data relates to information specific to the LGPS such as whole time pay, CARE pay etc. Our common data score is 77% and the scheme specific data is 71%. The next committee report will include further details regarding the detail behind the data scores and an update on our Data Improvement Plan to improve those scores going forward.

3. BT / HCC Performance

3.1 The BT contract ended on the 30th of November 2018 and the Council has gone live with Hampshire County Council (HCC) on the 1st of December 2018.

3.2 At the time of drafting this report, two days into the new service, we are optimistic of a positive relationship working with HCC. The SAP system used instead of Agresso is generally intuitive and feedback so far from employees has been good. Where there have been teething issues, such as some people not being able to access the Employee Self Service (ESS) portal, we have been agreeing manual work rounds to meet tight December pay deadlines. HCC are being supported with additional borough resources until the end of January 2019 to help ensure that the implementation is successful.

3.3 Due to the change in provider, WCC will need to compile an acceptable LGPS end of year file for the part year in 18/19 that BT was our payroll provider. BT has provided WCC with a data dump, however that data is in a poor state and requires a great deal of manipulation to compile a file that can be added to Hampshire data to produce an acceptable 18/19 return. We have identified some additional resource, currently supporting the HCC go live, to work with the Pensions Team to produce a return. Next year is a pension fund valuation year so it is vitally important that we produce our full return no later than the 30th of April 2019.

4. Risk Register

4.1 The main risk for the Pensions Team remains Risk 27 Operational Administration and the move from BT to HCC. This will be our focus to ensure that people get paid accurately and that pension is deducted correctly.

5. Summary

5.1 The focus for the Pensions Team will be in supporting the transition to a new Payroll provider. We will then be concentrating on developing a Data Improvement Plan and workings on the end of year return for 18/19.

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Westminster County Council - September and October Results on KPI Reporting

Description	Target time/date as per Partnership Agreement	Target	Actual Score for Quarter	Quantity September 2018	Actual Score September 2018	Comments	Quantity October 2018	Actual Score October 2018	Comments	Trend	People services Comments
Pension Administration											
Death Benefits Notify potential beneficiary of lump sum death grant	5 days	**100%**	%	0	N/A		0	N/A			nothing to measure.
Write to dependant and provide relevant claim form	5 days	**100%**	%	5	100%		2	100%			
Set up any dependants benefits and confirm payments due	14 days	**100%**	%	0	N/A		0	N/A			nothing to measure.
Retirements Retirement options issued to members	5 days	**100%**	%	11	100%		9	100%			
New retirement benefits processed for payment following receipt of all necessary documents	5 days	**100%**	%	8	100%		5	100%			
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		%	8	100%		5	100%			
Refunds of Contributions Refund paid following receipt of claim form	14 days	**100%**	%	1	100%		9	100%			
Deferred Benefits Statements sent to member following receipt of leaver notification	30 days	**100%**	%	4	100%		8	100%			
Notification to members 2 months before payments due	2 months		%	11	100%	Target is 2 months before due date. Processed 6 weeks before in August	33	100%			Improvement that Surrey have made in sending out option forms for deferred benefits into payment within 2 months.
Lump Sum (on receipt of all necessary documentation)	5 days		%	21	100%		15	100%			
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		%	21	100%		15	100%			
New Joiners New starters processed	30 days	**100%**	%	2	100%		1	100%			
Transfers In Non LGPS transfers-in quotations	30 days	**100%**	%	3	100%		1	100%			
Non LGPS transfers-in payments processed	30 days	**100%**	%	0	N/A		0	N/A			no cases in period.
Transfers Out Non LGPS transfers-out quotations processed	30 days	**100%**	%	3	100%		7	100%			
Non LGPS transfers out payments processed	30 days	**100%**	%	0	N/A		2	100%			
Interfunds In - Quotations	30 days	**100%**	%	3	100%		4	100%			
Interfunds In - Actuals	30 days	**100%**	%	0	100%		0	N/A			
Interfunds Out - Quotations	30 days	**100%**	%	2	100%		8	100%			
Interfunds Out - Actuals	30 days	**100%**	%	5	83%	1 case late	2	100%			
Estimates											
1-10 cases	5 Days		%	0	N/A		0	N/A			no cases in period.
11-50 cases	Agreed with WCC		%		N/A			N/A			no cases in period.
51 cases or over	Agreed with WCC		%		N/A			N/A			no cases in period.
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		%	28	100%		43	100%			
Buying Additional Pensions											
Members notified of terms of purchasing additional pension	15 days		%								
Monthly Pensioner Payroll											
Full reconciliation of payroll and ledger report provided to WCC	Last day of month				100%			100%			
Issue of monthly payslips	3 days before pay day				100%			100%			
RTI file submitted to HMRC	3 days before pay day				100%			100%			
BACS File submitted for payment	3 days before pay day				100%			100%			
P35	EOY				31-Mar-18			31-Mar-18			
Annual Exercises			Date Achieved								
Annual Benefit Statements Issued to Active members	31 August each year				Annual			Annual			Note All data received by employers on time by 30th of April 2018 resulted in an individual getting a Annual Pension Statement by 31st of August 2018. One employer with 6 staff active on our system submitted a return late and the data submitted is not adequate to send out statements at this point. The employer is being chased to submit a suitable return.
Annual Benefit Statements Issued to Deferred members	31 August each year				Annual			Annual			
P60s Issued to Pensioners Non LGPS transfers-in quotations processed within 20 days	31 May each year				100%	Issued April 2018		100%	Issued April 2018		
Apply Pensions Increase to Pensioners	April each year				100%			100%	Issued March 2018		
Pensioners Newsletter	April each year				100%	Issued March 2018		100%	Issued March 2018		
Customer Service											
Correspondence											
Acknowledgement if more than 5 days	2 days										
Response	10 days			18	94%	1 case late	48	98%	1 case late		1 case late
3rd party enquires	10 days			8	100%			N/A			
Helpdesk Enquiries											
Volumes of Enquiries Handled By Helpdesk	Number of Enquiries Handled			507	-	93% FPF Rate	509	-	88% FPF Rate		
Customer Surveys											
Monthly survey to retirees	Percentage Satisfied with Service				87.5%			87.5%			

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**10 December 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:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. Executive Summary

1.1 The risk register has been revised as requested by the Committee and is now divided into two sections: governance (investment and funding) and pensions administration.

1.2 The cash flow forecast has been updated for the next three years with actuals to 30 September 2018.

1.3 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.

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.

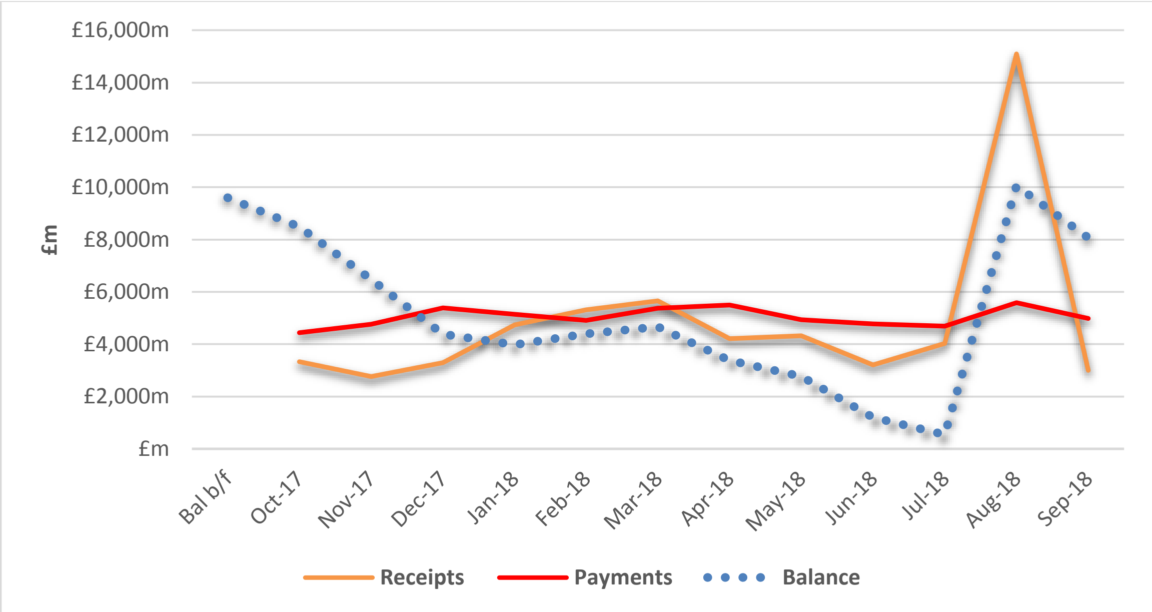
3. Risk Register Monitoring

3.1 The risk register has been updated so that it is now divided into governance (investment and funding) and pensions administration. New risks are marked with an asterisk and the revised format shows the gross score attributable to the risk and the net score after mitigation actions to reduce the impact have been introduced.

4. Cashflow Monitoring

4.1 The balance on the pension fund bank account as at 30 September 2018 was £8.068 million. Payments from the bank account continue to exceed receipts on a monthly basis although, thanks to improved levels of deficit recovery contributions, cash inflow is expected to exceed cash outflow on an annual basis going forward.

4.2 The table below changes in the bank balance from 1 Oct 2017 to 30 September 2018.



4.3 The peak in receipts during August 2018 include a £10m deficit recovery payment.

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

5. Forward Plan

5.1 The Rolling Forward Plan has been attached for 2018/19 and 2019/20.

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

Billie Emery pensionfund@westminster.gov.uk or 0207 641 7062

BACKGROUND PAPERS: None

APPENDICES:

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

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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

Control		Details required
Terminate	Stop what is being done.	A clear description of the specific actions to be taken to control the risk or opportunity
Treat	Reduce the likelihood of the risk occurring.	
Take	Circumstances that offer positive opportunities	
Transfer	Pass to another service best placed to deal with mitigations but ownership of the risk still lies with the original service.	The name of the service that the risk is being transferred to and the reasons for the transfer.
Tolerate	Do nothing because the cost outweighs the benefits and/or an element of the risk is outside our control.	A clear description of the specific reasons for tolerating the risk.

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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**	**(3,683)**
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 year	**(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	0	0
Balance c/f	**10,917**	**(3,683)**	**(16,283)**

Notes:

*Deficit recovery cotributions

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

	Oct-17			Nov-17			Dec-17			
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var	F'cast
Balance b/f	**9,094**	**9,599**	**(505)**	**8,019**	**8,486**	**(467)**	**6,944**	**6,480**	**464**	**5,869**
Contributions	3,550	2,850	700	3,550	2,701	849	3,550	3,212	338	3,550
[1] Misc. Receipts	208	477	(269)	208	62	146	208	81	127	208
Pensions	(3,000)	(3,108)	108	(3,000)	(3,116)	116	(3,000)	(3,123)	123	(3,000)
HMRC Tax Payments	(583)	(544)	(39)	(583)	(545)	(38)	(583)	(542)	(41)	(583)
[2] Misc. Payments	(1,083)	(788)	(295)	(1,083)	(1,108)	25	(1,083)	(1,258)	175	(1,083)
Expenses	(167)		(167)	(167)		(167)	(167)	(465)	298	(167)
Net cash in/(out) in month	**(1,075)**	**(1,113)**	**38**	**(1,075)**	**(2,006)**	**931**	**(1,075)**	**(2,095)**	**1,020**	**(1,075)**
Withdrawals from Fund Managers	0		*0*	0	0	*0*	0	0	*0*	0
Special Contributions	0		*0*	0	0	*0*	0	0	*0*	0
Balance c/f	**8,019**	**8,486**	**(467)**	**6,944**	**6,480**	**464**	**5,869**	**4,385**	**1,484**	**4,794**

<u>Notes</u>

[1] Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges

[2] Includes Transfers out, Lump Sums, Death Grants, Refunds

Jan-18		***Feb-18***			***Mar-18***			**Apr-18**			**May-18**		
£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Actual	**Var**	**F’cast**	**Actual**	**Var**	**F’cast**	**Actual**	**Var**	**F’cast**	**Actual**	**Var**	**F’cast**	**Actual**	**Var**
4,385	**1,484**	**4,794**	**3,985**	**809**	**3,719**	**4,390**	**(671)**	**4,668**	**4,668**	**0**	**3,356**	**3,379**	**(24)**
3,068	482	3,550	2,843	707	3,550	3,135	415	3,558	3,012	547	3,558	3,399	159
1,591	(1,383)	208	975	(766)	208	218	(9)	233	1,202	(969)	233	922	(689)
(3,100)	100	(3,000)	(3,146)	146	(3,000)	(3,137)	137	(3,042)	(3,236)	194	(3,042)	(3,204)	163
(551)	(32)	(583)	(563)	(20)	(583)	(802)	219	(625)	(569)	(56)	(625)	(642)	17
(1,331)	248	(1,083)	(1,204)	120	(1,083)	(1,428)	344	(1,250)	(1,528)	278	(1,250)	(1,074)	(176)
(161)	(6)	(167)	0	(167)	(167)	(7)	(159)	(188)	(170)	(18)	(188)	(12)	(176)
(484)	**(591)**	**(1,075)**	**(1,095)**	**20**	**(1,075)**	**(2,022)**	**947**	**(1,313)**	**(1,289)**	**(24)**	**(1,313)**	**(611)**	**(701)**
0	*0*		0	*0*		0	*0*	0	0	*0*	0	0	*0*
84	*(84)*		1,500	*(1,500)*		2,300	*(2,300)*	0	0	*0*	0	0	*0*
3,985	**809**	**3,719**	**4,390**	**(671)**	**2,644**	**4,668**	**(2,024)**	**3,356**	**3,379**	**(24)**	**2,043**	**2,768**	**(725)**

Jun-18			Jul-18			Aug-18			Sep-18			Oct-18	
£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**
2,043	**2,768**	**(725)**	**731**	**1,200**	**(470)**	**418**	**543**	**(125)**	**9,106**	**10,055**	**(949)**	**7,793**	**8,068**
3,558	3,135	423	3,558	2,905	653	3,558	3,158	400	3,558	2,816	742	3,558	0
233	68	166	233	129	104	233	941	(707)	233	181	52	233	0
(3,042)	(3,198)	156	(3,042)	(3,191)	149	(3,042)	(3,232)	190	(3,042)	(3,227)	186	(3,042)	0
(625)	(568)	(57)	(625)	(613)	(12)	(625)	(555)	(70)	(625)	(563)	(62)	(625)	0
(1,250)	(965)	(285)	(1,250)	(720)	(530)	(1,250)	(1,680)	430	(1,250)	(1,055)	(195)	(1,250)	0
(188)	(41)	(147)	(188)	(168)	(20)	(188)	(121)	(67)	(188)	(139)	(49)	(188)	0
(1,313)	**(1,568)**	**256**	**(1,313)**	**(1,657)**	**345**	**(1,313)**	**(1,489)**	**176**	**(1,313)**	**(1,987)**	**674**	**(1,313)**	**0**
0	0	*0*	1,000	1,000	0	0	1,000	*0*	0	0	*0*	0	0
0	0	*0*	0	0	*0*	10,000	10,000	*0*		0	*0*	0	0
731	**1,200**	**(470)**	**418**	**543**	**(125)**	**9,106**	**10,055**	**51**	**7,793**	**8,068**	**(275)**	**6,481**	**8,068**

	Nov-18			**Dec-18**			**Jan-19**			***Feb-19***			
£000	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**	**£000**
Var	**F'cast**	**Actual**	**Var**	**F'cast**	**Actual**	**Var**	**F'cast**	**Actual**	**Var**	**F'cast**	**Actual**	**Var**	**F'cast**
(275)	**6,481**	**8,068**	**(1,587)**	**5,168**	**8,068**	**(2,900)**	**3,856**	**8,068**	**(4,212)**	**2,543**	**8,068**	**(5,525)**	**1,231**
3,558	3,558	0	3,558	3,558	0	3,558	3,558	0	3,558	3,558	0	3,558	3,558
233	233	0	233	233	0	233	233	0	233	233	0	233	233
(3,042)	(3,042)	0	(3,042)	(3,042)	0	(3,042)	(3,042)	0	(3,042)	(3,042)	0	(3,042)	(3,042)
(625)	(625)	0	(625)	(625)	0	(625)	(625)	0	(625)	(625)	0	(625)	(625)
(1,250)	(1,250)	0	(1,250)	(1,250)	0	(1,250)	(1,250)	0	(1,250)	(1,250)	0	(1,250)	(1,250)
(188)	(188)	0	(188)	(188)	0	(188)	(188)	0	(188)	(188)	0	(188)	(188)
(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	0	0	*0*	0	0	*0*	0	0	*0*		0	*0*	*2,000*
0	0	0	*0*	0	0	*0*	0	0	*0*		0	*0*	20,000
(1,587)	**5,168**	**8,068**	**(2,900)**	**3,856**	**8,068**	**(4,212)**	**2,543**	**8,068**	**(5,525)**	**1,231**	**8,068**	**(6,837)**	**21,918**

Mar-19	
£000	**£000**
Actual	**Var**
8,068	**(6,837)**
0	3,558
0	233
0	(3,042)
0	(625)
0	(1,250)
0	(188)
0	**(1,313)**
0	*2,000*
0	*20,000*
8,068	**13,850**

Appendix 5

PENSION FUND COMMITTEE **Forward Plan – March 2018**

Area of work	**21 Jun 2018**	**18 Oct 2018**	**10 Dec 2018**	**04 Mar 2019**
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 2017/18 Business Plan	Progress on compliance with TPR Code of Practice ESG Monitoring Update	Training Plan	Investment Strategy Statement Review Briefing on Triennial Valuation Annual report of Pension Board activities Review of Governance Compliance Statement
Investments	Pooling and CIV update Annual report to Scheme Advisory Board re pooling arrangements	Pooling and CIV update Infrastructure Investment Strategy Equity Protection strategy	Infrastructure Investment Strategy	Pooling and CIV update Investment Strategy Review MiFID II annual review

Area of work	21 Jun 2018	18 Oct 2018	10 Dec 2018	04 Mar 2019
Administration	Voluntary Scheme Pays, Tax Paper. Pension Administration Strategy (PAS) – update Initial Audits Western Union certification exercise for Overseas Pensioners.	Update on Hampshire Project. Impact on Pension Administration going Forward. Discretionary Policies Paper.	Transition Update for Hampshire Project. First Months Issues for Pension Administration. Pension Administration Strategy (PAS) – update Initial Audits	

Appendix 5

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	Voluntary Scheme Pays, Tax Paper. Pension Administration Strategy (PAS) – update Initial Audits Discretionary Policies Paper. Western Union certification exercise for Overseas Pensioners.	Update on Hampshire Project. Impact on Pension Administration going Forward. Pension Board Recruitment	Hampshire Project. First Months Issues for Pension Administration. Pension Administration Strategy (PAS) – update Initial Audits	

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**10 December 2018**
Classification:	**General Release, Appendix Not for Publication**
Title:	**Infrastructure Investment Strategy**
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:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptrigs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 This paper summarises:

- The approach taken for shortlisting appropriate infrastructure managers for the Fund.

2. RECOMMENDATIONS

2.1 That the Pension Fund Committee decides and approves:

- The selection of one or more managers to invest the Fund's 5% / £70m infrastructure allocation.
- The composition and weightings should more than one manger be selected.

3. INFRASTRUCTURE BACKGROUND

3.1 Pension Fund Committee members received infrastructure training on 16 October 2018, with a view to selecting a manager by the end of the year. At the 18 October 2018 Pension Fund Committee meeting, it was decided to proceed with the selection of an infrastructure investment manager at the next meeting in December 2018.

3.2 Further to this, shortlisted managers were invited to present to the Pension Fund Committee on 10 December 2018.

3.3 Infrastructure provides the following benefits to the fund:

- Diversification from mainstream asset classes.
- High CPI inflation protected income yield.
- Illiquidity premium that benefits longer term investors.

3.4 The Fund's investment consultant, Deloitte, has assisted in preparing the investment manager shortlist.

4. WESTMINSTER INFRASTRUCTURE STRATEGY

4.1 The infrastructure investment universe is very large, with many different types. The shortlisting process aimed to bring three high quality managers to the Pension Fund Committee's attention, each differentiated enough to provide a clear distinction in choice.

4.2 To meet the Pension Fund's investment objectives, highly rated managers were further differentiated by the following three criteria:

- High income yield: The Fund is at a mature stage where it is in negative cash flow. Investment income yield is required to help bridge this gap.
- Avoidance of "mega-cap projects": High valuations and intense competition for these assets make them a less attractive proposition.
- Focus given to expected drawdown and speed of deployment: Avoidance of holding over fees and access to the market earlier is highly desired.

4.3 Appendix 1 to this report sets out more detail around the shortlisting, the suggested selection process and the investment managers considered.

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: Infrastructure shortlisting paper (EXEMPT)

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Agenda Item 8

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**10 December 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:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

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 30 September 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 30 September 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 30 September 2018, the market value of the assets increased by £30m to a value of £1,436m (£1,406m at 30 June 2018). The fund underperformed the benchmark net of fees by 0.2%. This is mainly attributable to the negative relative returns from Majedie whose fund market value fell to £321m in September 2018 (£330m in June 2018).

3.4 The Investment Performance Report shows that over the year to 30 September 2018, the fund outperformed the benchmark net of fees by 0.7% with Baillie Gifford and Longview being the major contributors, offsetting underperformance from Majedie.

3.5 The advisors continue to rate the fund managers favourably, with the exception of Longview, with the retirement of the Chief Executive, Ramzi Rishani still a major concern. They have also expressed ongoing concern about resignations and vacancies at senior management level within the London Collective Investment Vehicle and continue to monitor developments.

3.6 The Pension Fund Committee elected to rebalance its equity exposure by selling down from its Longview portfolio and transferring circa £90m to the LCIV's Multi Asset Credit Fund. This transfer took place on 1 November 2018, a timeline of events attached at Appendix 3. The remaining portfolio held with Longview will be transferred to an Infrastructure portfolio once a suitable investment manager has been selected.

3.7 The funding update (Appendix 2) has been prepared by the fund actuary, Barnett Waddingham. This indicates that the estimated funding level as at 30 September 2018 was 95.8%, an increase of 3.0% on the last quarter's 92.8% as at 30 June 2018. This is due mainly to a greater return on assets than that anticipated at the time of the triennial valuation at 31 March 2016. This position is also up 15.8% on the funding level of 80% that was calculated at the triennial valuation of 31 March 2016.

4. Update on the London CIV

4.1 The value of pension fund investments transferred to the LCIV at the end of September was £547 million. This represents 43% of Westminster's investment assets. A further £290 million continues to benefit from reduced management fees, Legal and General having reduced their fees to match those available through the LCIV.

4.2 A transfer out of £91m of assets managed by Longview to the LCIV took place 1 November 2018.

4.3 With a total of 76% of the Westminster fund value under the LCIV's jurisdiction, this takes the City of Westminster Pension Fund to the highest proportion of funds invested with the LCIV.

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

Billie Emery pensionfund@westminster.gov.uk or 0207 641 7062

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Deloitte Investment Report, Quarter Ending 30 September 2018.
Appendix 2: Barnett Waddingham Funding Update as at 30 September 2018.
Appendix 3: LCIV MAC Fund Timeline.

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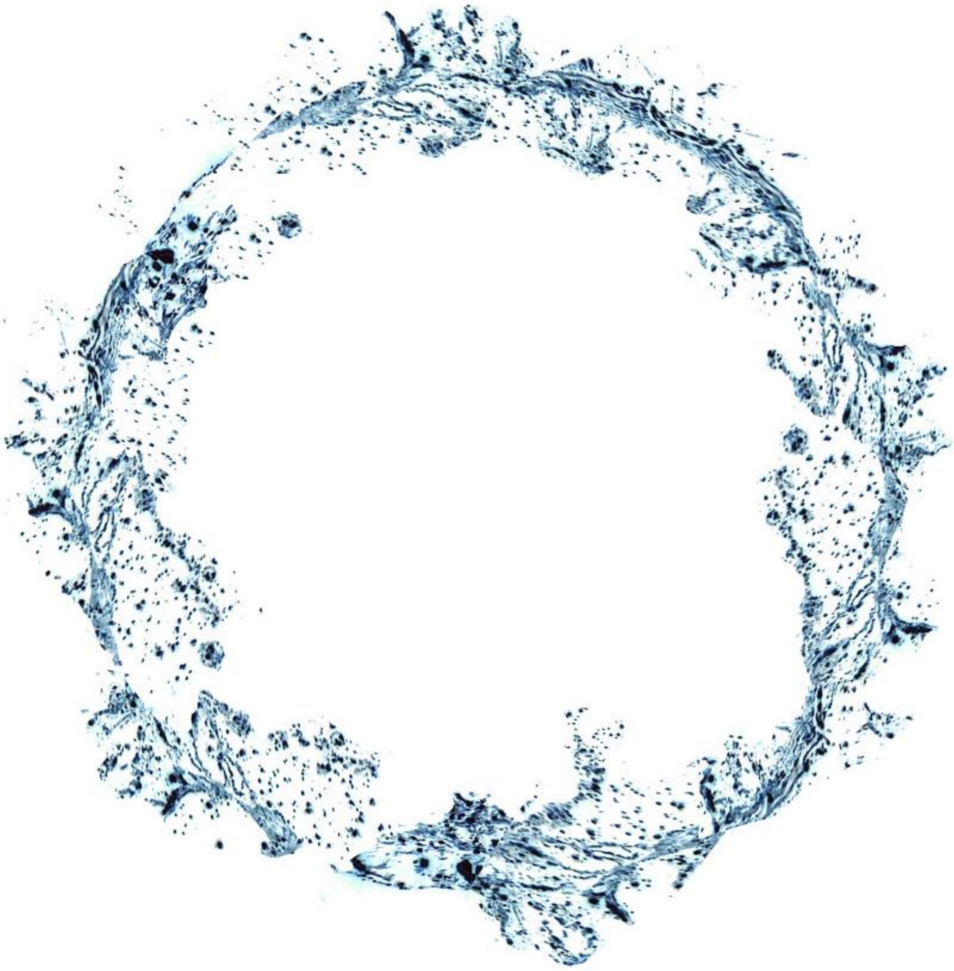
Deloitte.



City of Westminster Pension Fund

Investment Performance Report to 30 September 2018

Deloitte Total Reward and Benefits Limited
November 2018

Contents

1 Market Background

Three and twelve months to 30 September 2018

After performing strongly over the 3 months to 30 June 2018, the UK equity market fell over the third quarter of 2018. The FTSE All Share Index delivered a return of -0.8% with heightened Brexit uncertainty, as the risk of a 'no deal' scenario increased, and a further escalation of trade tensions weighing on investors. These factors were partly offset by encouraging UK employment and wage growth data, and further weakening of sterling. The FTSE 100 Index fell by 0.7% while the FTSE 250 lost 1.8% over the quarter as smaller more UK-centric companies proving more exposed to Brexit related uncertainty. At the sector level, Health Care was the best performing sector returning 4.7%, while Telecommunications was the worst performing sector delivering a return of -6.6%.

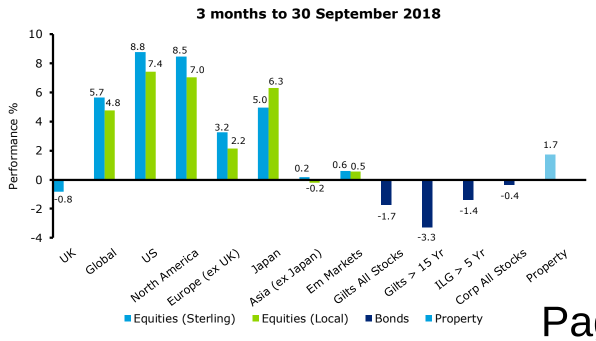
Global equity markets performed positively over the third quarter driven by the US, which continued to report strong earnings and robust economic data, despite a backdrop of geopolitical tensions and the escalating trade war. Other regions fared less well, particularly the Asia Pacific region and Emerging Markets which were disproportionally impacted by US tariffs. Overall, global equities outperformed UK equities in both local currency terms (4.8%) and sterling terms (5.7%). The weakening of sterling over the quarter meant that currency hedging detracted over the quarter. The US (8.8%) was the best performing region in local terms while the worst performing region, other than the UK, was Asia Pacific ex Japan which delivered a marginally negative return of -0.2%.

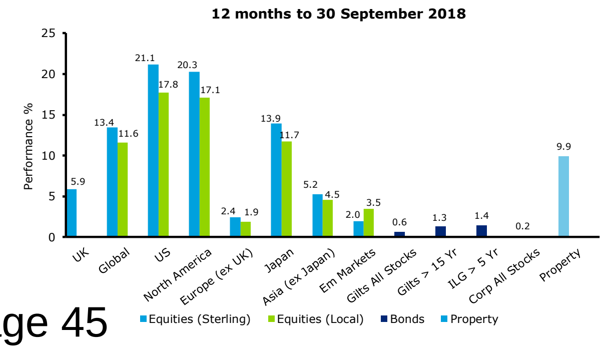
Nominal gilt yields increased across the curve as inflation expectations increased and the Bank of England raised the base rate from 0.5% to 0.75%. The All Stocks Gilts Index subsequently delivered a return of -1.7% over the quarter. Real yields fell at the very short end but increased for mid- and longer-dated maturities. The overall increase in real yields resulted in the Over 5 Year Index-Linked Gilts Index delivering a negative return of -1.4% over the period. Credit spreads narrowed over the third quarter, and the iBoxx All Stocks Non Gilt Index subsequently outperformed gilts of an equivalent duration falling by a more modest 0.4%.

Over the 12 months to 30 September 2018, the FTSE All Share delivered a positive return of 5.9%, which was attributable to the relatively stable global economic environment, and sterling weakness over the year boosting the value of overseas earnings. There was a wide dispersion of returns at the sector level over the 12-month period. Oil & Gas (19.4%) was the best performing sector as oil prices significantly increased over the period, while Telecommunications (-21.1%) was the poorest performing sector. Global equity markets outperformed the UK in both local (11.6%) and sterling terms (13.4%), representative of the relatively stronger economic environment overseas in the absence of Brexit related uncertainty.

UK nominal gilts delivered positive returns over the 12 months to 30 September 2018 as yields fell across most of the curve (there was an increase in yields at shorter maturities). The All Stocks Gilts Index returned 0.6% and the Over 15 Year Gilts Index returned 1.3%. UK index-linked gilts also delivered positive returns as real yields fell, with the Over 5 Year Index-Linked Gilts Index returning 1.4%. Credit spreads widened over the year to 30 September 2018 and corporate bonds underperformed gilts over the year, delivering a broadly flat return of 0.2%.

The IPD UK Monthly Property Index returned 1.7% over the quarter and 9.9% over the year to 30 September 2018, following continued strong demand for UK property despite the heightened uncertainty over Brexit.





2 Total Fund

2.1 Investment Performance to 30 September 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	-2.6	-2.8	-0.8	3.5	2.9	5.9	10.2	9.6	11.5	12.1	11.5	10.4
LGIM	Global Equity	5.1	5.1	5.1	11.1	11.1	11.1	13.5	13.5	13.5	12.5	12.5	12.5
Baillie Gifford	Global Equity	3.0	2.9	5.6	15.0	14.6	12.9	23.6	23.3	19.2	16.5	16.1	13.7
Longview	Global Equity	8.6	8.4	6.3	17.0	16.4	14.4	19.8	19.2	19.4	16.3	15.7	14.0
Insight	Buy and Maintain	-0.1	-0.1	-0.2	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Hermes	Property	2.7	2.6	1.7	11.0	10.6	9.7	9.2	8.8	8.1	10.3	9.9	8.8
Aberdeen Standard	Property	1.9	1.8	-1.2	8.8	8.3	2.6	8.1	7.6	5.0	9.1	8.6	6.0
Total		**2.3**	**2.2**	**2.4**	**9.0**	**8.6**	**7.9**	**13.1**	**12.7**	**11.7**	**n/a**	**n/a**	**n/a**

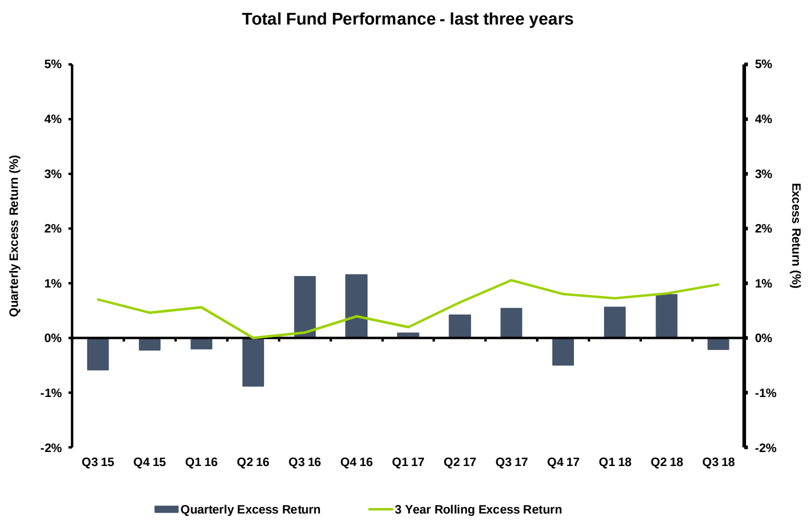
Source: Northern Trust

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

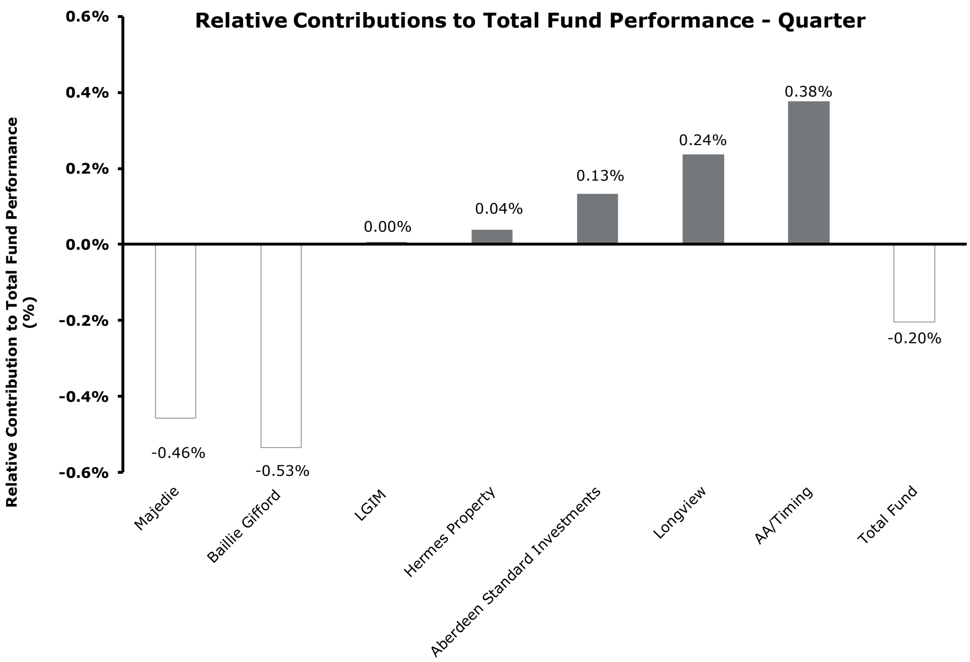
See appendix 1 for more detail on manager fees and since inception dates

The Fund underperformed its benchmark by 0.2% on a net of fees basis over the quarter to 30 September 2018. Over the one year and three year periods to 30 September 2018, the Fund outperformed its benchmark by 0.7% and 1.0% p.a. net of fees respectively.

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.

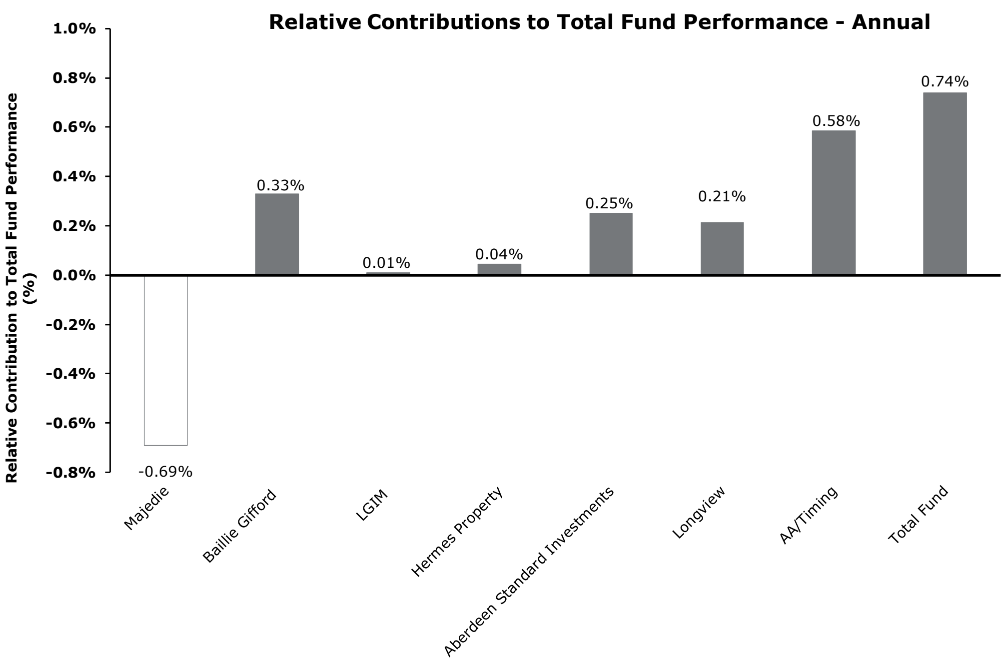


2.2 Attribution of Performance to 30 September 2018



On a net of fees performance basis, the Fund underperformed its benchmark by 0.2% over the third quarter of 2018. This was largely as a result of underperformance from Majedie and Baillie Gifford.

Over the year the Fund outperformed the benchmark by 0.7% driven by ouperformance from Baillie Gifford, Lonview and Aberdeen Standard.



2.3 Asset Allocation as at 30 September 2018

The table below shows the assets held by manager and asset class as at 30 September 2018.

Manager	Asset Class	End June 2018 (£m)	End Sept 2018 (£m)	End June 2018 (%)	End Sept 2018 (%)	Benchmark Allocation* (%)
Majedie	UK Equity	329.5	320.9	23.4	22.3	22.5
LGIM	Global Equity (Passive)	319.1	335.4	22.7	23.4	22.5
Baillie Gifford	Global Equity	283.4	292.0	20.2	20.3	25
Longview	Global Equity	155.4	168.7	11.1	11.7	
	Total Equity	**1,087.4**	**1,117.0**	**77.4**	**77.8**	**70**
Insight	Buy and Maintain	191.4	191.2	13.6	13.3	20
	Total Bonds	**191.4**	**191.2**	**13.6**	**13.3**	**20**
Hermes	Property	65.2	64.9	4.6	4.5	5
Aberdeen Standard	Property	61.7	62.9	4.4	4.4	5
To be determined	Property / Infrastructure	0.0	0.0	0.0	0.0	
	Total Property	**126.9**	**127.8**	**9.0**	**8.9**	**10**
	Total	**1,405.7**	**1,436.0**	**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 increased by c. £30.3m, largely as a result of positive returns from the Fund's global equity investments.

As at 30 September 2018, the Fund was 7.8% overweight to equities when compared with the amended benchmark allocation and underweight bonds and property by c. 6.7% and 1.1% respectively.

In August 2018, the decision was taken to make a 6.5% allocation to CQS' Multi Asset Credit fund which is to be funded from the Longview mandate.

2.4 Yield analysis as at 30 September 2018

The table below shows the yield as reported by the managers on each of the Fund's investments.

Manager	Asset Class	Yield as at 30 September 2018
Majedie	UK Equity	2.90%**
Baillie Gifford	Global Equity	0.80%**
LGIM	Global Equity (Passive)	0.22%*
Longview	Global Equity	2.11%
Insight	Buy and Maintain	2.79%
Hermes Property	Property	4.10%
Aberdeen Standard Investments	Long Lease Property	4.05%
	Total	**1.47%**

*Benchmark yield is 2.4% (represents the income that would be distributed).

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

Majedie and BAiliie Gifford data is as at 30 June 2018.

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	2
LGIM	Global Equity (Passive)	Major deviation from benchmark returns Significant loss of assets under management	1
Insight	Buy and Maintain	Departure of any of the senior members of the investment team	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 30 September 2018, the London CIV had 12 sub-funds and assets under management of £7.6bn. The total assets under oversight (which includes passive investments held outside of the CIV platform) increased over the quarter from c. £16.2bn to c. £17.3bn and represents c. 47% of the 32 London Borough's total AuM.

Personnel

The LCIV hired two new investment analysts over the quarter (Umer Nazir and Pruthvi Odedra) as well as welcoming back Maggie Abrahams as Deputy Chief Operating Officer. Will McBean also joined the client team over the quarter.

Deloitte view – 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. We are continuing to monitor developments on the business side as well as the new fund launches.

3.2 Majedie

Business

The total assets under management for Majedie was c. £14.1bn as at 30 September 2018, a decrease of c. £0.9bn over the third quarter of 2018.

Personnel

There were no significant team or personnel changes over the quarter to 30 September 2018.

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

3.3 Baillie Gifford

Business
Total assets under management as at 30 September 2018 was c. £196bn, an increase of c. £3bn from 30 June 2018.

Personnel
There have been no significant team or personnel changes over the quarter to 30 September 2018.

Deloitte view - We continue to rate Baillie Gifford positively for its equity capabilities.

3.4 LGIM

Business
As at 30 June 2018, Legal & General Investment Management ("Legal & General") had total assets under management ("AuM) of £985bn, an increase of £2bn since 31 December 2017.

Personnel
At a firm level, LGIM announced in July that Mark Zinkula, CEO of LGIM (UK), would be retiring on 31 August 2019. The announcement had been expected to an extent, as Mark had always made clear his period based in the UK would be finite and that he planned to return to the US. The 13-month notice period is expected to give LGIM sufficient time to appoint a replacement and ensure a smooth transition.

In August, LGIM announced that Siobhan Boylan, Chief Financial Officer, would be leaving at the end of the year. In October, LGIM announced that Richard Lee would be taking on the CFO role from November. Richard, currently Group Performance Director, was previously CFO and Chief Risk Officer for Legal & General Retirement.

At the Index team level, there were no new joiners but one leaver over the third quarter of 2018, as Harvey Sidhu left his role as Head of Index Plus.

At the LDI team level, LGIM announced that Simon Wilkinson, Head of Solutions Portfolio Management, will be leaving the firm to pursue other interests. Guy Whitby-Smith, previously Co-Head of LDI Portfolio Construction, was promoted to replace Simon as Head of Solutions Portfolio Manager with effect from October 2018. Guy has worked closely with Simon and has played a leading role in his previous position in evolving LGIM's business beyond traditional LDI strategies into a wider range of holistic risk management solutions. LGIM have confirmed they will shortly be announcing two further senior appointments in the investment team.

During the third quarter of 2018, there were two new joiners to the LDI team and three leavers. Two new solutions portfolio managers – Fiona Wu and Camille Paret – were hired, while Jeremy Rideau (Portfolio Solutions Pooled Fund Manager), Azeem Malik (Quantitative Modelling Analyst) and Natalie Stimpson (Solutions Strategist) left their respective roles.

Deloitte View - We continue to rate Legal & General positively for its passive and LDI capabilities. We feel the changes to the LDI team, particularly the departure of Simon Wilkinson, are significant given Simon's status. While we do not have any major concerns at this stage, we will continue to monitor updates of LGIM's succession plan.

3.5 Longview

Business
As at 30 September 2018, Longview managed c. £21.4bn on behalf of its clients.

During the third quarter of 2018, net flows out of the firm amounted to c. $315m due to continued de-risking among UK Corporate DB Pensions Schemes.

Personnel
There were no changes to the Investment Team over the third quarter of 2018.

Deloitte view – The departure of Ramzi Rishani in March means 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. Taking these factors into account, we would not put this strategy forward for new business. The decision has been taken to disinvest from the strategy however given the current overweight to equities, the proceeds are to be invested in a new fixed income strategy (CQS) and infrastructure strategy.

3.6 Insight

Business

Insight's total AuM remained broadly unchanged over the quarter, with over £600bn in assets under management, as at 30 September 2018. The Insight Buy and Maintain fund held assets under management of c. £2.1bn as at 30 September 2018.

Personnel

Insight made no changes to their Buy and Maintain fund 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. £2.0bn to £35.3bn over the third quarter of 2018. Assets under management within the HPUT remained relatively constant at c. £1.6bn over the quarter to 30 September 2018.

Personnel

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

Deloitte view –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 £0.1bn to c. £2.3bn as at 30 September 2018

Personnel

There were no team changes for the Long Lease Property Fund over the third quarter.

Process

Since the two businesses merged, ASI has put in place a formalised 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 remain positive on long lease property given the long-term, inflation-linked nature of the contractual cashflows which arise from this type of investment.

4 London CIV

4.1 Investment Performance to 30 September 2018

As at 30 September 2018, the London CIV had 12 sub-funds and assets under management of £7,572m. The total assets under oversight (which includes passive investments held outside of the CIV platform) increased over the quarter from c. £16.2bn to £17.3bn.

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 30 June 2018 (£m)	Total AuM as at 30 September 2018 (£m)	Number of London CIV clients	Inception Date
LCIV MJ UK Equity	UK Equity	Majedie	546	526	3	18/05/17
LCIV Global Equity Alpha	Global Equity	Allianz Global Investors	114	120	1	02/12/15
LCIV BG Global Alpha Growth	Global Equity	Baillie Gifford	2,183	2,371	12	11/04/16
LCIV NW Global Equity	Global Equity	Newton	575	616	3	22/05/17
LCIV LV Global Equity	Global Equity	Longview Partners	516	683	4	17/07/17
LCIV EP Income Equity	Global Equity	Epoch Investment Partners	225	235	2	08/11/17
LCIV HN Emerging Market Equity	Global Equity	Henderson Global Investors	105	186	3	11/01/18
LCIV RBC Sustainable Equity Fund	Global Equity	RBC Global Asset Management (UK)	269	283	2	18/04/18
LCIV PY Total Return	Diversified growth fund	Pyrford	312	315	5	17/06/16
LCIV Diversified Growth	Diversified growth fund	Baillie Gifford	507	637	8	15/02/16
LCIV RF Absolute Return	Diversified growth fund	Ruffer	902	912	10	21/06/16
LCIV NW Real Return	Diversified growth fund	Newton	338	194	2	16/12/16
LCIV MAC Fund	Multi Asset Credit	CQS	343	492	6	31/5/18
Total			**6,937**	**7,572**		

Over the quarter, the NW Real Return sub fund (managed by Newton) lost one London Boroughs from its client list. Whereas the MAC sub fund (managed by CQS) added two new London Boroughs to its client list and each of the Global Alpha Growth (managed by Baillie Gifford), Global Equity (managed by Longview Partners), Emerging Market Equity (managed by Henderson Global Investors) and Diversified Growth (managed by Baillie Gifford) sub funds each added another London Borough to their client list.

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 30 September 2018

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Baillie Gifford – Gross of fees	3.0	15.0	23.6	16.5
Net of fees	2.9	14.6	23.3	16.1
MSCI AC World Index	5.6	12.9	19.2	13.7
Relative (net of fees)	-2.7	1.7	4.1	2.4

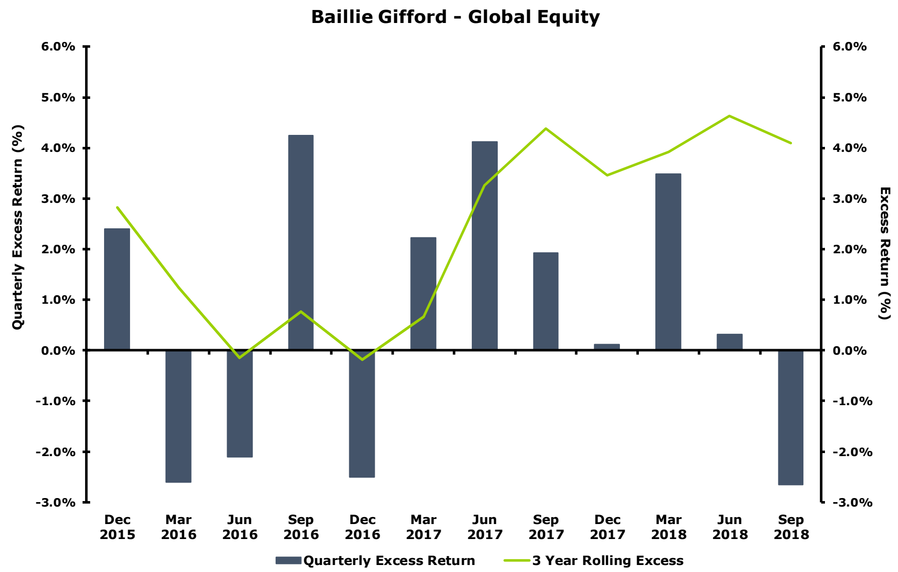
Source: Northern Trust and estimated by Deloitte.

See appendix 1 for more detail on manager fees

Inception date taken as 18 March 2014

The Baillie Gifford Global Equity Alpha Fund underperformed its benchmark by 2.7% over the quarter to 30 September 2018 on a net of fees basis. Over the year the Fund outperformed the benchmark by 1.7% net of fees.

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 4.1% p.a.



5.2 Performance Analysis

The top 10 holdings in the portfolio account for c. 25.9% of the Fund and are detailed below.

Top 10 holdings as at 30 September 2018	Proportion of Baillie Gifford Fund
Amazon	4.4%
Naspers	3.0%
Prudential	2.8%
Anthem	2.6%
Apache	2.4%
Taiwan Semiconductor Manufacturing	2.3%
SAP	2.1%
Mastercard	2.1%
AIA	2.1%
Moody's	2.1%
Total	**25.9%**

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 30 September 2018.

Top 5 contributors as at 30 September 2018	Contribution (%)
Amazon	+0.88
Taiwan Semiconductor Manufacturing	+0.50
Advanced Micro Devices	+0.50
Anthem	+0.40
Grubhub	+0.33

Positive attribution was dominated by technology and internet-enabled businesses, including Amazon, Taiwas Semiconductor Manufacturing, Advanced Micro Devices and Grubhub. Baillie Gifford has since reduced positions in all four of these stocks and has deployed capital in earlier stage opportunities.

Naspers provided the largest negative contribution to performance over the quarter to 30 September 2018, after providing strong positive returns over the previous quarter. This follows the Chinese government's announcement that they would temporarily freeze license approvals on new games, with a significant proportion of Naspers' revenues coming from Tencent.

Top 5 detractors as at 30 September 2018	Contribution
Naspers	-0.47
Zillow	-0.27
Alibaba	-0.23
Ryanair	-0.21
Facebook	-0.20

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 30 September 2018

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
LGIM - Gross of fees	5.1	11.1	13.5	12.5
Net of fees[1]	5.1	11.1	13.5	12.5
FTSE World (GBP Hedged) Index	5.1	11.1	13.5	12.5
Relative (net of fees)	0.0	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 successfully tracked its benchmark over the quarter to 30 September 2018. The Fund also 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 30 September 2018

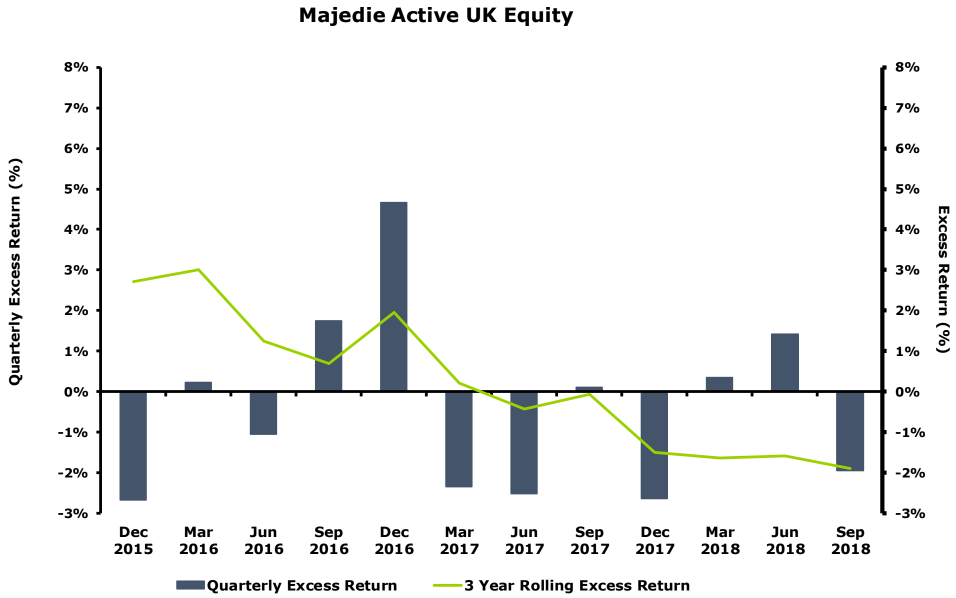
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie - Gross of fees	-2.6	3.5	10.2	12.1
Net of fees[1]	-2.8	2.9	9.6	11.5
MSCI AC World Index	-0.8	5.9	11.5	10.4
Relative (on a net basis)	-2.0	-3.0	-1.9	1.1

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 30 September 2018, Majedie underperformed its benchmark by 2.0% net of fees. The Majedie fund also underperformed its benchmark over one year and three years to 30 September 2018 by 3.0% and 1.9% p.a. respectively on a net of fees basis.

7.2 Performance Analysis

The top 10 holdings in the UK Equity strategy account for c. 49.7% of the Fund and are detailed below.

Top 10 holdings as at 30 September 2018	Proportion of Majedie Fund
Majedie Asset Management Special	8.7%
BP	8.2%
Royal Dutch Shell	8.2%
Tesco	5.4%
GlaxoSmithKline	4.2%
WM Morrison	3.6%
HSBC	3.4%
Centrica	3.0%
Orange	2.8%
Vodafone	2.2%
Total	**49.7%**

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 30 September 2018.

Top 5 contributors as at 30 September 2018	Contribution (bps)
BP	+0.27
WM Morrison	+0.14
BT	+0.14
Ensco	+0.14
JLT	+0.14

Top 5 detractors as at 30 September 2018	Contribution (bps)
Majedie Asset Management Special	-0.45
Tesco	-0.36
Vodafone	-0.26
Ryanair	-0.25
Kaz Minerals	-0.23

The Fund's holdings in the Majedie Asset Management Special, Tesco plc and Vodafone Group plc provided the biggest detractions to performance over the quarter to 30 September 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 30 September 2018

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Longview - Gross of fees	8.6	17.0	19.8	16.3
Net of fees[1]	8.4	16.4	19.2	15.7
MSCI World Index	6.3	14.4	19.4	14.0
Relative (on a net basis)	2.1	2.0	-0.2	1.7

Source: Northern Trust

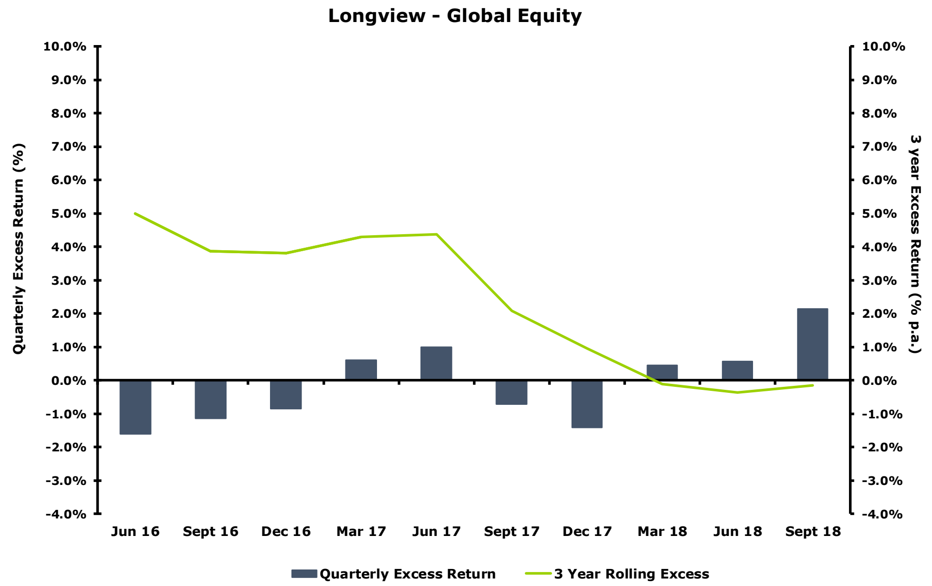
(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date 15 January 2015

Longview outperformed its benchmark by 2.1% over the quarter to 30 September 2018 and by 2.0% over the year to 30 September 2018 net of fees basis. Although Longview underperformed its benchmark by 0.2% p.a. over the three years to 30 September 2018.

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 30 September 2018.

Top 5 contributors as at 30 September 2018	Contribution
HCA Healthcare	+1.14
IQVIA	+0.91
Pfizer	+0.59
WW Grainger	+0.46
Henry Schein	+0.45

The Fund's holdings in HCA Healthcare, IQVIA and Pfizer were amongst the largest contributors to performance over the third quarter of 2018. In addition, WW Grainger continued to see positive results from its strategic price cuts last year.

Continental were the largest detractor to performance over the quarter for the second quarter in succession.

Top 5 detractors as at 30 September 2018	Contribution
Continental	-0.99
Henkel	-0.49
State Street	-0.47
Willis Towers Watson	-0.42
Bank of NY Mellon	-0.38

9 Insight – Buy and Maintain

Insight was appointed to manage a buy and maintain credit portfolio. The fund aims to invest in predominantly investment grade credit which the manager believes can be held to maturity. The manager's fee is based on the value of assets.

9.1 Buy and Maintain Fund - Investment Performance to 30 September 2018

	Last Quarter (%)
Insight IBAM - Gross of fees	-0.1
Net of fees[1]	-0.1
iBoxx £ Non-Gilt 1-15 Yrs Index	-0.2
Relative (on a net basis)	0.1

Source: Northern Trust

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 12 April 2018.

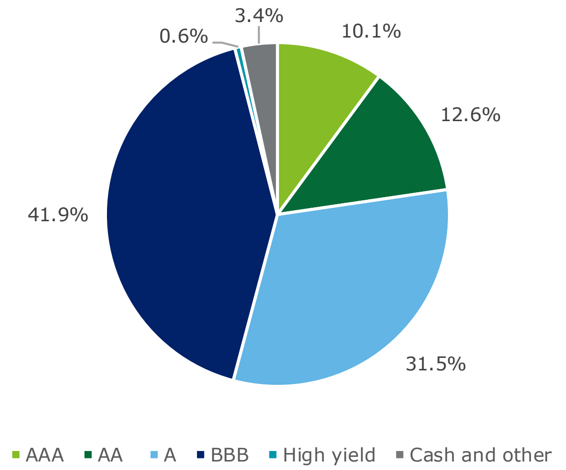
Over the quarter to 30 September 2018 the Insight Buy and Maintain Fund performed in line with its temporary iBoxx non-gilt benchmark on a net of fees basis.

9.2 Performance Analysis

The table below summarises the Buy and Maintain portfolio's key characteristics as at 30 September 2018.

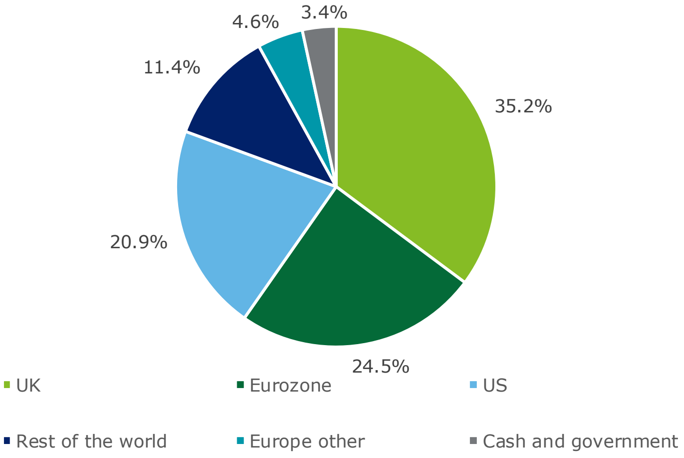
	30 Sept 2018
No. of issuers	157
Modified duration (years)	8.2
Spread duration (years)	7.9
Government spread (bps)	135
Largest issuer (%)	1.4
10 largest issuers (%)	11.4

The graph below shows the split of the Buy and Maintain portfolio by credit rating.



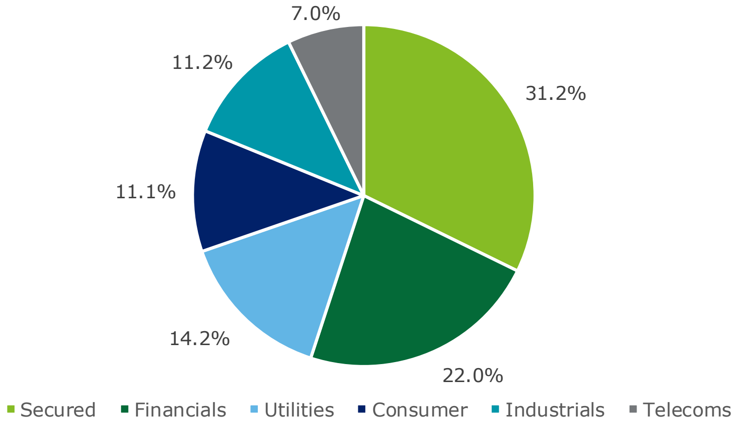
The Fund's investment grade holdings made up c. 96.1% of the portfolio as at 30 September 2018, with the fund predominantly invested in AA and A rated bonds.

The graph below shows the split of the Buy and Maintain portfolio by country.



As at 30 September 2018, the Fund's UK and Eurozone holdings made up c. 59.7% of the portfolio.

The graph below shows the split of the Buy and Maintain portfolio by sector as at 30 September 2018.



The table below shows the top 10 issuers by market value as at 30 September 2018.

Issuer name	Rating*	Holding (%)
Prudential	BBB+	1.36
Volkswagen	BBB+	1.26
Corp	AA-	1.25
Santander	AAA	1.19
Nie Finance	A-	1.12
Daimler	A	1.07
Western Power	A-	1.06
United Airlines	A+	1.04
Equity Release Fund	A	1.04
American Airlines	AA+	1.04

*Ratings provided by Insight.

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 30 September 2018

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Hermes - Gross of fees	2.7	11.0	9.2	10.3
Net of fees[1]	2.6	10.6	8.8	9.9
Benchmark	1.7	9.7	8.1	8.8
Relative (on a net basis)	0.9	0.9	0.7	1.1

Source: Hermes

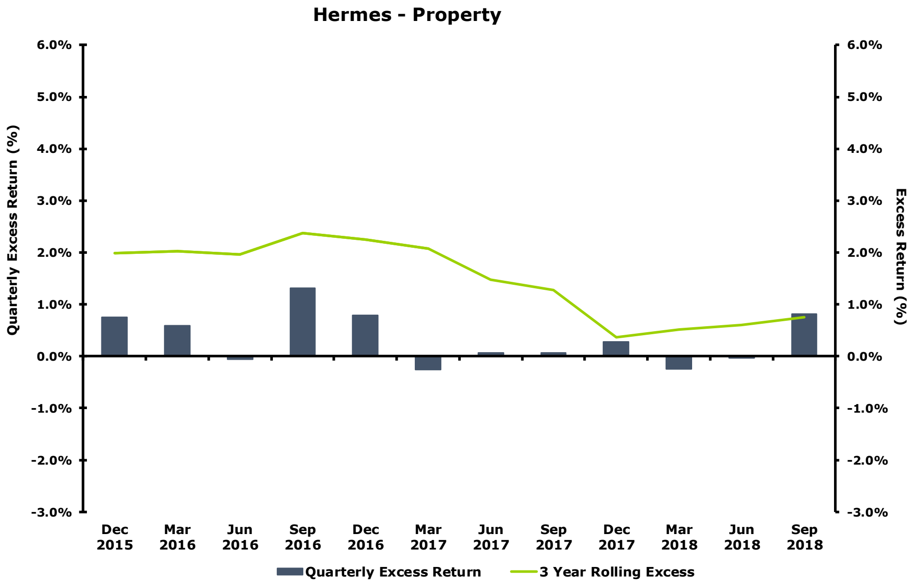
(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date is taken as 26 October 2010

Hermes outperformed the benchmark by 0.9% over the quarter on a net of fees basis, returning 2.7% in absolute terms. The strategy outperformed its benchmark by 0.9% and 0.7% p.a. (net of fees) respectively over the year and three years to 30 September 2018. The Fund has outperformed its benchmark by 1.1% 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 30 September 2018.

Key contributors to the performance over the quarter came from properties in the Industrial sector, with the "Other" and Leisure sectors also contributing positively to performance. The Retail Warehouses sector was a detriment to performance over the quarter with valuation declines reflecting poor investor sentiment for retail assets generally, and a number of tenant administrations specifically within HPUT's portfolio.



10.2 Sales and Purchases

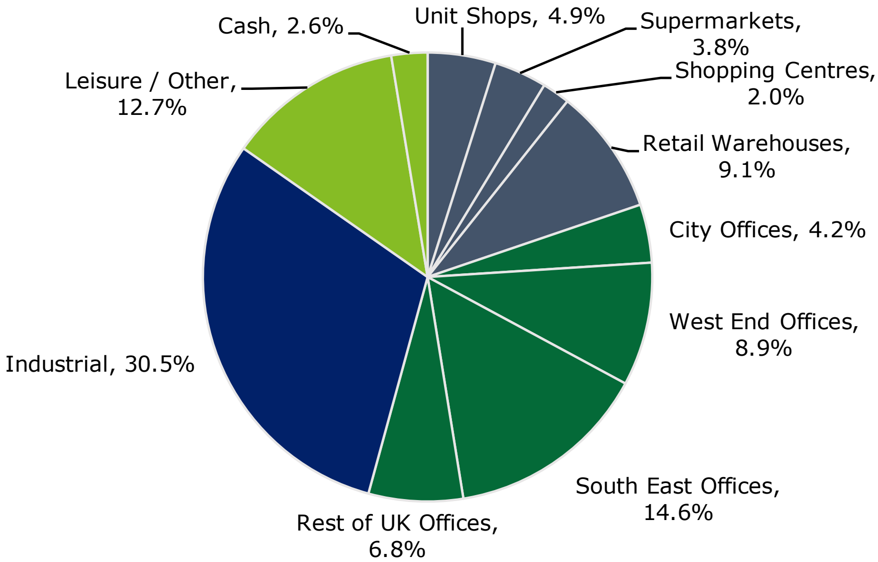
In July 2018, the Trust purchased a multi-let industrial estate located in the South Eastern industrial market for £27.5 million, reflecting an initial yield of 4.85% (including rental guarantees), an equivalent yield of 4.80%, and a capital value per sq.ft. of £145. There is a strong occupier interest for the four newly developed, but vacant, industrial units which are subject to 12 month rental guarantees. The principal tenant is SPX which occupies 109,739 sq. ft. on a lease expiring in 2026 (tenant break in 2021).

In September 2018, the Trust exchanged for the sale of the Yarnfield Park Training & Conference Centre property, with completion in December 2018 for £16.0 million reflecting a net initial yield of 6.3% and a premium to valuation as at end of August 2018 of 9.5% (purchased in June 2015 for £9.5 million). The delayed completion will provide the Trust with additional rental income.

A long lease of The Porter Building, Slough, was sold to a developer in 2015 with the developer under an obligation to redevelop the office property. The Trust retained the freehold and a capital payment (on the sale of the lease to the developer) was deferred until completion of the project. In August 2018 the investment was sold and the Trust's deferred payment was settled, and the Trust received an excess payment to reflect the strong investment returns delivered by the project. This investment delivered a total return of 32.8% during Q3.

10.3 Portfolio Summary as at 30 September 2018

The Hermes Property Unit Trust invests across retail, offices, industrials and other sectors, with the split as at 30 September 2018 shown below.



The table below shows the top 10 directly held assets in the Fund as at 30 September 2018, representing c.32.5% of the Fund.

Asset	Sub-sector	Value (£m)
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	97.0
8/10 Great George Street, London SW1	Offices	65.3
Polar Park, Bath Road, Heathrow	Industrial	54.7
Horndon Industrial Park, West Horndon, CM13	Industrials	49.1
27 Soho Square, London W1	Offices	46.3
Charlton Gate, London	Industrials	45.0
Broken Wharf House, London	Leisure/Other	42.0
Sainsbury's, Beaconsfield	Supermarket	41.2
Hythe House, Hammersmith	Offices	40.0
Camden Works, Oval Road, London NW1	Offices	39.7
Total		**520.3**

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 30 September 2018

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Aberdeen Standard - Gross of fees	1.9	8.8	8.1	9.1
Net of fees[1]	1.8	8.3	7.6	8.6
Benchmark	-1.2	2.6	5.0	6.0
Relative (on a net basis)	3.0	5.7	2.6	2.6

Source: Aberdeen Standard Investments

(1) Estimated by Deloitte

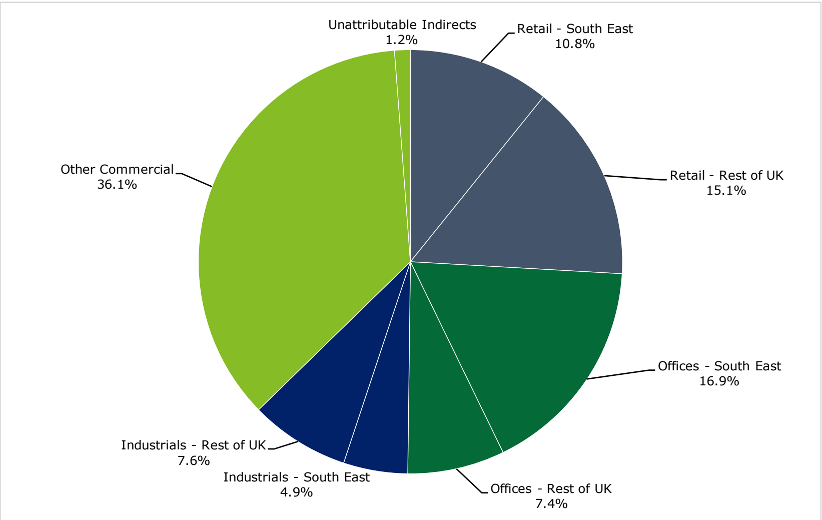
See appendix 1 for more detail on manager fees

Since inception: 14 June 2013

The ASI Long Lease Property Fund returned 1.8% net of fees over the quarter to 30 September 2018, outperforming the benchmark of the FTSE Gilt All Stocks Index + 2% by 3.0% net of fees.

11.2 Portfolio Holdings

The sector allocation in the Long Lease Property Fund as at 30 September 2018 is shown in the graph below.



The Fund's holdings in the office sector has increased slightly from 22.9% as at 30 June 2018 to 24.3% as at 30 September 2018.

Throughout the third quarter, the Fund's industrial weight decreased from 12.9% to 12.5%, while the "other" weighting has increased slightly from 37.2% to 37.3%.

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	8.4
Whitbread	6.4	6.6
Sainsbury's	5.0	5.1
Marston's	4.9	5.1
Asda	4.4	4.5
QVC	4.0	4.1
Salford University	4.0	4.1
Save The Children	3.8	3.9
Park Holidays UK Limited	3.6	3.7
Steinhoff	3.6	3.7
Total	**48.1**	**49.2 ***

*Total may not equal sum of values due to rounding

The top 10 tenants contribute 49.2% of the total net income into the Fund. Supermarkets continue to make up a significant part of the fund with Tesco, Sainsbury's and Asda contributing 18.0% to the Fund's total net rental income as at 30 September 2018.

The Fund's average unexpired lease term increased over the quarter from 26.5 years to 26.7 years.

The proportion of the Fund's income with fixed, CPI or RPI rental increases increased from 93.7% to 94.0% over the quarter.

11.3 Sales and Purchases

Over the third quarter of 2018:

- The Fund finalised the sale and leaseback of an office asset in Bristol for £51.9m, representing a net initial yield of 4.5%. This 85,000 sq. ft. Grade A office was let to Imperial Brands on a 20 year lease. The lease has five-yearly, upward-only reviews, CPI-linked with a cap and collar of 4% and 0% p.a.

- The Fund also purchased a further three holiday parks in Suffolk and Kent operated by Park Holidays UK Limited for £21.8m, reflecting a net initial yield of 3.1%. This was an off-market transaction given ASI's previous relationship with the company, acquiring another portfolio in 2017. The transaction was structured on a ground rent basis with a lease term of 99 years and annual rent set at 12% of the underlying earnings for each park.

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	Buy and Maintain	20.0	Insight Custom Benchmark	n/a	12/04/18	9.5bps base fees	
Hermes		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 – 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.

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

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

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Deloitte.

City of Westminster Pension Fund

Funding update report as at 30 September 2018

Barnett Waddingham LLP

19 November 2018

Contents

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 30 September 2018. The purpose of this assessment is to provide an update on the funding position.

We have shown the funding position as at 30 September 2018 using assumptions consistent with the triennial valuation as at 31 March 2016 (the ongoing basis) and also on a "SCAPE basis" where we have used the recently revised SCAPE discount rate of CPI plus 2.4%. The SCAPE discount rate is the discount rate that will be used in the unfunded public service schemes valuations and indirectly may have an influence on the assumptions that we adopt at the forthcoming 2019 triennial valuation.

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.

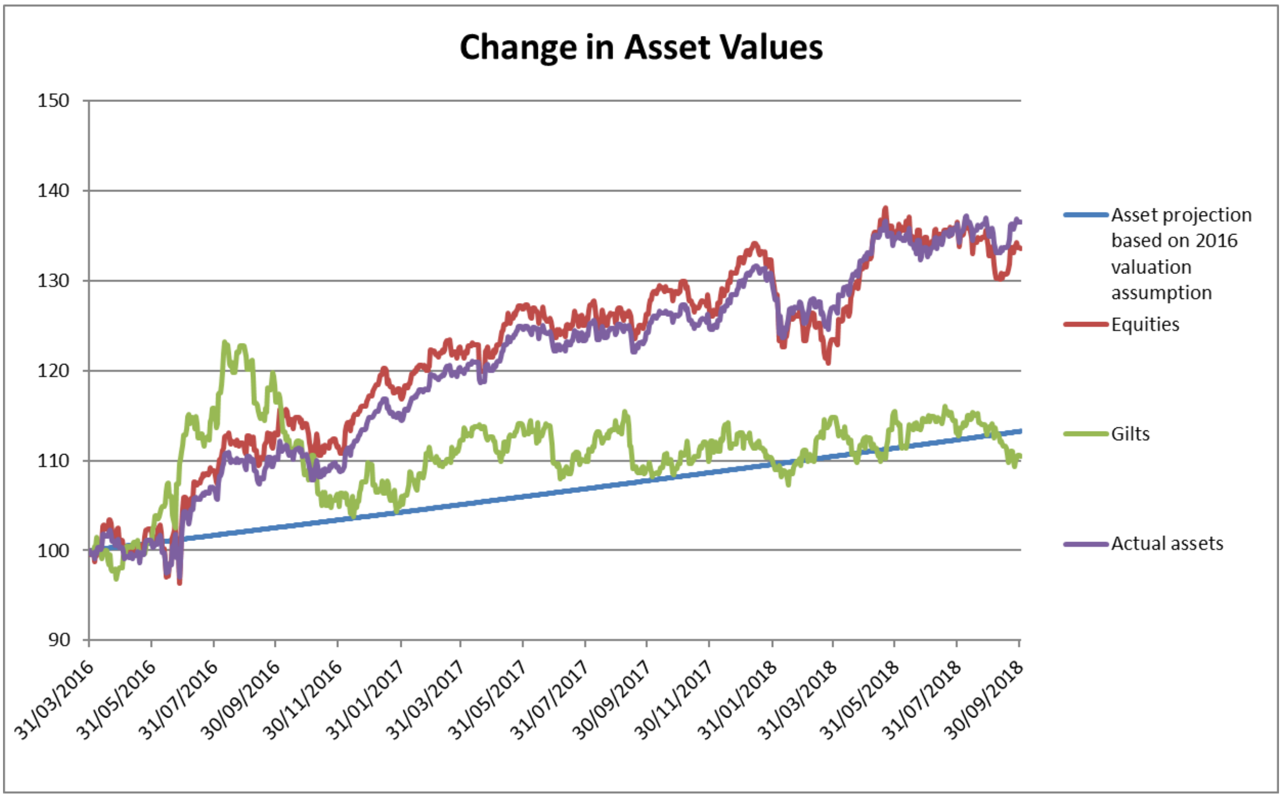
Assets

The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 30 September 2018, based on data received from Westminster City Council, is as follows:

Assets (market value)	30 Sep 2018		30 Jun 2018		31 Mar 2016	
	£000s	%	£000s	%	£000s	%
UK and overseas equities	1,103,033	76.8%	1,078,312	76.7%	790,289	74.1%
Bonds	191,031	13.3%	191,192	13.6%	130,390	12.2%
Property	125,928	8.8%	123,582	8.8%	105,811	9.9%
Gilts	0	-	0	-	26,733	2.5%
Cash and accruals	16,250	1.1%	12,882	0.9%	13,120	1.2%
Total assets	1,436,242	100%	1,405,968	100%	1,066,343	100%

The investment return achieved by the Fund's assets in market value terms for the quarter to 30 September 2018 is estimated to be 2.1%. The return achieved since the previous valuation is estimated to be 36.6% (which is equivalent to 13.3% 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 30 September 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.

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

Assumptions (smoothed)	30 Sep 2018		30 Jun 2018		31 Mar 2016	
	Nominal	Real	Nominal	Real	Nominal	Real
	% p.a.		% p.a.		% p.a.	
Pension increases (CPI)	2.65%	-	2.61%	-	2.39%	-
Salary increases	4.15%	1.50%	4.11%	1.50%	3.89%	1.50%
Discount rate	5.19%	2.55%	5.08%	2.47%	5.10%	2.71%

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

The ongoing 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 discount rate assumption an explicit prudence allowance of 1.1%.

As noted in the Introduction, the discount rate on the SCAPE basis is CPI plus 2.4% p.a.

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 broadly similar as at the 31 March 2016 valuation, maintaining the value of liabilities used for funding purposes.

The real discount rate on the SCAPE basis is lower than on the ongoing basis and therefore would place a higher value on the liabilities.

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.

The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 30 September 2018 is 95.8% and the average required employer contribution would be 20.9% 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 ongoing discount rate underlying the smoothed funding level as at 30 September 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 5.4% p.a.

Westminster City Council

We have also estimated the funding position of Westminster City Council. The development since 31 December 2017 can be found in the table below.

Smoothed	Assets £000s	Liabilities £000s	Surplus / Deficit £000s	Funding level %	CARE ongoing cost (% of payroll)
31 Dec 2017	842,147	1,043,061	(200,914)	81%	17.3%
31 Mar 2018	858,830	1,044,850	(186,020)	82%	17.1%
30 Jun 2018	874,734	1,051,143	(176,410)	83%	17.1%
30 Sep 2018	893,175	1,043,875	(150,700)	86%	16.6%

SCAPE basis

The results summarised above and in the Appendix are based on the ongoing basis. On the SCAPE basis, as at 30 September 2018, we estimate the comparable funding level for the Fund to be 93% and the average required employer contribution rate would be 23.7% of payroll assuming the deficit is to be paid by 2038. This contribution includes 18.8% of payroll towards the cost of future benefits and 4.9% of payroll towards deficit recovery.

On the SCAPE basis, as at 30 September 2018, we estimate the comparable funding level of Westminster City Council to be 83% and the average required employer contribution rate would be 29.9% of payroll assuming that the deficit is to be paid by 2038. The contribution includes 17.5% of payroll towards the cost of future benefits and 12.4% of payroll towards deficit recovery.

Although the SCAPE discount rate is used for the purpose of the valuations of the unfunded public service pension schemes rather than the LGPS, it is likely that this will be used as a guide for the purpose of the Section 13 assessments applied to the local LGPS valuations and therefore may influence the assumptions to be adopted for the Fund's 2019 valuation.

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.

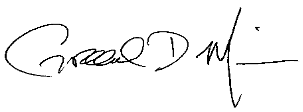
Looking forward to 2019

Since the last valuation at 31 March 2016, assets have performed well and deficits have reduced (using assumptions consistent with the 2016 valuation), reducing the deficit recovery rate (the secondary rate).

However, since the 2016 valuation the real discount rate (the assumed investment return above inflation) has decreased, increasing the cost of future benefits i.e. the future service rate (the primary rate). This is primarily due to a higher expectation for future levels of inflation.

Overall, on a basis consistent with the 2016 valuation, the total required contribution rate is estimated to have reduced since 31 March 2016. The next triennial valuation will be taking place as at 31 March 2019, with revised contribution rates payable from 1 April 2020. As part of the 2019 valuation, the Fund and Fund Actuary will work together in setting the assumptions for the valuation. Given the improvement in funding position over the period and the level of uncertainty in the markets going forward, it may be appropriate to increase the level of prudence underlying the valuation funding 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.

The results shown below are calculated on the ongoing basis.

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 9%, and increasing the CPI inflation assumption by 0.5% will reduce the funding level by about 8%.

Smoothed 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	1,336,329	(267,040)	80%	17.2%	12.6%	29.8%	5.0%	6.0%
31 May 2016	1,088,792	1,362,238	(273,446)	80%	17.8%	12.8%	30.6%	4.9%	5.9%
30 Jun 2016	1,103,684	1,384,191	(280,507)	80%	18.2%	13.0%	31.2%	4.8%	5.9%
31 Jul 2016	1,121,960	1,404,739	(282,779)	80%	18.6%	13.1%	31.7%	4.8%	5.8%
31 Aug 2016	1,133,402	1,421,201	(287,799)	80%	18.9%	13.3%	32.2%	4.8%	5.9%
30 Sep 2016	1,150,014	1,437,793	(287,779)	80%	19.3%	13.3%	32.6%	4.9%	5.9%
31 Oct 2016	1,172,816	1,449,639	(276,823)	81%	19.5%	12.7%	32.2%	4.9%	5.9%
30 Nov 2016	1,185,339	1,456,544	(271,205)	81%	19.5%	12.5%	32.0%	5.0%	6.0%
31 Dec 2016	1,206,192	1,462,515	(256,323)	82%	19.6%	11.8%	31.4%	5.1%	6.0%
31 Jan 2017	1,217,761	1,466,703	(248,942)	83%	19.5%	11.5%	31.0%	5.1%	6.0%
28 Feb 2017	1,237,696	1,476,212	(238,516)	84%	19.7%	11.1%	30.8%	5.1%	5.9%
31 Mar 2017	1,261,355	1,485,068	(223,713)	85%	19.8%	10.4%	30.2%	5.0%	5.8%
30 Apr 2017	1,272,195	1,484,924	(212,729)	86%	19.7%	9.6%	29.3%	5.0%	5.8%
31 May 2017	1,291,739	1,484,738	(192,999)	87%	19.6%	8.7%	28.3%	5.0%	5.7%
30 Jun 2017	1,297,593	1,481,802	(184,209)	88%	19.4%	8.4%	27.8%	5.0%	5.7%
31 Jul 2017	1,305,713	1,480,613	(174,900)	88%	19.2%	8.0%	27.2%	5.0%	5.7%
31 Aug 2017	1,309,876	1,477,979	(168,103)	89%	19.1%	7.7%	26.8%	5.1%	5.7%
30 Sep 2017	1,313,109	1,477,681	(164,572)	89%	19.0%	7.6%	26.6%	5.1%	5.7%
31 Oct 2017	1,328,003	1,482,309	(154,306)	90%	19.0%	7.1%	26.1%	5.1%	5.6%
30 Nov 2017	1,325,817	1,479,561	(153,744)	90%	18.8%	7.2%	26.0%	5.1%	5.7%
31 Dec 2017	1,330,352	1,476,578	(146,226)	90%	18.6%	6.8%	25.4%	5.1%	5.7%
31 Jan 2018	1,341,968	1,475,210	(133,242)	91%	18.5%	6.3%	24.8%	5.1%	5.6%
28 Feb 2018	1,358,573	1,478,129	(119,556)	92%	18.5%	5.6%	24.1%	5.1%	5.6%
31 Mar 2018	1,379,889	1,481,363	(101,474)	93%	18.5%	4.8%	23.3%	5.1%	5.5%
30 Apr 2018	1,383,869	1,481,851	(97,982)	93%	18.4%	4.6%	23.0%	5.1%	5.4%
31 May 2018	1,392,524	1,488,835	(96,311)	94%	18.4%	4.6%	23.0%	5.1%	5.4%
30 Jun 2018	1,394,788	1,493,108	(98,320)	93%	18.4%	4.7%	23.1%	5.1%	5.4%
31 Jul 2018	1,409,340	1,489,981	(80,641)	95%	18.2%	3.9%	22.1%	5.1%	5.4%
31 Aug 2018	1,412,004	1,486,525	(74,521)	95%	18.0%	3.6%	21.6%	5.2%	5.4%
30 Sep 2018	1,423,450	1,485,124	(61,674)	96%	17.9%	3.0%	20.9%	5.2%	5.4%

Appendix 2 Data, method and assumptions

Data

In completing our calculations 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 30 September 2018; and
- Estimated Fund returns based on Fund asset statements provided to 30 September 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.

Method

To assess the value of the Fund's liabilities as at 30 September 2018, we have rolled forward the value of the liabilities calculated for the funding valuation as at 31 March 2016 using the financial assumptions below and estimated cashflows paid to and from the Fund.

It is not possible to assess the accuracy of the estimated value of the liabilities as at 30 September 2018 without completing a full valuation. However, we are satisifed that the approach of rolling forward the previous valuation data to 30 September 2018 should not introduce any material assumptions in the results provided that the actual experience of the Fund is broadly in line with the underlying assumptions and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

We have been provided with the Fund assets at various dates but for dates that these are not available, we calculate the Fund assets by rolling forward the previous assets provided allowing for investment returns (estimated where necessary), and estimated cashflows paid to and from the Fund. The latest date that we have been provided with the Fund assets is 30 September 2018.

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.

Appendix 3: LCIV MAC Fund Timeline

20th Aug 18:

- Committee approves the sale of circa £90m of equities from the Longview equity mandate to top up the Fund's fixed income allocation to 20%. The subsequent investment of proceeds into the London Collective Investment Vehicle (LCIV) global multi asset credit portfolio run by CQS Asset Management.

5th Oct 18:

- LCIV Global MAC account confirmed as opened and registered with Northern Trust

22nd Oct 18:

- £91m subscription placed with LCIV Global MAC

24th Oct 18:

- Market Value of Longview: £159,464,373
- £46m redemption from Longview placed

26th Oct 18:

- £45m redemption from Longview placed

30th Oct 18:

- Internal transfer of funds between Longview and holding account by Northern Trust

1st Nov 18:

- Funds invested with LCIV MAC Fund
- Market Value of Longview: £70,416,089
- Market Value of LCIV Global MAC: £91,000,000

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**10 December 2018**
Classification:	**General Release**
Title:	**Integrated Business Centre migration update and changes to Employee Pensions Contribution Bandings Calculations**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There will be financial implications on the fund related to how employee contribution bandings are calculated and the effect of auto-enrolment for some employees where opt out dates are not held.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 This report provides an update of any financial impacts to the Pension Fund resulting from changes to pensions contributions, arising from the move to the Hampshire County Council Integrated Business Centre (IBC).

1.2 The two impacts to the fund will be the changes to how employee contribution bandings are calculated and the effect of auto-enrolment for some employees where opt out dates are not held.

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2. RECOMMENDATIONS

2.1 The Committee is recommended to note the update.

3 CHANGES TO EMPLOYEE CONTRIBUTION RATES

3.1 Employee contributions are defined in the LGPS regulations and the contribution framework does not vary between Funds. The total salary of an employee, including one off payments and overtime, is used to calculate how much each employee should be contributing. This is shown in the table below:

If your actual pensionable pay is:	You pay a contribution rate of:
Up to £14,100	5.5%
£14,101 to £22,000	5.8%
£22,001 to £35,700	6.5%
£35,701 to £45,200	6.8%
£45,201 to £63,100	8.5%
£63,101 to £89,400	9.9%
£89,401 to £105,200	10.5%
£105,201 to £157,800	11.4%
£157,801 or more	12.5%

3.2 Whilst the values above are fixed, it is up to individual administering authorities to calculate what they deem an employee's pensionable pay to be. Currently, the system that is in place with BT determines annual pay on a monthly basis, calculated by grossing up one month's salary twelve times.

3.3 For example, an employee who earns a flat £2,000 per month will be calculated to have an annual salary of £24,000, placing them in the 6.5% banding which will be applied to their salary each month, costing the individual £130 per month. The problem with this is the calculation does not take into account one off payments.

3.4 If we take the example of the same employee paid £2,000 per month but they receive a one off overtime payment of an additional £2,000 in May, the calculation will deem their annual salary to be £48,000 ((£2,000 + £2,000) x 12). Despite the fact the employee only earns £26,000 for the year and should pay the 6.5% contribution rate, in the month of May only they will be charged 8.5%, thus incurring an effective overpayment of £80.

3.5 The IBC solution works in a different way so that it takes base salary for the year plus a rolling twelve month look at any one off payments to determine the contribution banding. In the example above, the employee would pay 6.5% for the year.

3.6 Although this means many people may pay less contributions, it could mean that others pay more. If we take another example of an individual earning £3,500 per month, they have a base salary of £42,000 and will pay 6.8% contributions. If they receive one off overtime / bonus payment in the month of May of £4,000 the IBC solution will calculate their salary as being £46,000 and the individual will pay 8.5% on their entire salary for the next twelve months - £3,910 per annum.

3.7 If the same individual had been paid under the current BT payroll, in the month of May they would have their salary grossed up to £90,000 and pay 10.5% (£787.50) but would only pay 6.8% for the remainder of the year (£2,618). This individual would pay a total of £3,405.50, which means they are paying £504.50 more under the IBC solution.

3.8 Clearly there will be winners and losers from the change in system, but the new method is a fairer, more equitable solution for both the Fund and Members as it more effectively calculates annual salary for pensions banding purposes.

4 AUTO ENROLEMENT

4.1 Members are automatically enrolled onto the pension scheme when they commence employment, assuming they meet the minimum salary criteria and are between the age of 22 and the state pension age.

4.2 Employees have the right to opt out of the scheme if they wish, by signing an opt out form.

4.3 A small number of employees have opted out of the scheme (around 200 in total across the Tri-Borough) where their opt out dates and forms are not held in Agresso. These individuals will be auto enrolled when their payroll data is transferred to the new Hampshire payroll system, meaning they will restart paying pension contributions.

4.4 These employees will need to opt out again if they still wish to remain out of the fund. All employees who will be auto enrolled under the migration will be notified accordingly.

5 FINANCIAL IMPACTS

5.1 The financial impact to the Fund of changing the contributions calculation method is expected to be largely negligible as some employees will pay less in contributions and others will pay more. It is very difficult to estimate whether net contributions will go up or down due to the complexities surrounding this.

5.2 The financial impact to the Fund of the auto enrolment will potentially mean a negligible gain if the newly opted in individuals continue to pay into the Fund, but if the affected members all opt out, then there will be no impact.

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

Matt Hopson pensionfund@westminster.gov.uk or 0207 641 4126

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Draft Tri Borough Payroll Pensions Analysis Report

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**10 December 2018**
Classification:	**General Release**
Title:	**Government Actuaries Department (GAD) Local Government Pension Scheme Triennial Report of 2016**
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:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. Executive Summary

1.1 This report and appendices provide the Pension Fund Committee with an update on the Government Actuary's Department's (GAD) report on the 2016 Local Government Pension Scheme (LGPS) triennial actuarial valuation.

2. Recommendation

2.1 The Committee is asked to note the update.

3. Background

3.1 Section 13 of the Public Service Pension Schemes Act 2013 requires a "suitably qualified person" appointed by the Secretary of State to carry out a review of the triennial actuarial valuations of funded public service pension schemes. In this instance, it is the LGPS scheme on which the report will focus.

- Whether the fund's valuation is in accordance with the scheme regulations.
- Whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within the LGPS.
- Whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund.
- Whether the rate of employer contributions is set at an appropriate level to ensure the long-term cost efficiency of the scheme, so far as relating to the pension fund.

3.2 The GAD was therefore called upon to perform the analysis of the LGPS. Their initial report and the tests they first used on the individual Funds resulted in a number of warning flags across a large range of funds, prompting a response from the various actuarial firms in a collective challenge to the findings.

3.3 The original report was not complimentary of the LGPS's management and not reflective of the majority of LGPS Funds being in a strong positon. Some of the tests were regarded by the LGPS actuaries as not being fit for purpose. It was observed that some LGPS Funds that were in a better funding positon were flagged as being higher risk due to the counterintuitive nature of their design (the asset shock test being a prime example).

3.4 Upon receiving these challenges, the GAD revised their report and it now shows the LGPS in a more positive light, reflecting the improving funding positions across the spectrum.

3.5 The GAD report and the actuaries' response are attached in the appendices to this report.

4. City of Westminster Pension fund GAD position

4.1 The Westminster City Council received green flags across the board on the GAD's various different tests. This reflects the Fund is in a relatively strong position.

4.2 On the Scheme Advisory Board's like-for-like valuation basis, the Westminster Pension Fund is in the 47th percentile best funded, improving from 60th on the locally derived basis as at the valuation date 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:

Matt Hopson pensionfund@westminster.gov.uk or 0207 641 4126

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Section 13 GAD report 2016
Appendix 2: Actuaries response to Section 13 GAD Report

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Government
Actuary's
Department

Local Government Pension Scheme England and Wales

Review of the Actuarial Valuations of Funds as at 31 March 2016 Pursuant to Section 13 of the Public Service Pensions Act 2013

Date: 27 September 2018

Author: Martin Clarke, John Bayliss

Contents


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1 Introduction

1.1 This report is addressed to the Ministry of Housing, Communities and Local Government (MHCLG) as the responsible authority for the purposes of subsection (4) of section 13 of the Public Service Pensions Act 2013 (‘the Act’). GAD has prepared this report to set out the results of our review of the 2016 funding valuations of the Local Government Pension Scheme (LGPS). This report will be of relevance to: administering authorities and other employers, actuaries performing valuations for the funds within the LGPS, the LGPS Scheme Advisory Board (SAB), HM Treasury (HMT) and the Chartered Institute of Public Finance and Accountancy (CIPFA), as well as other LGPS stakeholders.

1.2 In this introduction we provide:

- background information on the LGPS and fund valuations
- background information on this review and section 13 of the Act
- details of the structure of this report, including the executive summary and the appendices
- discussion of the metrics and flags that we have used in this report, noting the significant improvement in outcomes compared with the previous review
- commentary on the role of the actuary and other stakeholders, noting that nothing in this report should be taken as criticism of administering authorities, their actuary, or other stakeholders
- discussion of the data and assumptions underpinning this review
- a note of our engagement with stakeholders
- a statement of compliance and limitations

The Local Government Pension Scheme and fund valuations

1.3 The LGPS is a funded scheme and periodic assessments are needed to ensure the fund has sufficient assets to meet its liabilities. Employer contribution rates may change depending on the results of valuations. Scheme regulations set out when valuations are to be carried out.

1.4 Each LGPS pension fund is required to appoint its own fund actuary, who carries out the fund’s valuation. The fund actuary uses a number of assumptions to value the liabilities of the fund. Liabilities are split between those that relate to the past (the past service cost), and those that relate to the future (the future service cost). The results of the valuation may lead to changes in employer contribution rates for both future and past service costs.

GAD’s review and section 13

1.5 Section 13 applies for the first time to the valuations as at 31 March 2016.

1.6 Subsection (4) of section 13 requires the Government Actuary as the person appointed by MHCLG to report on whether the four main aims are achieved, namely:

- compliance: whether the fund's valuation is in accordance with the scheme regulations
- consistency: whether the fund's valuation has been carried out in a way which is not inconsistent with the other fund valuations within LGPS
- solvency: whether the rate of employer contributions is set at an appropriate level to ensure the solvency of the pension fund
- long term cost efficiency: whether the rate of employer contributions is set at an appropriate level to ensure the long term cost efficiency of the scheme, so far as relating to the pension fund

1.7 Section 13 subsection (6) states that if any of the aims of subsection (4) are not achieved:

a) the report may recommend remedial steps

b) the scheme manager must:

i) take such remedial steps as the scheme manager considers appropriate

ii) publish details of those steps and the reasons for taking them

c) the responsible authority may

iii) require the scheme manager to report on progress in taking remedial steps

iv) direct the scheme manager to take such remedial steps as the responsible authority considers appropriate

1.8 A dry run of this exercise was published[1] following the valuations as at 31 March 2013.

Structure of this report

1.9 An executive summary to this report is provided in a separate document.

1.10 In the remaining chapters in this report, we consider each of the four aims of section 13:

- Chapter 2: Compliance
- Chapter 3: Consistency
- Chapter 4: Solvency
- Chapter 5: Long term cost efficiency

1.11 Appendices are contained in a separate document, and cover:

- Appendix A: Compliance
- Appendix B: Consistency
- Appendix C: Solvency
- Appendix D: Long term cost efficiency
- Appendix E: Asset liability study
- Appendix F: Data provided
- Appendix G: Assumptions
- Appendix H: Section 13 of the Public Service Pensions Act 2013
- Appendix I: Extracts from other relevant regulations

Metrics and flags

1.12 In its notes to the establishment of key performance indicators[2] (KPIs), the Scheme Advisory Board states: "The SAB considers that maintaining and improving the overall performance of the LGPS is best done by focusing on improving key financial and governance metrics of 'under-performing' funds, and concurrently seeking to raise the level of performance of 'average' funds to that of the 'highest performing' funds."

[1] http://www.lgpsboard.org/images/Reports/Section13DryRun20160711.pdf

[2] http://committees.westminster.gov.uk/documents/s15058/11%20-%20Appendix%201%20-%20KPI%20Guidance.pdf

1.13 We have looked at a range of metrics to identify potential issues in respect of solvency and long term cost efficiency. Each fund's score under each measure is colour coded or flagged, where:

- indicates that there are no material issues that may contribute to a recommendation for remedial action in order to ensure solvency or long term cost efficiency
- indicates a potential issue should be recognised, but in isolation would not usually contribute to a recommendation for remedial action in order to ensure solvency or long term cost efficiency
- indicates a potentially material issue that may contribute to a recommendation for remedial action in order to ensure solvency or long term cost efficiency

1.14 The trigger points for these flags are based on a combination of absolute measures and measures relative to the bulk of the funds in scope. We have had regard to the particular circumstances of some potential exceptions, following engagement with the administering authority and the fund actuary.

Results

1.15 In total, 70 out of 89 funds tested had green flags on all solvency and long term cost efficiency metrics. This is a significant improvement compared with the previous dry run report (52 out of 90). There are a total of 20 amber and 2 red flags, which is again a significant improvement compared with the dry run (58 amber, 5 red).

Interpretation of flags

1.16 While they should not represent targets, these measures and flags help us determine whether a more detailed review is required, for example, we might have concern where multiple measures are triggered amber for a given fund.

1.17 In broad terms, amber flags are advisory signals that may indicate action and a need for further investigation through engagement with the relevant administering authority and their actuary. It should be noted that these flags are intended to highlight areas where risk may be present, or further investigation is required. Where an amber flag remains following that engagement, we believe this relates to an area where an issue remains that administering authorities and pension boards should be aware of. There is no implication that the administering authority was previously unaware of the issue.

1.18 A green flag (ie the absence of a red or amber flag) does not necessarily indicate that no risk is present and similarly the fact that we are not specifically suggesting remedial action does not mean that scheme managers should not consider actions.

Limitations

1.19 We recognise that the use of data and models has limitations. For instance, the data that we have from valuation submissions and publicly available financial information is likely to be significantly less detailed than that available to funds. Our risk assessment framework is designed to broadly assess scheme risks and decide on our engagement with schemes on an indicative basis.

1.20 Because of the nature of this exercise, the only post-valuation events considered are those that may have already been taken into account in the valuation disclosures.

1.21 Further detail is provided in the solvency and long term cost efficiency chapters and appendices.

Exclusions

1.22 The Environment Agency Closed Pension Fund is different from other LGPS funds, in that the benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs[3], guaranteeing the security of these benefits. South Yorkshire Passenger Transport Pension Fund's assets and liabilities have been transferred to the Greater Manchester Pension Fund, hence we have not considered the fund further. In general, these funds have been excluded from the analyses that follow.

The role of the actuary and other stakeholders

1.23 The following key has been used to identify the actuarial advisers for each fund:

- Aon
- Barnett Waddingham
- Hymans Robertson
- Mercer

1.24 Local valuation outputs depend on the local circumstances of each fund, the administering authorities' Funding Strategy Statements, and the actuary's work on the valuation.

1.25 We have reported where the review raised concerns in relation to the aims of section 13. In some cases these concerns are related to the particular circumstances of individual funds – for example mature funds that could have large liabilities relative to the financial resources of their employers have some inherent risks and may be more likely to be flagged under our 'asset shock' measure.

1.26 It is not our role to express an opinion as to whether any concerns raised are driven by the local circumstances of a fund, or the actions of authorities, their actuary, or other stakeholders. Nothing in this report should be taken as criticism of authorities, their actuary, or other stakeholders.

Data and assumptions

1.27 The metrics are based on publicly available data and data provided to GAD by or on behalf of administering authorities. Further details are in Appendix F.

1.28 To make meaningful comparison of valuation results, we have referred to results restated on two bases:

- the standard basis established by the SAB, as calculated by fund actuaries
- a market consistent basis derived by us

1.29 Further details of both these bases are set out in Appendix G.

1.30 The market consistent basis is GAD's best estimate as at 2016, based on our views of likely future returns on each asset class across the Scheme. Future asset returns are uncertain and there is a wide range of reasonable views on what future asset returns will be and therefore the best estimate discount rates should be. We have presented GAD's view above, but there are other reasonable best estimate bases which may give materially different results.

1.31 This use of these standard bases does not imply the bases are suitable to be used for funding purposes:

- the SAB standard basis is not market consistent

[3] http://www.lgpsboard.org/images/Valuations2016/EAPFClosed2016.pdf

- the market consistent basis is a best estimate (while regulations and CIPFA guidance call for prudence to be adopted). This best estimate is based on the average investment strategy for the overall scheme, and so will not be pertinent to any given fund's particular investment strategy. Further, this does not take into account any anticipated changes in investment strategy that may be planned or in train

1.32 The local valuations and our calculations underlying this report are based on specific sets of assumptions about the future. Some of our solvency measures are stress tests but these are not intended to indicate a worst case scenario.

Engagement with stakeholders

1.33 In preparing this report, we are grateful for helpful discussions with and cooperation from:

- MHCLG
- fund administrators
- actuarial advisors
- LGPS Scheme Advisory Board
- HMT

1.34 We note that this report is GAD's alone and the stakeholders above are not responsible for the content.

1.35 We are committed to preparing a section 13 report that makes practical recommendations to advance the aims in the legislation. We will continue to work with stakeholders to advance these aims and expect that our approach to section 13 will continue to evolve to reflect ever changing circumstances and feedback received.

Compliance and limitations

1.36 This work has been carried out in accordance with the applicable Technical Actuarial Standard: TAS 100 issued by the Financial Reporting Council (FRC). The FRC sets technical standards for actuarial work in the UK.

1.37 GAD has no liability to any person or third party for any act or omission taken, either in whole or in part, on the basis of this report. No decisions should be taken on the basis of this report alone without having received proper advice. GAD is not responsible for any such decisions taken.

1.38 We understand and assume that there is no regulatory authority assumed by or conferred on the Government Actuary in preparing this or any future section 13 report. In addition, the appointment to report under section 13 does not give the Government Actuary any statutory power to enforce actions on scheme managers (or others).


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2 Compliance

Key compliance findings

- All reports checked contained a statement of compliance.
- All reports checked contained confirmation of each of the requirements in Regulation 62.
- We concluded that the aims of section 13 were achieved under the heading of compliance.

2.1 Section 13 requires that GAD must report on whether the actuarial valuations of the funds have been completed in accordance with the scheme regulations.

2.2 We found no concerns over compliance.

2.3 There is a great deal of consistency between the actuarial methodologies and the presentation of the actuarial valuation reports for funds that are advised by the same firm of actuarial advisors (see chapter on Consistency). Accordingly, GAD has selected one fund as a representative example from each of the firms of actuarial advisors, and has assessed whether these reports have been completed in accordance with Regulation 62.[4]

2.4 We found that the actuarial valuation reports for each of the above funds have been completed in accordance with Regulation 62, and have therefore concluded that the compliance criteria of section 13 have been achieved. We note that this is not a legal opinion.

2.5 Our review of compliance is focused on the actuarial valuation reports produced under Regulation 62. We have not, for example, systematically reviewed Funding Strategy Statements prepared under Regulation 58.

2.6 The comments we make in subsequent chapters on consistency, solvency and long term cost efficiency do not imply that we believe that the valuations are not compliant with the regulations. These comments relate only to whether the valuations appear to achieve the aims of section 13.

[4] The statutory instrument governing the publication of actuarial valuations for the LGPS in England and Wales is Regulation 62 of the Local Government Pension Scheme Regulations 2013.

3 Consistency

Key consistency findings

- There has been an improvement in relation to disclosure of contribution rates.
- We recommend the SAB consider how best to implement a standard way of presenting relevant disclosures.
- The following assumptions show a marked difference for funds advised by the different firms of actuarial advisors that are not apparently due to local differences:
  - discount rate
  - mortality improvements
  - salary increases
  - commutation
- We recommend the SAB consider what steps should be taken to achieve greater clarity and consistency in actuarial assumptions, except where differences are justified by material local variations.
- We recommend the SAB seeks a common basis for future conversions to academy status.

3.1 Section 13 requires that GAD must report on whether the actuarial valuation has been carried out in a way which is not inconsistent with other valuations.

3.2 In this chapter we:

- provide some background on the legislation, and previous valuations
- discuss two types of consistency: presentational and evidential
- consider presentational consistency in more detail, looking in particular at the presentation of employer contribution rates and the analysis of the change in these rates since the previous valuation
- consider evidential consistency in more detail, looking first at liability values and then at various assumptions: discount rate, mortality improvements, salary increases and commutation assumptions
- conclude and make recommendations
- take a more detailed look the treatment of academies

Background: legislation and previous valuations

3.3 Section 13(4)(b) requires us to report on whether actuarial valuations have been carried out in a way which is not inconsistent with other valuations completed under the scheme regulations.

3.4 We consider how consistency relates to the ability to compare two actuarial valuation reports and draw appropriate conclusions. This relates to how key information is presented as well as whether the outcomes are able to be compared. We consider it is wholly appropriate for assumptions to be set relative to local conditions, but that this should be clearly explained and permit such comparisons to be made.

3.5 Note that Regulation 62 of the 2013 regulations does not include a requirement that the actuarial valuations are carried out in a way which is not inconsistent with other valuations completed under the scheme regulations. However, section 13 of the 2013 Act requires us to comment whether they have been carried out in this way.

3.6 We found improvements in consistency of contribution rate disclosure since the dry run. This was a major concern at the time. We welcome this significant progress. However, we found some other aspects of consistency had not improved since the dry run. Some aspects of this are discussed below.

Presentational and evidential consistency

3.7 Readers of the actuarial valuations face two difficulties in making meaningful comparisons between the reports:

- Presentational: information may be presented in different ways in different reports (eg funding levels), and sometimes information is contained in some reports but not others (eg life expectancies), so readers may have some difficulties in locating the information they wish to compare. We call this presentational inconsistency.
- Evidential: even when the reader has located the relevant information (eg funding levels), differences in the underlying methodology and assumptions mean that it is not possible to make a like for like comparison. We call this evidential inconsistency. We believe that local circumstances may merit different assumptions (eg financial assumptions are affected by the current and future planned investment strategy, different financial circumstances leading to different levels of prudence adopted). However, in some areas, it appears that the choice of assumptions is highly dependent on the house view of the particular firm of actuaries advising the fund, with only limited evidence of allowance for local circumstances.

3.8 Under both aspects there is a great deal of consistency when comparing any two reports produced by the same firm of actuarial advisors, but comparisons between reports of different firms of actuaries are more difficult.

Presentational consistency

3.9 We have taken a report produced by each firm of actuarial advisors to assess whether the information disclosed is consistent across all four advisors. The chosen funds are:

- Merseyside Pension Fund: Mercer
- London Borough of Haringey Pension Fund: Hymans Robertson
- Hampshire County Council Pension Fund: Aon
- Royal County of Berkshire Pension Fund: Barnett Waddingham

3.10 All four funds provide most of the key information that we expected from an actuarial valuation report. Each report also contains a section that summarises the changes to the funding position since the 2013 reports, and these are presented in very similar ways making for easy comparison.

3.11 However, the whole fund secondary contribution rates were not presented consistently, which might cause user difficulties if they wished to make comparisons between funds. This is discussed in more detail below.

Contribution rates

3.12 Contribution rates include the following components:

- primary contribution rate
- secondary contribution rate
- member contribution rate

3.13 The primary contribution rates are easily found in the valuation reports for each fund, and, as they are all expressed as a percentage of pay, are easily comparable. The same is true of member contribution rates.

3.14 Secondary contribution rates are more complex and the whole fund rates are not presented consistently in the valuation reports. All firms of actuarial advisors provide a detailed breakdown of the secondary contribution rates by employer for each of the next three years in their Rates and Adjustments Certificates. However, the summary statistics provided for the funds as a whole varied significantly between firms of actuarial advisors.

3.15 Table 3.1 summarises the information with regard to secondary contribution rates that are given in the valuation reports for the different firms of actuarial advisors. The inconsistent presentation of the secondary contribution rates relates to the presentation of the whole of fund / aggregate secondary contribution rates rather than individual employer secondary contribution rates. To aid comparison of these rates it would be helpful to present them more consistently. Given funds are of different sizes, translating whole fund secondary rates into a percentage of pensionable pay would assist.

Table 3.1: Secondary contribution rates

Fund (Firm of actuarial advisors)	2017	2018	2019	Average for recovery period
Hampshire (Aon)	£75,680,400 less 2.9% of pensionable pay	£81,548,300 less 1.9% of pensionable pay	£87,248,800 less 0.9% of pensionable pay	7.5% of pensionable pay
Berkshire (Barnett Waddingham)	£21,017,000 or 5.3% of pensionable pay	£27,468,000 or 6.7% of pensionable pay	£34,075,000 or 8.2% of pensionable pay	7.7% of pensionable pay
Haringey (Hymans Robertson)	£9,252,000	£8,612,000	£9,554,000	-
Merseyside (Mercer)	£136,300,000 less 0.9% of pensionable pay	£52,500,000 less 0.4% of pensionable pay	£53,600,000 plus 0.1% of pensionable pay	-

3.16 Barnett Waddingham expressed the secondary contribution rate as a percentage of pay and also gave the equivalent monetary amount. Aon and Mercer expressed the secondary contribution rate as a combination of a monetary amount and a (negative) percentage of pay. Hymans Robertson gave a monetary amount only.

3.17 Aon and Barnett Waddingham gave a single headline figure that summarises the average secondary contribution rate over the entire deficit recovery period for that fund.

3.18 In our view, the 2016 reports represent an improvement in the consistency of disclosures compared to those in the 2013 reports. Nevertheless, presentational inconsistency makes it difficult to compare the funds from all four firms of actuarial advisors based on the information provided in the valuation reports, without performing further analysis.

Change in contribution rates since the previous valuation

3.19 We note that regulations have changed with common contributions being replaced by primary and secondary contribution rates for employers. This makes comparison with the previous valuation difficult. Ideally, in future, we would expect to see a comparison of recommended primary and secondary contribution rates with those from the previous valuation. Table 3.2 shows the comparisons provided in each of the four reports.

3.20 A comparison with aggregate employer rates is provided in some cases. Others provide a comparison of primary rates only. We believe such a comparison is useful to enable the reader to understand the total level of contributions being paid into the fund.

Table 3.2: Comparison with prior valuation contribution rates

Fund	Comparison provided
Hampshire (Aon)	Comparison of the aggregate employer total contribution rate
Berkshire (Barnett Waddingham)	Analysis of the change in primary contribution rates, but no comparison of total employer rates
Haringey (Hymans Robertson)	The 2013 common contribution rate[5] alongside a comment that the change in regulatory regime and guidance on contribution rates means that a direct comparison to the whole fund rate at 2016 is not appropriate
Merseyside (Mercer)	Breakdown of the primary employer contribution rate compared with the previous valuation

[5] The common contribution rate (CCR) has been replaced by primary and secondary contribution rates in legislation. In some cases the CCR bore no relationship to actual contributions paid by employers.

Evidential consistency

3.21 We have considered whether the local fund valuations have been carried out in a way which is not inconsistent with each other. We have not found any significant inconsistencies in the results of the valuations (the recommended employer contribution rates), but there are significant inconsistencies in the assumptions adopted.

3.22 Inconsistencies in the methodology and assumptions are less critical than inconsistencies in the results would be. However these inconsistencies make it difficult for users to compare reports, and in our view do not serve any clear purpose. We therefore make a recommendation below that the SAB consider this issue.

3.23 In the paragraphs that follow we:

- look at the range of difference in the value assigned to the liabilities between the local basis and the standard SAB basis, which illustrates the impact of inconsistencies in the local bases
- consider some specific assumptions in detail (including the discount rate), to illustrate the apparent inconsistences

Value assigned to the liabilities

3.24 The value assigned to liabilities in each actuarial valuation report has been calculated on assumptions set locally. Differing levels of prudence are to be expected and may be reflective of local variations in risk appetite, but care needs be taken when comparing results.

3.25 Table 3.4 shows a comparison of local basis liability values vs SAB basis liability values, and charts B1 and B2 in Appendix B shows a comparison of local funding levels vs SAB basis funding levels, which illustrate the variation in levels of prudence adopted in each valuation, and therefore the difficulty in drawing conclusions based on liability values.

3.26 The liability value on the local basis for Berkshire is lower than on the SAB standard basis, yet the reverse is true for the other three funds. Across the whole Scheme, the range is between 36% and -1%. This illustrates the difficulty for the reader in drawing comparisons between reports.

Table 3.3: Liability values

Fund	Local basis £m	SAB standard basis £m	Difference between local basis and SAB standard basis
Hampshire (Aon)	6,453	5,718	13%
Berkshire (Barnett Waddingham)	2,242	2,267	-1%
Haringey (Hymans Robertson)	1,323	1,118	18%
Merseyside (Mercer)	8,081	7,019	15%

Assumptions adopted

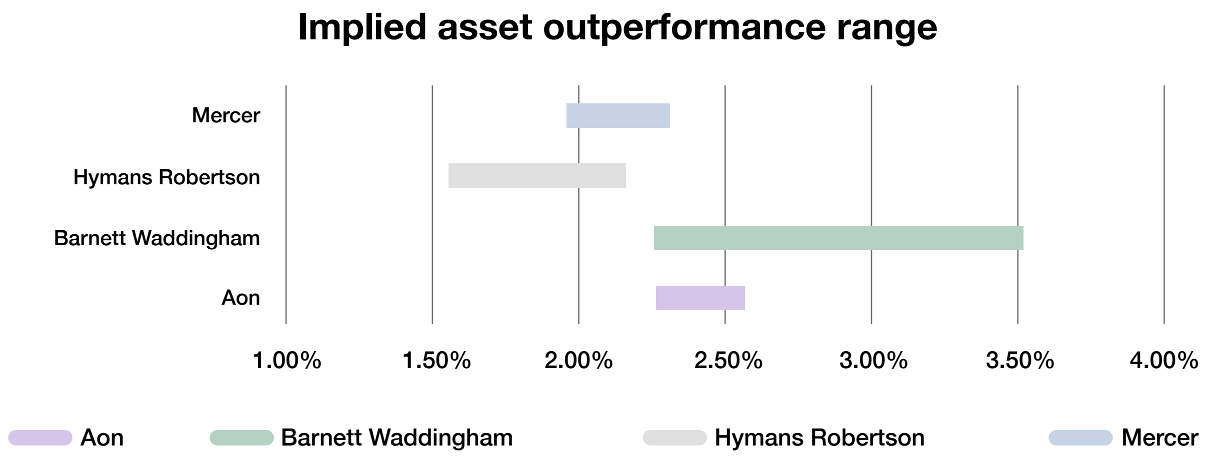
3.27 We compared the following key assumptions that need to be made for the actuarial valuations for all funds to consider whether variations in those assumptions are justified in terms of local conditions:

- discount rate
- mortality improvements
- salary increases
- commutation rates

Discount rates

3.28 A way of measuring the level of prudence built into the pre-retirement discount rate used to assess past service liability is by considering the implied asset outperformance within the discount rate (the implied real return above the risk free return within the discount rate) (see Appendix B.8 for more details). Note this applies to all assets, not just 'return seeking' assets. The following chart illustrates implied asset outperformance ranges within the discount rate used to assess past service liability[6], by firm of actuarial advisors.

Chart 3.1: Implied asset outperformance



[6] Note that some funds use different discount rates to assess past service liabilities and future service contribution rates, we consider only the former here.

3.29 We would expect some fund-by-fund variation due to asset strategy and different levels of risk appetite. Therefore we do not consider the fact that funds adopt different discount rates to be a particular cause for concern. Future asset returns are highly uncertain, and so there is a wide range of reasonable assumptions that may be adopted.

3.30 We are not stating that any particular set of assumptions adopted is not reasonable. However it does appear that they are not consistent with each other.

3.31 Chart 3.1 illustrates one aspect of this difference in assumptions applied by the four firms of actuarial advisors. The funds advised by Hymans Robertson tended to show the lowest level of asset outperformance within the discount rate. Those advised by Mercer sit in the middle of the range, and the funds advised by Aon and Barnett Waddingham have the highest level of outperformance within the discount rate used for assessing past service liability values.[7]

3.32 We might expect less bunching by firm of actuarial advisors if discount rates were set according to local conditions. The discount rate chosen appears to depend on the choice of firm of actuarial advisors. In this regard, we consider the aim of section 13 under consistency may not be achieved.

3.33 We acknowledge, given there are multiple funds advised by four different actuarial advisors, that there is difficulty ensuring consistency of methodologies and assumptions used. This, in conjunction with adequate disclosure in the reports, should allow comparison by a reader of the reports. Consistency is, however, one of the four aims of section 13 and we consider that to improve consistency, stakeholders should work together to overcome some of these difficulties.

Mortality improvements

3.34 The mortality assumption is a function of current (or base) mortality and expectations for future improvements. It is reasonable to set the base mortality assumption on local data. However, mortality improvements must be based on a projection, such as the Institute and Faculty of Actuaries' CMI projections[8] with an assumed rate of future increases counted separately. The assumed long term rates of future mortality improvements for males and females are summarised in Chart 3.2 below:

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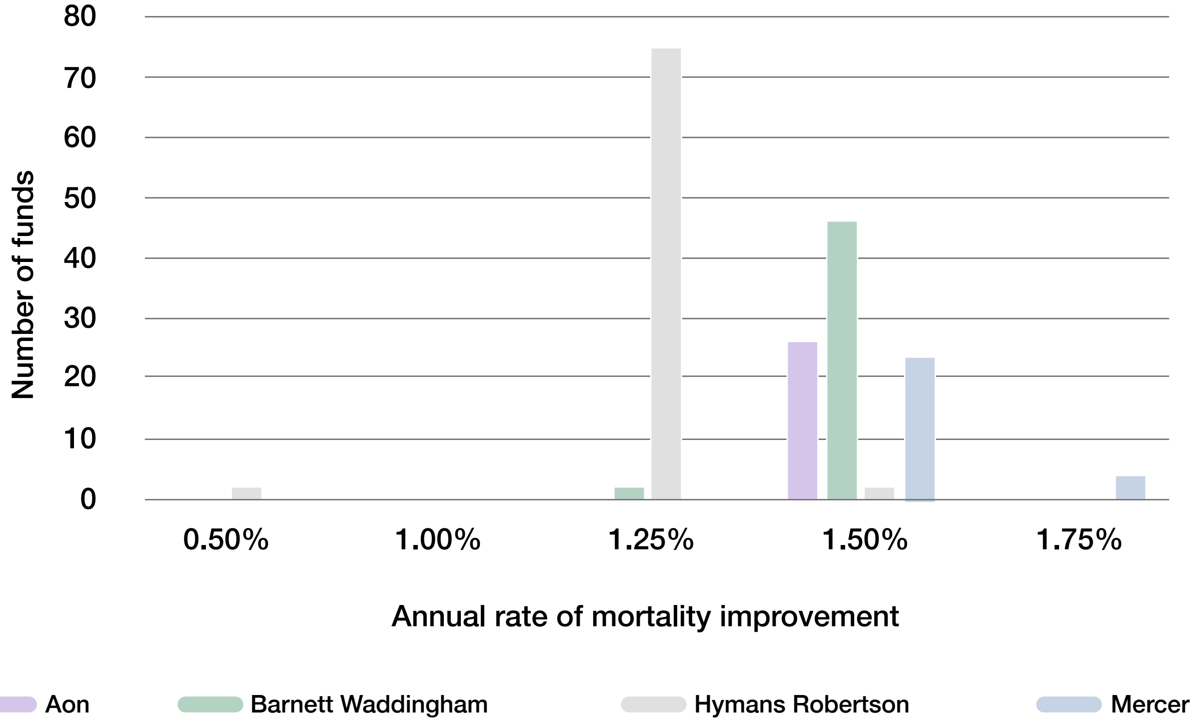
[7] The asset outperformance in Chart 3.1 relates to the discount rate for past service liabilities only. For setting future service contribution rates, Hymans Robertson use a stochastic approach . Mercer follow a deterministic method, but add eg 0.5% to the discount rate for setting contribution rates.

[8] https://www.actuaries.org.uk/learn-and-develop/continuous-mortality-investigation/cmi-investigations/mortality-projections

Chart 3.2: Mortality improvements assumptions for males and females



3.35 Hymans Robertson tends to assume a rate of mortality improvement 0.25% lower than that of the three other firms of actuarial advisors. Hymans Robertson also use an earlier mortality improvements model. The other three firms of actuarial advisors used higher improvement rates and based their mortality improvements on more recent projections. This is understandable because it is difficult to assess future mortality trends, and during the period up to 2016 there was considerable uncertainty in the direction of these trends. The assumption adopted by each fund appears to be heavily influenced by the advisor rather than any local considerations. Each assumption falls within an acceptable range, but we consider it would be helpful if the four firms adopted a consistent assumption for this item.

Salary increases and commutation assumptions

3.36 The rate of promotional pay increases and commutation (the extent to which members on average exchange pension in favour of a tax free cash benefit) assumptions appear in the case of some of the firms of actuarial advisors to be set as a house view rather than an approach clearly based on local conditions. Charts B5 and B6 in Appendix B illustrate this.

3.37 Most firms of actuarial advisors confirmed they perform some analysis under both these areas. In some cases this appears to result not in local variation, but rather an average assumption across the funds under a given advisor. The firms of actuarial advisors cite lack of materiality in some cases, which we consider reasonable. However, in these cases, we believe it would be helpful to use a common assumption across all funds to aid comparability.

Conclusion and recommendations

3.38 Section 13 requires valuations to be carried out in a way that is not inconsistent with other LGPS fund valuations. We interpret this in a presentational and evidential way. We consider the criterion has not been achieved if a user is not able to draw comparisons between the results from two valuation reports.

3.39 Stakeholders may wish to set out objectives for a possible project to improve consistency to help readers to understand the prudence being used in the report with regard to both past service liabilities and aggregate contribution rates. These objectives may include:

- a framework for relevant assumptions to be set by local government collectively
- recognition that, where appropriate, assumptions should be set according to local conditions, following review of local experience and discussion with relevant stakeholders
- assumptions should be set consistently, in that different assumptions should be clearly justified by specific local circumstances (eg different asset strategies, different risk appetites, different local mortality experience)

3.40 Examples of where the criterion may not have been achieved include:

- some remaining inconsistency in reporting of whole of fund secondary contribution rates
- assumptions with a marked difference for funds advised by the different firms of actuarial advisors that cannot be justified by local differences:
  - mortality improvements
  - discount rate
  - salary increases
  - commutation

3.41 These differences contribute, alongside genuine local variations, to differences between funding levels and recommended contribution rates on local bases which a reader may find it difficult to interpret without undertaking further analysis.

Recommendation 1: We recommend that the Scheme Advisory Board should consider how best to implement a standard way of presenting relevant disclosures in all valuation reports to better facilitate comparison, with a view to making a recommendation to the MHCLG minister in advance of the next valuation. We have included a draft dashboard in this report to facilitate the Scheme Advisory Board's consultation with stakeholders.

3.42 We set out a possible dashboard to facilitate the Scheme Advisory Board's consultation with stakeholders. Such a dashboard could facilitate comparison both between funds and between successive valuations of the same fund.

Table 3.4: Possible dashboard for inclusion in valuation reports

Item	Proposed format
Funding level (assets/liabilities)	%
Funding level (change since previous valuation)	%
Market value of sssets	£m
Value of liabilities	£m
Surplus (deficit)	£m
Deficit recovery end point	year
Change in deficit recovery end point	+/- number of years
Primary contribution rate (average for the fund)	£ pa, % of pay
Secondary contribution rate (average for the fund)	£ pa, % of pay
Total employer rate (average for the fund)	£ pa, % of pay
Total employer rate (change since previous valuation)	£ pa, % of pay
Employee contribution rate	£ pa, % of pay
Discount rate(s)	% pa
Assumed pension increases (CPI)	% pa
Method of derivation of discount rate, plus any changes since previous valuation	Freeform text
Life expectancy for current pensioners – men age 65	years
Life expectancy for current pensioners – women age 65	years
Life expectancy for future pensioners – men age 45	years
Life expectancy for future pensioners – women age 45	years
Funding level on SAB basis (for comparison purposes only)	Simple overall percentage

3.43 We note that such a dashboard would facilitate comparison between funds, but should not be translated into funding advice.

Recommendation 2: We recommend that the Scheme Advisory Board should consider what steps should be taken to achieve greater clarity and consistency in actuarial assumptions, except where differences are justified by material local variations, with a view to making a recommendation to the MHCLG minister in advance of the next valuation.

Academies

3.44 MHCLG has asked GAD to review academy contribution rates under the heading of consistency, following recent work led by the SAB.

3.45 We conducted our investigation based on data provided by the firms of actuarial advisors in order to understand how academies are being treated in the LGPS. The outcomes of this investigation are summarised below.

3.46 The SAB has identified two work-streams – administration and funding – and plans to complete its work and make recommendations to ministers later this year.

GAD's investigations

3.47 GAD's report is published here.[9]

3.48 The analysis concluded that:

- on average academies currently pay 2% of payroll less in contributions than local authorities (LAs) (21% on average for academies, 23% on average for local authorities)
- there is a high degree of variability in individual contribution rates
- academies are treated consistently with LAs, suggesting that the DfE guarantee is currently being recognised by funds
- given the existing approach for setting academy contribution rates, we would expect (material) nationwide variation between individual academy contribution rates and LA contribution rates to persist in future. Further, the extent of the variation observed at the 2016 valuation could potentially increase, particularly if there is a large increase in the number of new academies

Conclusions and recommendations

3.49 We concluded that, on average, academies were treated fairly in relation to LA employers, but there was considerable inconsistency in methods adopted for allocating initial assets to the academies, and in some cases the period for repaying initial deficits, and this has contributed to a wide range of contribution rates paid by academies.

3.50 Two streams are being pursued by the SAB:

- administration stream: we support the work of the SAB in seeking to simplify and streamline administration processes, noting that these improvements are not just relevant to academies, but to all employer groups
- funding stream

3.51 One area that can improve consistency of treatment between academies is the allocation of assets upon conversion to academy status. Consistency in the basis adopted at conversion, in particular for allocation of assets between the academy and the fund, and for the deficit recovery period, will help provide clarity to multi academy trusts about the costs associated with conversion.

Recommendation 3: We recommend that the Scheme Advisory Board seeks a common basis for future conversions to academy status that treat future academies more consistently, with a view to making a recommendation to the MHCLG minister in advance of the next valuation.

[9] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/740947/Academies_analysis_report_final.pdf


BALANCE
SAVINGS

4
Solvency

Key solvency findings

- Most funds in the LGPS meet the conditions required to be able to demonstrate solvency and in general funding levels have improved significantly across the scheme since the dry run.
- In total, 74 out of 89 funds tested had green flags on all solvency measures, an improvement since the dry run (56 out of 90).
- We have highlighted a number of funds where substantial contribution increases may need to be absorbed. Although we did not conclude that the aims of section 13 were not achieved, we believe fund managers should be aware of this risk.
- We recommend that West Midlands Integrated Transport Authority Pension Fund puts a plan into place to ensure the fund is able to continue to meet benefits in the event that no future contributions are available.

4.1 Under section 13(4)(c) of the Act, the Government Actuary must report on whether the rate of employer contributions to the fund is set at an appropriate level to ensure the solvency[10] of the pension fund.

4.2 In this chapter we:

- provide a definition of solvency
- provide some background on solvency issues, and the measures and flags we have used in considering them
- consider the potential volatility of contributions through an asset liability study
- set out flagged solvency risks for open funds
- discuss the solvency risks for West Midlands Integrated Transport Authority, which is a closed fund

Definition of solvency

4.3 We do not regard that solvency means that a pension fund should be 100% funded at all times. Rather, in line with the definition in CIPFA's Funding Strategy Statement guidance[11] which we adopt for the purposes of section 13, we consider that the rate of employer contributions has been set at an appropriate level to ensure solvency of the pension fund if:

- the rate of employer contributions is set to target a funding level for the whole fund (assets divided by liabilities) of 100% over

[10] The explanatory notes to the Act state that solvency means that the rate of employer contributions should be set at "such a level as to ensure that the scheme's liabilities can be met as they arise".

[11] http://www.cipfa.org/policy-and-guidance/publications/p/preparing-and-maintaining-a-funding-strategy-statement-in-the-lgps-2016-edition

an appropriate time period and using appropriate actuarial assumptions

and either:

- employers collectively have the financial capacity to increase employer contributions, and/or the fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%

or

- there is an appropriate plan in place should there be, or there is expected in future to be, no or a limited number of fund employers and/or a material reduction in the capacity of fund employers to increase contributions as might be needed

Background on solvency

4.4 Most funds have improved their funding level since the 2013 valuations. For example, on GAD's best estimate basis, the aggregate funding level across all LGPS funds at 2016 had improved from around 93% to approximately 106%, and around 60 funds were in surplus on this basis. This means that we expect, on average, there is a greater than 50% chance that existing assets would be sufficient to cover benefits in respect of accrued service when they fall due.

4.5 In the case of tax-raising employers, accommodating contribution variability is a political, as well as financial, consideration. We consider it is important that administering authorities and other employers understand the potential range of future cost, so that they can understand the affordability of potential future contribution requirements.

4.6 We have performed some asset liability modelling work to help illustrate the potential for variation in contribution rates that may be required if foreseeable variations to market conditions were to occur.

4.7 We have assessed risk against a range of measures and have highlighted funds where we believe specific risk is present. These are risks of potential contribution volatility that managers should be aware of. Managers should consider actions required to manage these risks, but accepting the risk may be a valid option. The flag does not imply that anything has gone wrong and maintaining the flag does not imply that we take issue with any decision to accept the risk. The amber flag is an indication that the risk is accepted or has not been mitigated – it is not implying that the administering authority is unaware of the risk.

4.8 All funds should be aware of their solvency position, to ensure that the relevant plans are in place to be able to pay benefits when they fall due and employers are able to accommodate potential future increases in contributions.

4.9 This is particularly important in the case of mature funds, where volatility of contributions may be greater. In particular, they should ensure that sufficient plans are in place to be able to pay benefits when they fall due in the potential environment of no future employer contributions.

4.10 We note that, in total, 74 out of 89 funds had green flags on all solvency measures, a significant improvement since the dry run (56 out of 90).

4.11 Flagged measures in this report include:

- SAB funding level, where we have highlighted as a risk to be aware of the ten open funds with the lowest figures. This is a purely relative, existing risk
- asset shock, where we have highlighted four funds that could be required to absorb a large increase in contribution rates (relative to core spending power for all but one fund) should a significant, sustained shock occur

Volatility of contributions: asset liability study

4.12 Volatility of asset returns and changes in economic conditions may place significant pressures on the future rate of employer contributions.

4.13 We performed an asset liability study to investigate and help quantify these pressures. The asset liability study provides a simultaneous projection of the assets and liabilities of the scheme under a large number of stochastic economic scenarios to demonstrate potential funding and hence contribution outcomes of the scheme under different potential circumstances.

4.14 For the purpose of assessing liabilities and determining contributions, assumptions are needed on what set of assumptions will be used to carry out an actuarial valuation at each future point in time being considered. In our modelling we have assumed that:

- changes to the financial assumptions will reflect market conditions at the valuation date (specifically, long term gilt yields)
- the length of the recovery period is fixed at 20 years at each valuation to approximate what funds are doing in practice

4.15 The output of the model is the upwards or downward pressure on contribution rates assuming that the impact of changes in economic conditions feeds through directly to contribution setting.

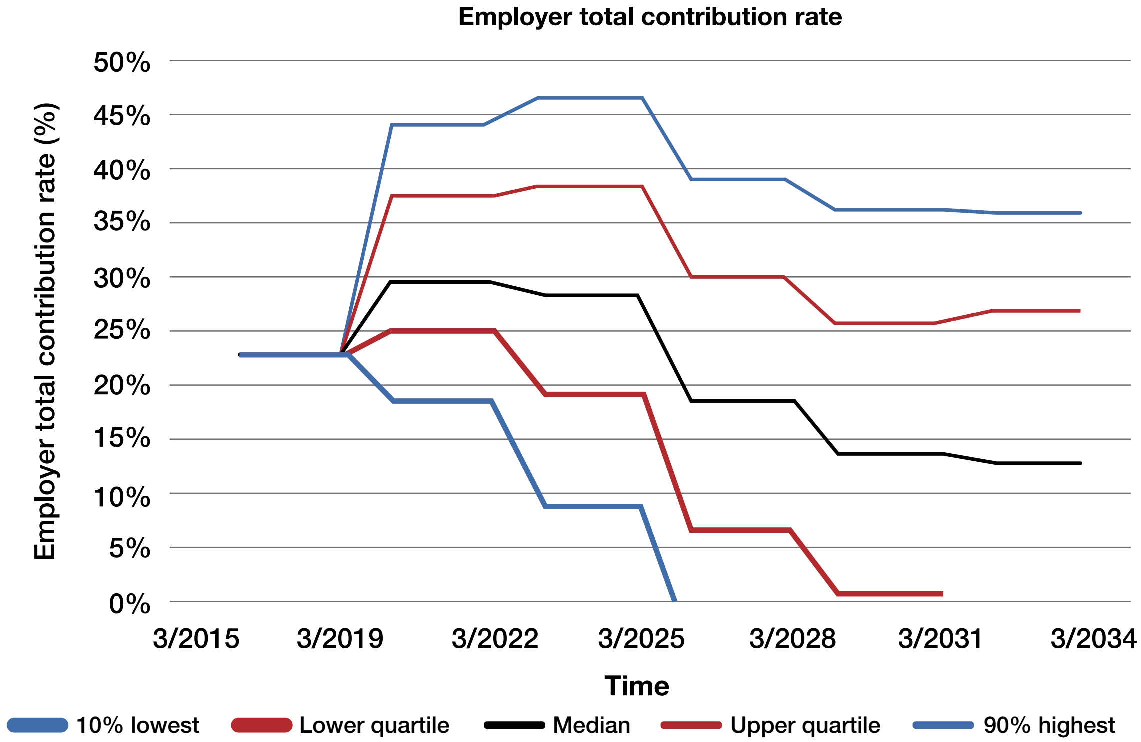
4.16 In practice we might not expect these pressures to feed directly into changes in employer contribution rates, because for example, if there was a downward (or upward) cost pressure the following adjustments might be considered:

- asset strategy might be made more defensive which would be expected to reduce future volatility but would reduce the scope for reducing contributions (conversely, if there was an upward cost pressure, the asset strategy might be made more return seeking)
- the length of the recovery period might be reduced (conversely, if there was an upward cost pressure, the length of the recovery period might be increased)
- the level of prudence might be increased, which could reduce the chance that future experience was worse than assumptions, but could also limit the scope for reducing contributions (conversely, if there was an upward cost pressure, the level of prudence might be reduced)

4.17 The output of the model should not therefore be regarded as predictions of changes in future employer contribution rates, but rather the potential pressures on the employer contribution rate that might need to be managed in some way. Any changes to manage down employer contribution rates in the short term do not alter the long term cost of the scheme (which depends on the level of scheme benefits and scheme experience, including asset returns) and more generally might have some other less desirable outcomes, for example:

- increasing the length of recovery periods transfers costs onto future generations
- choosing a more return seeking asset strategy would be expected to increase volatility and risk

Chart 4.1 Range of employer total contribution rate



4.18 Chart 4.1 illustrates the potential upward or downward pressures on employer contribution rates. The black line represents the median[12] expected outcome, the red lines the 25th and 75th percentile[13] outcomes and the blue lines the 10th and 90th percentile outcomes.

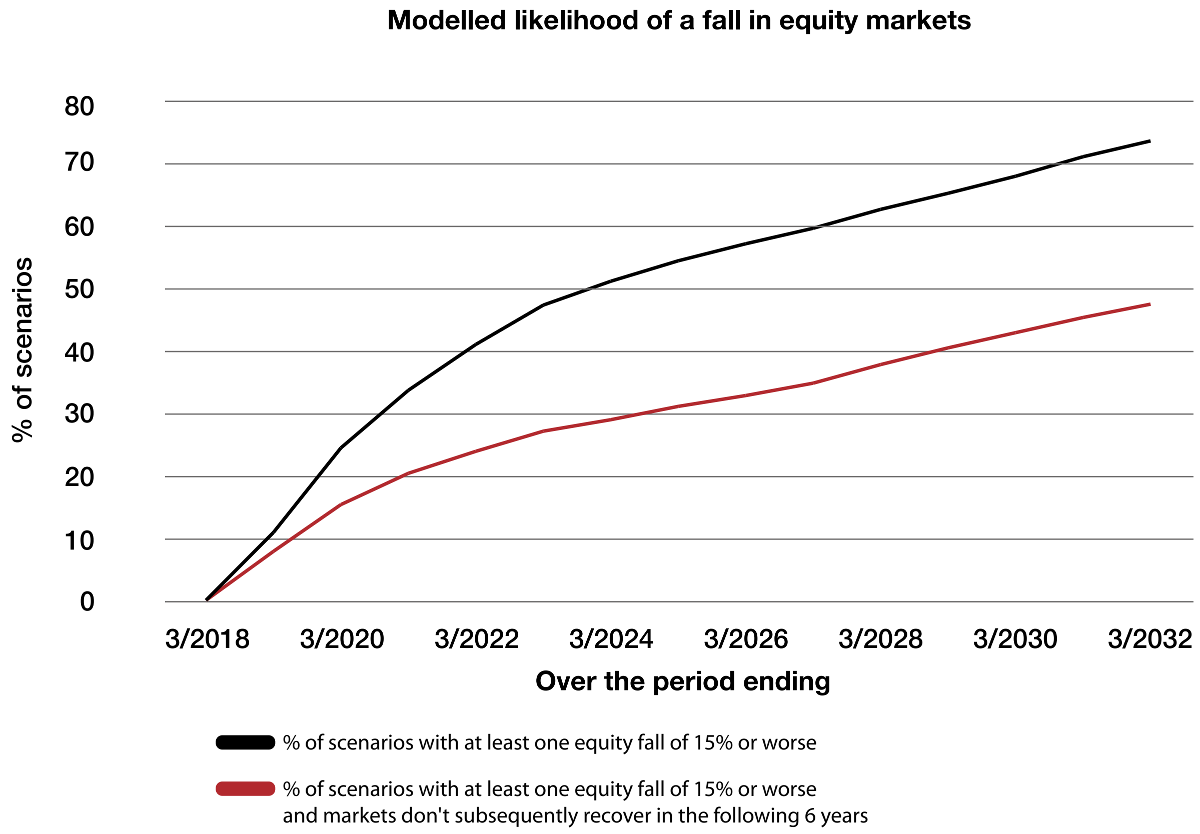
4.19 Chart 4.2 illustrates the cumulative risk[14] that equity markets fall over 12 months by more than 15% at some point over the next 20 years, and the chances of those markets not recovering within two valuation cycles. This indicates the scenario envisaged in our asset shock measure is plausible.

[12] The median is the central outcome of the range, which means, according to the model, the actual outcome is equally likely to be higher or lower than the median. Note that the median is the middle outcome at each point in time. The median line does not represent a prediction of outcomes.

[13] The 25th and 75th percentile outcomes represent the outcomes where there is a one in four chance the outcome will be more extreme in the relevant direction. For the 10th and 90th percentile outcomes, there is a 10% chance of a more extreme outcome.

[14] This is an output from our model, which itself is dependent on assumptions/economic scenario generator underlying that model, for example in relation to equity market mean reversion. Different models will produce different outcomes. Our model assumes discount rates are driven from underlying gilt yields with a variable equity outperformance assumption.

Chart 4.2 Modelled likelihood of a fall in equity markets



Key message

4.20 It is highly likely that there are significant developments between each valuation that could result in relatively large pressures on employer contribution rates. In particular, after removing potential trends in the projected future contribution rate, we estimate that, based on economic circumstances alone, there is around a 30% chance of an upward pressure of 8% of pay or more and a 30% chance of a downward pressure of 8% of pay or more. This should not be regarded as a prediction of the changes in future employer contribution rates, because adjustments might be made to manage such pressures as discussed above.

4.21 In addition to the key message above, the asset liability study provides further illustration of possible changes in contribution rates.

- **In the short term, there may be upwards pressure on employer contributions at the next valuation cycle.**

This primarily reflects the modelled reduction in valuation discount rates, relative to the last valuation – as a result of falling gilt yields although this is mitigated by strong asset returns since 2016. In practice, the upward pressure on contributions may be further managed (perhaps to the point that upward pressures are relieved) if valuation discount rates (relative to gilt yields) increase or by other changes.

- **In the medium to longer term, employer contributions are expected to fall, such that they are expected to be lower than current contribution levels.**

This reflects reducing deficit repair contributions and expected asset outperformance from growth assets. Depending on the assumptions made about future gilt yields and return expectations, there may also be increases in valuation discount rates which further ease contribution pressures.

- **There remains a risk that contributions are materially higher than current levels.**

There is still a significant chance that economic assumptions and factors do not turn out as expected and contribute to a deterioration in the scheme's funding position or cost of accrual that lead to significant upward pressure on employer contributions.

4.22 These messages are illustrated in charts in Appendix E which shows the median and outer percentile results of this exercise. Employer total contributions include the cost of ongoing benefit accrual and deficit recovery contributions where appropriate, less member contributions, aggregated across all funds.

Solvency risks for open funds

4.23 In the following tables we illustrate the results of the solvency measures we have used for each of the individual funds in the LGPS where at least one measure of solvency was amber or red. In Appendix C (Table C1) we set out the considerations with regards to risks already present and emerging risks, and map these to the measures we have adopted for this exercise.

SAB funding level

4.24 The SAB basis is a useful measure to compare the relative funding position of each fund, but it is not a market related basis, and is therefore not directly appropriate for funding purposes. Our definition of solvency does not require a fund to be 100% funded on any given basis at all times. Rather, this measure gives an indication of the extent of remedial action that may be required to ensure solvency. Long term cost efficiency measures are designed to check whether funds are taking suitable steps to improve the level of funding. Table 4.1 outlines those funds in the lowest decile for funding level (the measure is the distance from the average funding level).

4.25 We have engaged with the funds with the lowest SAB funding levels. Most have indicated they have plans to improve funding levels over time, by paying increased deficit contributions. Brent, in particular, indicated that their long term budgeting process allows for these expected contributions over the full term of the expected deficit recovery period, which we acknowledge. If other funds set similar long term budgets this would help to demonstrate solvency. In our engagement with Worcestershire Pension Fund, the administering authority highlighted that their funding position has increased significantly and that their strategy for investments now includes equity protection. This was adopted during early 2018 and runs past the next actuarial revaluation. The fund is assessing its investment strategy and risk appetite also before the next valuation.

Table 4.1 – Funds with an amber flag on SAB funding level

Pension fund	SAB funding level distance from mean
Bedfordshire Pension Fund	-13%
City of London Corporation Pension Fund	-11%
London Borough of Barnet Pension Fund	-13%
London Borough of Brent Pension Fund	-29%
London Borough of Croydon Pension Fund	-15%
London Borough of Havering Pension Fund	-17%
London Borough of Waltham Forest Pension Fund	-19%
Royal County of Berkshire Pension Fund	-23%
Somerset County Council Pension Fund	-15%
Worcestershire County Council Pension Fund	-11%

Asset shock

4.26 We have performed a series of tests in relation to emerging risks. These are stress tests in relation to what may happen if certain events occur. Asset shock considers the scenario of a sustained reduction in the value of return seeking assets. For example, this could be a market correction in which asset values do not immediately recover, and therefore cannot be absorbed by a change in assumptions. In this scenario we model the additional contributions that would be required to meet the emerging deficit (as opposed to the total contributions required following the shock). We are looking at where there is a risk of large changes to the contribution rate, rather than a risk of the total contribution rate exceeding some threshold.

4.27 We consider these additional contributions in the context of the financial resources of the underlying statutory employers, for which we have used core spending power[15], as a proxy as advised by MHCLG. A shock which generates high additional contributions as a proportion of core spending power generates a flag, as this may indicate that the local authority may be less likely to be able to absorb substantial contribution increases without affecting core services. Funds with a high level of return seeking assets (whether due to a high funding level or their strategic asset allocation between return seeking and defensive) are more exposed to asset shocks and more likely to trigger this flag. More detail is given in Appendix C. We note core spending power does not represent all sources of income for all local authorities.

4.28 The funds in table 4.2 have generated an amber flag for the asset shock. We consider that an asset shock flag, on its own, does not imply that the aims of section 13 are not achieved, and so do not recommend immediate remedial action. Rather, we believe this may indicate some risk in relation to solvency that fund managers should be aware of and monitor over time.

[15] See definition in Appendix C

4.29 We also developed two other stress tests:

- liability shock (in which we consider the impact of an increased liability value as a result of sustained lower interest rates)
- employer default shock (in which non-statutory employers are assumed to default on their pension liabilities, so their deficit transfers to remaining employers)

In practice we considered that the liability shock was not independent of the asset shock and few funds triggered the employer default shock, so we have opted not to highlight the results in this report.

Asset shock - specific engagement outcomes

4.30 We note that, with the exception of London Pensions Fund Authority, the other three amber flags relate to metropolitan funds. The main driver for this is the fact that the pension liabilities for the metropolitan funds are relatively high compared with their core spending power, rather than differences in asset strategies. Further analysis would be required to determine whether there is a different relationship between core spending power and other financial resources in the metropolitan funds, compared with non-metropolitan funds.

Table 4.2 – Funds with an amber flag on asset shock

Pension fund	Asset shock increase in contributions as a % of CSP
South Yorkshire Pension Fund	3.0%
Tyne and Wear Pension Fund	3.5%
West Yorkshire Pension Fund	3.7%
London Pensions Fund Authority Pension Fund	Amber

South Yorkshire Pension Fund

4.31 In our engagement with South Yorkshire Pension Fund, the administering authority highlighted that their investment now includes equity protection, which is intended to protect against falls in equity markets of between 5 and 30% over two years, while giving up gains above 14.25%. As such, if the strategy works as intended this will insulate the fund against the sort of major shocks we have modelled. This strategy was implemented during 2018.

4.32 This form of equity protection may be a suitable approach to protecting against shocks in the market. We make some brief comments about the operation of this strategy in Appendix C, however we do not comment on the effectiveness of this strategy.

4.33 We welcome the fact that South Yorkshire Pension Fund in consultation with the fund's employers has recognised that a risk does exist, and has reviewed the options available, and taken positive action. We maintained the asset shock flag for this report, because it the strategy was implemented after the 2016 valuation date. But if it remains in place, we will do further analysis in the next section 13 report.

London Pensions Fund Authority Pension Fund

4.34 LPFA is a special case as it has no core spending power and is a fund with primarily legacy liabilities. In the case of LPFA, the asset shock flag indicates a risk of a significant increase in contribution rate expressed as a percentage of pensionable pay. We engaged with LPFA. They considered pensionable pay as an incomplete representation of their ability to meet contribution variation. We intend to continue to engage with LPFA at the next section 13 exercise to further understand their particular circumstances.

Tyne and Wear Pension Fund, West Yorkshire Pension Fund

4.35 We engaged with both funds. They each considered core spending power as an incomplete representation of their ability to meet contribution variation.

Closed Funds: West Midlands Integrated Transport Authority

4.36 Funds that are closed to new members typically have decreasing payrolls, and funds which may be large relative to that payroll. This may lead to reduced scope to be able to meet variations in contributions. This in turn means that they may require outside funding in the future, which in turn may be uncertain, for example if there is no specific commitment from a guarantor.

4.37 The Environment Agency Closed Pension Fund has been excluded from the analyses in this report as the benefits payable and costs of the fund are met by Grant-in-Aid funding by the Department for Environment, Food and Rural Affairs as set out in the Compliance chapter.

4.38 South Yorkshire Passenger Transport Pension Fund's assets and liabilities have been transferred to the Greater Manchester Pension Fund, hence we have not considered the fund further.

4.39 West Midlands Integrated Transport Authority Pension Fund (WMITA) is the only remaining fund that is closed to new members and fully private sector backed. Tables 4.4 and 4.5 set out the red flags generated by WMITA.

Table 4.3 – Closed funds with an amber or red flag on open fund measure

Pension fund	Open fund
West Midlands Integrated Transport Authority Pension Fund	No

Table 4.4 –Closed funds with an amber or red flag on non-statutory employees

Pension fund	Non-statutory employees
West Midlands Integrated Transport Authority Pension Fund	100%

Specific engagement outcomes

4.40 Heightened employer covenant risk from the two non-statutory employers in this fund has been mitigated in part through guarantee arrangements, which provide some (albeit limited) additional financial capacity.

4.41 It is a relatively small fund, with total assets of around £500m.

4.42 If the employers were operating in a private sector pension scheme, PPF protection to members' benefits would apply. However, PPF protection does not apply to LGPS funds.

4.43 We consider two scenarios in which the solvency of the fund may be at risk:

- if the existing employers both exited the funds (by meeting the exit requirements under Regulation 64), there would be no fall-back in the event that the funds were ultimately insufficient to meet benefits when due
- if the last remaining employer defaulted and the employer (allowing for any remaining guarantee arrangements) was unable to meet its exit requirements

4.44 One employer (with a smaller share, approximately 5% of liabilities) has no active members and is almost sufficiently funded (as at 31 March 2016) to be able to exit the fund. The other employer has remaining but reducing active members and has in collaboration with the Administering Authority taken significant steps in recent years towards reducing reliance on employer covenant and ensuring solvency.

Ongoing contributions are around 25% of pensionable pay. These are supplemented by around £7m per year to help pay off the deficit. This leads to total contributions of around 80% of payroll. This represents a significant commitment on the part of the employer towards the solvency of the fund.

Independent covenant review, obtained from specialist advisers appointed by the Administering Authority, assessed employer strength as "tending to strong", as at March 2016.

The fund's assets include a Prudential 'buy in' product. This was implemented to cover all pensioners as at 2011, albeit excluding increases in payment. We understand further asset changes are underway to protect the funding position.

4.45 We have engaged extensively with the administering authority for WMITA. We also engaged with the respective employers following the dry run. We understand the administering authority recognises the risk and is working to mitigate it.

Recommendations

4.46 A plan should be put in place for WMITA to ensure that members' benefits are able to be met from the fund when due in an environment of no future employer contributions being available, to ensure the aims of section 13 are achieved.

4.47 We recommend that the administering authority put such a plan in place and that MHCLG review that plan.

4.48 Following our dry run report, the only other passenger transport fund in existence at that time has merged with the Greater Manchester Pension Fund. Such a merger could reduce the dependency on a single employer.

Recommendation 4: We recommend that the administering authority put a plan in place to ensure that the benefits of members in the West Midlands Integrated Transport Authority Pension Fund can continue to be paid in the event that employers' contributions, including any exit payments made, are insufficient to meet those liabilities.


289.33

5
Long term cost efficiency

Key long term cost efficiency findings

- Funding levels have improved on a best estimate basis, partly as a result of asset performance and partly due to increased contribution levels since the dry run.
- In total, 83 out of 89 funds had green flags on all long term cost efficiency measures. There are a total of 6 amber and no red flags, an improvement since the dry run (14 amber and 3 red).
- We recommend all funds review their funding strategy statement to ensure handling of surplus or deficit is fair to both current and future taxpayers.
- A small number of funds have extended their deficit recovery plan in conjunction with a reduction in employer contributions.

5.1 Under section 13(4)(c) of the Act, the Government Actuary must report on whether the rate of employer contributions to the pension fund is set at an appropriate level to ensure the long term cost efficiency[16] of the scheme, so far as relating to the pension fund.

5.2 In this chapter we:

- provide a definition of long term cost efficiency
- provide some background on long term cost efficiency issues, and the measures and flags we have used in considering them
- set out flagged long term cost efficiency issues: deficit reconciliation and deficit recovery period

Definition of long term cost efficiency

5.3 In line with the definition in CIPFA's Funding Strategy Statement guidance[17], which we adopt for the purposes of section 13, we consider that the rate of employer contributions has been set at an appropriate level to ensure long term cost efficiency if the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual, with an appropriate adjustment to that rate for any surplus or deficit in the fund.

Background on long term cost efficiency

5.4 Long term cost efficiency relates to not deferring payments too far into the future so that they affect future generations of taxpayers disproportionately.

[16] Explanatory notes to the Act state that: "long term cost efficiency implies that the rate must not be set at a level that gives rise to additional costs. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the time."

[17] http://www.cipfa.org/policy-and-guidance/publications/p/preparing-and-maintaining-a-funding-strategy-statement-in-the-lgps-2016-edition

5.5 Following the 2013 valuations, 13 funds (14%) were in surplus on our best estimate basis. Following the 2016 valuations, that number has improved significantly to around 60 funds (67%). This follows a particularly strong period of asset outperformance, but also greater levels of contributions being paid into some funds.

5.6 Since much of our focus under long term cost efficiency is around deficit recovery on the best estimate basis, there are few flags being raised, and some of the flags raised in the dry run have been eliminated. In total, 83 out of 89 funds had green flags on all long term cost efficiency measures. There are a total of 6 amber and no red flags, an improvement since the dry run (14 amber and 3 red).

5.7 Other than Deficit Reconciliation and Deficit Recovery Period no flags were raised under the other long term cost efficiency measures. This can be interpreted as the funds' employers are on average paying sufficient contributions into their funds at present.

5.8 The two funds that gave rise to concerns in the 2013 dry run report were:

- Royal County of Berkshire Pension Fund
- Somerset County Council Pension Fund

5.9 Both Berkshire and Somerset Pension Funds flagged under all 2013 LTCE measures other than deficit extension.

5.10 Both funds' employers have addressed many of the concerns raised, and in particular have increased their contributions compared to the 2013 contributions in addition to both funds benefitting from improved funding levels.

5.11 For the 2016 report, Berkshire raises a flag under the deficit period measure. On further engagement, Berkshire indicated a commitment to repaying the deficit. Berkshire also flagged on funding level under solvency.

5.12 Somerset does not raise any flags under LTCE measures in the 2016 report.

Deficit reconciliation

5.13 CIPFA's Funding Strategy Statement guidance[18] states "Administering authorities should avoid continually extending deficit recovery periods at each and subsequent actuarial valuations. Over time and given stable market conditions, administering authorities should aim to reduce deficit recovery periods."

5.14 There are different interpretations of CIPFA's guidance – in particular 'deficit recovery periods' might be interpreted to mean either:

- the period over which deficit recovery contributions are paid (a recovery plan following the 2013 valuations might have been payable over the 2014 to 2034), in which case the CIPFA guidance suggests the period should not be continually extended beyond 2034
- the length of period – ie 20 years in the example above – in which case the CIPFA guidance suggests 20 years should not be continually increased and in stable market conditions, administering authorities should aim to reduce the length of the deficit recovery period

5.15 This first interpretation is in line with guidance from the Pensions Regulator (tPR) for private sector schemes. We believe that, despite differences in environment and covenant value of employers, principles set out by tPR are a useful guide.

[18] http://www.cipfa.org/policy-and-guidance/publications/p/preparing-and-maintaining-a-funding-strategy-statement-in-the-lgps-2016-edition

5.16 An extract of tPR's funding statements is reproduced below.

Type	Scheme characteristics	What we expect of trustees
a. With strong or tending to strong employers	Where the scheme's funding position is on track to meet their funding objectives and where technical provisions are not weak and recovery plans are not unduly long	As a minimum to **continue with their current pace of funding by not extending their recovery plan end dates** unless there is good reason to do so
b. With strong or tending to strong employers	With a combination of weak technical provisions and long recovery plans.	**To seek higher contributions now** to mitigate against the risk of the employer covenant weakening and other scheme risks materializing in the future

5.17 We believe it is appropriate for funds to consider their plans for the duration of the deficit recovery period, so that future contributions are recognised and these form part of employers' budgeting process.

5.18 We understand that new deficit may emerge between valuations, as a result of the fund's experience, in which case it may be appropriate to extend the recovery period. For example, if a fund within the last three years of its deficit recovery period experienced a material reduction in its funding level, it may not be appropriate in the context of fairness between current and future generations of taxpayers to repay that new deficit within three years.

5.19 We consider that reconciliation of the deficit recovery plan is an important component of section 13 for all funds.

5.20 Through this exercise, we have identified and engaged with a number of funds that have extended their deficit recovery end points. We have not concluded that this implies the aims of section 13 are not achieved, however we do recommend that all funds review their funding strategy and consider whether this is in accordance with the CIPFA guidance referred to above.

5.21 We would not normally expect to see employer contribution rates decreasing (reducing the burden on current taxpayers) at the same time as the deficit recovery end point being extended further into the future (increasing the burden on future taxpayers).

Recommendation 5: We recommend that all funds review their funding strategy to ensure that the handling of surplus or deficit is consistent with CIPFA guidance and that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.

5.22 A significant minority of funds (37 of 91) have maintained their plans to eliminate their deficit (on their own funding basis). Of the remaining 54 funds, according to the data provided, 37 had increased contributions and 5 left them unchanged (expressed as a percentage of pensionable pay). We have engaged with the remaining 12. Through the engagement process, 8 were able to demonstrate that they had in fact increased contributions, or that their chances of deficit recovery are not reduced at the previous end point. We consider this is consistent with the aims of section 13.

Table 5.1 – Funds with an amber flag on deficit reconciliation measure

Pension fund	Deficit recovery plan
London Borough of Lambeth Pension Fund	+ 3 years
London Borough of Merton Pension Fund	+ 3 years
London Borough of Newham Pension Fund	+ 3 years
Royal Borough of Kingston Upon Thames Pension Fund	+ 2 years

5.23 We acknowledge that extending deficit recovery periods is appropriate in some circumstances, for example when new deficit emerges.

5.24 We engaged with those funds who appear to have extended their deficit recovery end point in conjunction with a reduction in overall contributions. However, where funds have been able to demonstrate that the probability of being fully funded at the previous recovery plan end point is not reduced, we have not flagged them.

Commentary from engagement in relation to deficit reconciliation

5.25 We have engaged with the funds listed above and listened to their decision making process in relation to this aspect.

London Borough of Lambeth Pension Fund

5.26 Following the 2013 valuation, Lambeth council opted to pay more than their actuary's central recommendations which would have implied a shorter recovery period than that set out in their funding plan at those times and requested that the Rates and Adjustments Certificates reflect their desire to pay more than required. However, as a result of budgetary pressures, the council have needed to reduce contributions. Therefore, some of the reduction in the 2016 SCR has been driven by the removal of these additional contributions which will have given the appearance of the fund extending its deficit recovery plan (but in actuality this put them back onto the underlying plan).

5.27 In addition, the fund reviewed both its funding and investment strategies with the ultimate goal of giving the Fund a two-thirds probability of full funding over a 20 year period.

London Borough of Merton Pension Fund

5.28 Similarly to Lambeth, Merton council opted to pay significant additional contributions into the fund following the 2013 valuation. They paid these contributions in lump sum form, rather than spreading them, and subsequently have had to reduce their contributions to a level below the 2013 level, excluding the lump sum contributions.

5.29 We acknowledge that Merton have made considerable contributions, and have a relatively short deficit recovery period. However, we have retained the flag, because following the 2016 valuation employer contribution rates were decreased (reducing the burden on current taxpayers) while at the same time as extending the deficit recovery end point (increasing the burden on future taxpayers).

London Borough of Newham Pension Fund

5.30 Newham council stated they paid contributions above minimum into the fund following the 2013 valuation and subsequently have had to reduce their contributions to a level below the 2013 level.

Royal Borough of Kingston upon Thames Pension Fund

5.31 Kingston extended their deficit recovery end point by 2 years. Kingston have also reduced their contributions by around 2%. They indicate that the level of contributions is above the minimum level implied by their actuary's model.

5.32 In general, most funds referred to the improvement in funding level and affordability of contributions in the light of other demands on budgets. These are all valid concerns, however we consider under section 13 that this involves a risk under long term cost efficiency.

Deficit recovery period

5.33 We included, as a relative measure, deficit recovery period. This refers to the period expected to repay the deficit, restated on our best estimate basis (see Appendix G), on the assumption that fund contributions are maintained at the current level.

5.34 Two funds also flagged on our deficit recovery period measure, having particularly long deficit recovery periods (after adjusting to our standardised best estimate basis). We consider this to be a risk, but not on its own, contrary to the aims of section 13 under long term cost efficiency, noting that these two funds appear in Table 4.1: Funds with an amber flag on SAB funding level.

Commentary from engagement in relation to deficit recovery period

5.35 In this case, we consider that these funds are carrying a risk that fund managers should be aware of, but we do not consider this sufficient to warrant a recommendation.

5.36 In our engagement with the Brent Pension Fund it is clear that Brent have taken significant steps towards addressing the deficit. Contribution rates are relatively high at an average of 33.6% of pensionable pay over the period 2017/18 to 2019/20 and the deficit recovery plan has been adhered to (the recovery period has reduced from 22 years at 2013 to 19 years at 2016, maintaining the same deficit recovery period end point). This demonstrates that Brent understands the issue and have made a strong commitment to reducing the deficit.

Table 5.2: Open funds with amber flag on deficit recovery period

Pension fund	Deficit recovery period (years)
London Borough of Brent Pension Fund	10
Royal County of Berkshire Pension Fund	13

Dear Sirs

Local Government Pension Scheme 2016 Section 13 Valuation

We are writing to you as the responsible authority for the LGPS and Chair of the Local Government Pension Scheme Advisory Board (England and Wales) on behalf of the four firms who provide actuarial advice to LGPS funds regarding the Section 13 review carried out by the Government Actuary's Department (GAD).

We recognise that the initial headline messages in the report are positive about the overall progress being made by the LGPS, and this has been identified in the initial press reports which have emerged since the report's publication. Clearly this is something which we are pleased to see. However, on reading the detail of the report we have some material concerns over its content. We believe that it is important to highlight these, as we do below, and that it is not in the interests of the LGPS for some of GAD's recommendations to be taken forward.

Our concerns relate to GAD's:

- lack of recognition of the LGPS's updated financial position and outlook;
- approach to engagement during the process;
- interpretation of consistency as applied to LGPS funding plans; and
- understanding of LGPS funding plans and expectation of how deficit recovery plans should be set.

We consider each of these areas in turn.

The LGPS Funding Position and Outlook

We believe that the LGPS's financial position has improved significantly over the last few years and, for most local authorities, we do not currently expect that monetary contributions will need to rise following the 2019 valuations (albeit the valuation date is still six months away so that cannot be guaranteed).

The Section 13 report is based on the position as at 31 March 2016. It does acknowledge the significant improvement in funding since 31 March 2013 (from 79% to 85% on average on prudent local bases and from 92% to 106% on average on GAD's best estimate market basis). However, despite being published 18 months after the 2016 valuations were signed off, the report does not acknowledge that the funding position would have been expected to increase further due to continuation of deficit contributions and due to the funds' strong asset performance since 2016. Instead, the report is largely focussed on highlighting perceived failures by Funds against a series of arguably rather arbitrary actuarial metrics, many of which focus on a single point when in fact there are a number of interrelated issues at play.

Our concerns are that readers (particularly lay readers) may conclude that:

- The LGPS is not being well managed from a funding perspective, with more than 20 amber or red flags being allocated.
- There will be significant employer contribution increases at the 2019 valuation based on GAD's asset liability modelling work (work which we believe goes beyond the remit and requirements of Section 13). Based on current financial conditions, this does not reflect what we expect will happen in reality and seems to emanate from GAD's assumption that contributions are set solely based on prevailing market conditions and gilt yields.

Engagement

We recognise that GAD do not carry out valuations of LGPS funds for funding purposes, so all four firms of actuarial advisers have invested considerable time and effort assisting GAD in their work preparing this report.

Our concerns are that:

- Very little of the extensive feedback that we provided has been reflected in the final approach and published report, and similarly for the feedback which has been provided by those clients consulted directly by GAD. It therefore seems to us that GAD have not taken fully into account how the LGPS is funded and how this differs from private sector schemes.
- The metrics are in our view too simplistic and could lead to incorrect/invalid conclusions. Whilst it is accepted that there is a balance to be struck between simplicity by applying metrics (where there is a risk of applying them rigidly despite them potentially offering limited insight) and a detailed bespoke analysis which would offer a more rounded view, in many cases, in our view, there hasn't been sufficient detailed engagement with the administering authority and Fund Actuary to understand local circumstances or the risk management measures already in place to mitigate the identified risks. Readers of the report will see the metrics used as a valid test (especially with the Red/Amber/Green classification used). This could influence funding behaviours in an effort to avoid a future red or amber flag and lead to lay readers drawing incorrect conclusions about the performance of a fund and its officers and committee. Ultimately this could result in actions being taken which are not in the best interests of the LGPS and/or individual funds.

We believe GAD should recognise more explicitly that these metrics are limited in nature and instead undertake a more holistic review of, and commentary on, funding plans with considerably more engagement with key stakeholders at individual funds.

Interpretation of consistency

We have no objection to GAD's recommendation in relation to presentational consistency (Recommendation 1) as long as any "template" reporting is provided in good time to be implemented and is mandatory (since some administering authorities may otherwise refuse to agree to any changes).

However, we fundamentally disagree with how GAD has approached what they call "evidential consistency": the wording in the Public Service Pensions Act is “not inconsistent” implying a focus on identifying outliers which is entirely logical for a review analysing and comparing local LGPS valuations. GAD has instead interpreted their role as requiring a comparison of individual assumptions (focusing on those used to calculate the past service funding level) and commenting on whether or not they are identical. Our concern is that readers will be given a completely false impression of what we understood to be the intentions of Section 13.

In addition, our concerns are that:

- There is very little commentary on the main output from a local LGPS funding valuation, i.e. the employer contributions payable. Given LGPS funds are open, ongoing and long term statutory schemes, the contributions payable are far more relevant and important than the assessment of the past service funding position (on which GAD has focused). We believe that there is far greater consistency in relation to employer contributions and the report as drafted will give readers a false impression of what is most important in the overall funding plan.
- GAD does not acknowledge that different assumptions and funding mechanisms are valid when setting employer contribution rates nor that this diversity in approach allows administering authorities to adopt the approach which maximises the chance that they meet their objectives in light of their appetite for risk and the specific circumstances of the Fund. Equally important, the Fund Actuary is required to have regard to the Funding Strategy Statement when carrying out the valuation. This is an administering authority document and administering authorities may appoint an adviser on the basis of the funding approach adopted. Our concern is that GAD's assertion that house views are responsible for the assumptions adopted for local valuations is misleading, ignores the administering authorities’ (and employers') key role within the valuation process and does not provide an appropriately balanced view.

In putting forward Recommendation 2, GAD has neither outlined what the benefits for the LGPS and its stakeholders would be, nor has it considered the potential downsides in terms of the reduced input from the administering authority into the funding process and the fundamental change in governance arrangements which would be involved. A change of this nature needs to be considered from a policy point of view with consultation with all stakeholders, rather than being introduced by the back door. We therefore do not agree with Recommendation 2 and believe that the Scheme Advisory Board should consider the feedback we provided to GAD before taking this recommendation forward.

In particular, we believe that a better focus for the Section 13 review would have been:

- consideration of the consistency of output of the valuation, i.e. employer contribution rates rather than focusing on certain individual assumptions used to calculate funding levels;
- commentary and analysis of the overall funding strategy and assumptions, including level of prudence, rather than a focus on individual assumptions in isolation; and

- a comparison of employer contribution rates against funding levels (assessed on a standardised funding basis), which would give a visual representation of the above two points and some insight into relative prudence of the overall funding approach for each fund.

How deficit recovery periods should be set
Deficit recovery periods can form an important part of the funding strategy, particularly where funding levels are low, but in practice are often not key drivers of the contribution plan. Our concern is that the application of a strict "rules-based" approach could potentially inadvertently lead to the wrong conclusions in cases where the funding plan overall is robust and meets the cost-efficiency requirements. In particular:

- A fund wishing to adopt a more prudent actuarial valuation basis may be reluctant to do so if the result is an increased deficit recovery period and hence a risk of triggering on this measure.
- A fund which feels it can sensibly afford to adopt a more risk-averse investment strategy may decide against doing so if it will give rise to a longer deficit recovery period.
- When deficit recovery periods are relatively short, there comes a point where seeking to shorten them further at every actuarial valuation may lead to increased volatility of contributions and therefore come into conflict with cost-efficiency.
- Funds/employers may fall foul of this trigger simply due to seeking to manage their budgets prudently within their financial constraints (e.g. paying increased contributions whilst it can afford them with a view to reducing them in future years when its financial position is tighter).
- GAD has interpreted CIPFA's guidance on deficit recovery periods to mean that these should have a fixed end date. However, as GAD has acknowledged, they were not part of discussions when the guidance was drawn up. During these discussions, we have already confirmed to GAD that a deficit recovery period was used to mean a number of years e.g. 20 years, so the intention was for funds to operate with a rolling recovery period which does not extend in the number of years. We are concerned that because GAD has a different interpretation of CIPFA's guidance, even if funds follow that guidance on our advice, they may still be flagged on this metric.

We think it would make more sense for the deficit recovery period not to be flagged in isolation, but for a more rounded view of the funding plan to be taken in the context of viewing whether a fund meets the cost-efficiency requirement. Rather than Recommendation 5, of the report, we would have preferred to have seen:

- the deficit recovery period at this and the previous valuation being noted; and
- a flag being raised only if it were felt that the cost-efficiency requirement was not being met overall.

We are disappointed that after so many months of discussions we are in a position to have to write this letter to you. However, we feel very strongly that it is important to ensure that the requirements of Section 13 can be met whilst recognising the positive steps taken by local authorities to date so it does not become the driver of LGPS funding plans to the detriment of the vast majority of well-managed LGPS Funds and the public perception of the LGPS. One of the great strengths of the LGPS is that it is funded, giving it a far greater degree of transparency and accountability particularly when compared with the other public service schemes. We would be more than happy to provide further input and gather further feedback from our administering authority clients if that would assist you in determining how best to respond to GAD's review.

Yours faithfully

Alison Murray FFA
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