Public Document Pack

City of Westminster

# Committee Agenda

| | |
|---|---|
| Title: | **Pension Board** |
| Meeting Date: | **Tuesday 29th January, 2019** |
| Time: | **6.30 pm** |
| Venue: | **Room 3.8, 3rd Floor, 5 Strand, London, WC2 5HR** |
| Members: | **Councillors:**<br><br>Angela Harvey<br>Guthrie McKie<br><br>**Employer Representative:**<br><br>Marie Holmes<br><br>**Scheme Member Representatives**:<br><br>Terry Neville<br>Christopher Smith<br>Chris Walker |

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

**Admission to the public gallery is by ticket, issued from the ground floor reception at City Hall from 6.00pm. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.**

**An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee Officer, Toby Howes, Senior 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 Head of Legal & Democratic Services in advance of the meeting please.

## AGENDA

## PART 1 (IN PUBLIC)

| | | |
|---|---|---|
| **1.** | **MEMBERSHIP**<br>To note any changes to the membership. | |
| **2.** | **DECLARATIONS OF INTEREST**<br>To receive declarations by Members and Officers of any personal or prejudicial interests in matters on this agenda. | |
| **3.** | **MINUTES**<br>To approve the minutes of the Pension Board meeting held on 26 November 2018. | **(Pages 5 - 12)** |
| **4.** | **TERMS OF REFERENCE**<br>The Terms of Reference for the Pension Board is attached. | **(Pages 13 - 16)** |
| **5.** | **FUND FINANCIAL MANAGEMENT**<br>Report of the Tri-Borough Director of Treasury and Pensions. | **(Pages 17 - 36)** |
| **6.** | **QUARTERLY FUND PERFORMANCE**<br>Report of the Tri-Borough Director of Treasury and Pensions. | **(Pages 37 - 80)** |
| **7.** | **HAMPSHIRE COUNTY COUNCIL IBC UPDATE**<br>Report of the Tri-Borough Director of Treasury and Pensions. | **(Pages 81 - 94)** |
| **8.** | **MINISTRY OF HOUSING, COMMUNITIES AND LOCAL GOVERNMENT ASSET POOLING**<br>Report of the Tri-Borough Director of Treasury and Pensions. | **(Pages 95 - 106)** |
| **9.** | **MEMBERS TRAINING**<br>The reports are attached. | **(Pages 107 - 114)** |

## 10. COMMUNICATIONS POLICY

Report of the Director of People Services.

To follow.

## 11. PENSION ADMINISTRATION UPDATE

Report of the Director of People Services.

To follow.

## 12. PENSION FUND COMMITTEE DATES

The Senior Committee and Governance Officer to verbally confirm dates of the Pension Fund Committee agreed by Council.

## 13. FORWARD PLAN AND PENSION BOARD DATES

(Pages 115 - 120)

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

## 14. ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

## 15. 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 No | Grounds | Para. of Part 1 of Schedule 12A of the Ac |
|---|---|---|
| 3, 17 and 18 | Information relating to any individual and information relating to the financial and business affairs of an individual including the authority holding the information and legal advice | 3 |

**16. MINUTES**

To approve the confidential minutes of the Pension Board meeting held on
26 November 2018.

**17. FUND COST SUMMARY**

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

**18. INFRASTRUCTURE INVESTMENT STRATEGY**

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

**Stuart Love**
**Chief Executive**
**23 January 2019**

CITY OF WESTMINSTER

# MINUTES

**Pension Board**

**MINUTES OF PROCEEDINGS**

Minutes of a meeting of the **Pension Board** held on **Monday 26th November, 2018**, Room 3.4, 3rd Floor, 5 Strand, London, WC2 5HR.

**Members Present:** Councillor Angela Harvey (Chairman and Employer Representative), Terry Neville (Vice-Chairman and Scheme Member Representative), Councillor Guthrie McKie (Employer Representative) and Martin Colwell (Scheme Member Representative).

**Also Present:** Phil Triggs (Tri-Borough Director of Treasury and Pensions), Billie Emery (Pension Fund Manager, Treasury and Pensions), Matthew Hopson (Strategic Investment Manager, Treasury and Pensions ), Lee Witham (Director of People Services), Sarah Hay (Senior Pensions and Payroll Officer) and Toby Howes (Senior Committee and Governance Officer).

**Apologies for Absence:** Marie Holmes (Employer Representative), Christopher Smith (Scheme Member Representative) and Chris Walker (Scheme Member Representative).

## 1 MEMBERSHIP

1.1 It was noted that Martin Colwell was deputising for Chris Walker.

## 2 DECLARATIONS OF INTEREST

2.1 Terry Neville declared as a matter of record that he was a councillor at the London Borough of Enfield, however he was a scheme member of the Westminster Pension Fund.

## 3 MINUTES

3.1 **RESOLVED:**

That the Minutes of the meeting held on 5 September 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 stated that the issues affecting pension administration performance over the last two years had largely been overcome and the service was stable. Most key performance indicators were rated green. He advised that Hampshire County Council (HCC) was assuming payroll responsibilities from BT and this would go live on 1 December. Lee Witham stated that a rigorous testing of the HCC system had been undertaken and he was confident that the problems that had been experienced when BT had taken over payroll responsibilities would not be repeated. He also advised that there had been an issue concerning employees who had erroneously been opted out, however People Services was now getting in touch with people affected to rectify this error.

4.2 During discussions, the Chairman asked if there was a risk posed to the Council because of the opt out issue. Furthermore, she enquired if there was also a reputational risk to the Fund because of late or incorrect data that had been identified. With regard to the current membership of organisations in the Fund, the Chairman asked if any could potentially present a reputational risk to the scheme. She referred to paragraph 2.10 of the report relating to an employer who had submitted late data to the Fund and requested details to see if there was a pattern emerging of organisations that were more likely to submit late or inaccurate data, with the risks categorised accordingly and to identifying organisations who may need support in pension administration matters. The Chairman also asked if People Services had sufficient resources to carry out pension administration functions.

4.3 Members asked if errors were made because of the complexities involved in payroll returns. It was also asked if officers felt that the number of employees accidently opted out could be higher than the figure recorded.

4.4 In reply to the issues raised by the Board, Sarah Hay (Senior Pensions and Payroll Officer) advised that in terms of opt out, the risk posed was to the employer rather than the employee. Employees affected had been advised that they could pay their pension contribution arrears over a longer period of time. Sarah Hay acknowledged that the late or incorrect data that had been identified from one organisation was a concern, however it was a relatively minor problem. The employer concerned could potentially be reported to The Pensions Regulator and fined on the basis of not providing sufficient monitoring. The issue had arisen because of the payroll system they used and payroll returns were complex in nature. This could be a particular issue for organisations involved in education where calculating whole time pay was complicated by the fact that some staff might only be paid during term time. Other organisations may also have a high turnover of staff. Sarah Hay agreed to provide information on organisations who may pose a reputational risk to the Fund, with the risk categorised accordingly. In respect of the four staff who had erroneously been opted out, Sarah Hay advised no other staff who had been classified as opted out had replied to People Service’s query stating that this was an error, although they would automatically be re-enrolled if they were did not respond.

4.5 Lee Witham advised that BT was still required to produce half yearly returns for 2018-19 which would require some work. People Services needed additional resources to support this and two additional posts were sought that would also help the transfer of the payroll function to HCC. Further additional resources would be requested if it transpired that more support was required for the transfer to HCC.

4.6 The Chairman requested further information in respect of staff erroneously opted out of the pension scheme. She welcomed the overall improvement in pension administration performance and noted that only two key performance indicators were amber, with the rest green.

## 5 COMMUNICATION POLICY UPDATE

5.1 The Board had before them the draft Communications Policy for the Pension Fund for comments. The Chairman commented on the need to avoid using white text on a dark background as this made it harder to read. She also suggested that the front page of the document be re-titled "Our Pension Scheme" to help make it more user friendly. The Chairman felt that it would be beneficial to have sections explaining how members can stay in touch and to have a glossary to explain terms. An explanation of the functions of the Pension Fund Committee and the Pension Board should also be included, as well information on life assurance.

5.2 Members asked if members were given an annual summary of where money was invested and what has been achieved. In respect of the Pension Fund Annual General Meeting (AGM), it was asked if this was well attended.

5.3 In reply to issues raised by the Board, Sarah Hay advised that pension regulations required that schemes had a communications policy and every effort was being made to ensure that it was user friendly. Steps were also being taken to increase engagement with scheme members. A newsletter was produced which also included information on the performance of the Fund, although it mainly focused on administrative matters, and this was also discussed at the AGM.

5.4 Lee Witham acknowledged that it would be useful to inform scheme members of where funds were being allocated and the performance of the Fund. The AGM was a useful exercise and two years ago it had been well attended, which was partly attributable to the number of complaints that had been raised. This year's AGM was less well attended, with around 50 to 60 people, however this was likely due to the fact that the number of complaints had reduced significantly. Lee Witham advised that staff were informed of the pension scheme during their induction and he added that this would be raised again after the transfer of payroll services to HCC.

5.5 Phil Triggs (Tri-Borough Director of Treasury and Pensions) added that he would confirm the date of the next AGM shortly.

5.6 The Chairman requested that a draft of the Communications Policy be circulated to Members for further comments before another update at the next meeting.

## 6 PENSION MEMBERSHIP UPDATE

6.1 The Board noted the summary of the current membership of the Westminster Fund. The Chairman requested that an extra column be added to the table entitled ‘Administration Risk” for future updates.

## 7 EQUITY DOWNSIDE PROTECTION

7.1 The Board had before it a report summarising the different types of equity protection available and confirmation of the Pension Fund Committee’s decision not to implement an equity protection strategy. Members commented that some Funds, such as the London Borough of Enfield, had different allocation of equities with a proportion of around 35%. Members asked why ensuring protection across the whole of the equity portfolio would be a considerable undertaking and whether the Pension Fund Committee received professional advice before making its decision.

7.2 The Chairman suggested that a graph illustrating the various asset allocations of the Fund would have been useful.

7.3 In reply to the issues raised by Members, Phil Triggs advised that a specialist would need to be appointed for each of the four separate equity managers, which would have made the task onerous. The Pension Fund Committee was also against the costs that would be involved in providing protection. Instead, £165m funds were to be transferred from equities to fixed income and multi asset credit mandates. The Pension Fund Committee had been advised by Deloitte and Treasury and Pension officers in making this decision.

7.4 It was noted that the second bullet point under paragraph 2.1 of the report should be amended to read “That the Pension Fund Committee’s decision not to implement and equity protection strategy be noted.” The Chairman requested that a future paper be produced in setting out the landscape in respect of the next triennial valuation.

7.5 **RESOLVED:**

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

2. That the Pension Fund Committee’s decision to not implement an equity protection strategy be noted.

## 8 ENVIRONMENTAL, SOCIAL AND GOVERNANCE MONITORING REPORT

8.1 Phil Triggs presented the report that set out the Environmental, Social and Governance (ESG) issues for each of the Fund’s fund managers. He stated that if the risks were monitored properly, ESG assets could enhance the returns for the Fund and also provide other wider benefits. Phil Triggs added that ESG should not be confused with ethical funding which fundamentally differed from ESG.

8.2 The Chairman asked for officers' views on the ESG report that had been produced by Deloitte. She noted that Legal and General were investing in build to rent properties in London. Members commented that potential investments in ESG needed to be considered carefully and seen in the context that the ultimate goal was to achieve the highest possible return in investments. Another Member suggested that ESG investments would become more widespread in future, however consideration needed to be given as to whether such a move should be undertaken sooner or later.

8.3 In reply to issues raised by Members, Phil Triggs compared the Fund to the London Borough of Hammersmith and Fulham's Fund, which was investing in a passive portfolio that had a low carbon index, although there were risks involved in such an investment.

8.4 Matthew Hopson (Strategic Investment Manager, Treasury and Pensions) advised that the report served as an introduction as to the kinds of ESG investments available, and if this was to be taken further, a more detailed report would follow. He added that Legal and General were well known for investing in ESG assets.

8.5 The Chairma noted that Westminster had some of the most polluted roads in the country and so assets, for example, in promoting low carbon may be desirable. She suggested that the Pension Fund Committee be asked to consider a more detailed report on ESG assets and consider areas that may be of benefit to Westminster people and the wider concerns of the Council. Members concurred that the Pension Fund Committee should also receive professional advice on this.

8.6 **RESOLVED:**

1. That the ESG monitoring report attached at Appendix 1 be noted.

2. That the Pension Fund Committee be asked to consider a more detailed report on ESG assets and consider areas that may be of benefit to Westminster people and the wider concerns of the Council.

## 9 INFRASTRUCTURE INVESTMENT STRATEGY

9.1 The Board noted a confidential report on the Infrastructure Investment Strategy.

## 10 QUARTERLY FUND PERFORMANCE

10.1 Members noted that the Fund had outperformed its benchmark for the quarter up to 30 June. Members sought an update in respect of the Longview mandate. In respect of the London Collective Investment Vehicle (LCIV), it was noted that there were still vacancies at senior level and Members asked who was making decisions on investments.

10.2 The Chairman asked if fund manager fees had reduced in respect of assets that had been transferred to the LCIV. She welcomed the Fund's achievement in being in the 13th percentile of the overall universe in terms of investment asset growth.

10.3 In reply to issues raised by the Board, Matthew Hopson advised that the same fund managers were being used who had previously been in place prior to funds that had been transferred to the LCIV and so this had not affected investment decisions. He confirmed that there had been fund manager fees savings in respect of the Longview and Baille Gifford mandates since being transferred to the LCIV.

10.4 Phil Triggs informed Members that the Chairman of the Pension Fund Committee had asked for further details on fund manager fees savings achieved since transferring some mandates to the LCIV.

10.5 **RESOLVED:**

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

## 11 FUND FINANCIAL MANAGEMENT

11.1 The Chairman sought the reasons for the spike in the bank balance regarding cashflow for July/August 2017. In respect of the Risk Register, she asked if there was a risk listed associated with Brexit and noted that one risk was rated red after taking the mitigating actions into account. The Chairman also asked how redundancies and early retirements were funded and when was the Discretionary Policies paper and progress on compliance with the TPR Code of Practice were due to be considered. Members asked if pension contribution rates were rising by a small amount.

11.2 In reply, Matthew Hopson advised that spike in cashflow in July/August 2017 was attributable to deficit recovery payments. Future reports would explanations of cashflow spikes in the narrative. Matthew Hopson advised that there were no concerns with the current cashflow position. In respect of pension contributions, these were based on an inflation rate of 2%, but this could be revisited. The Board noted that People Services were due to produce a report on compliance with the TPR Code of Practice at a future meeting.

11.3 Phil Triggs advised that risk 8 in the Risk Register covered risk in respect of Brexit. Redundancy payments were paid through the General Fund, whilst early retirements were funded through lump sum costs to the Fund. A Discretionary Policies paper was due to go the Pension Fund Committee in December and the Board in January 2019. Phil Triggs welcomed any suggestions for topics for the Board's 2019/20 forward plan.

11.4 **RESOLVED:**

1. That the Risk Register for the Pension Fund be noted.

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

3. That the forward plan for 2018/19 and 2019/20 be noted.

## 12 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

12.1 The Chairman requested that Members discuss the training analysis form at the conclusion of the meeting.

The Meeting ended at 8.50 pm.

**CHAIRMAN:** ______________________ **DATE** ___________________

This page is intentionally left blank

**Terms of Reference – City of Westminster**
**March 2015**

The purpose of this document is to set out the terms of reference for the local Pension Board of the City of Westminster Pension Fund.

1. Role of the Local Pension Board
The role of the local Pension Board is defined by section 5 of the Public Service Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme (LGPS) Governance Regulations 2013. It is to assist the administering authority (the Council) with:

- Securing compliance with the LGPS Governance regulations and any other legislation relating to the governance and administration of the LGPS
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the scheme and
- Ensuring effective and efficient governance and administration of the scheme-recommendations to the Pensions Committee.

2. 2. Membership
a. Appointment process
The Pension Board shall consist of six members and be constituted as follows:

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

The process for selecting non-Council nominated employer members of the Pension Board is set out in a separate document "Selection of Pension Board members".

b. Quorum
The Pension Board shall be quorate when three Pension Board Members are in attendance.

c. Chairman of the Board
The Chairman and Vice Chairman of the Board will be appointed by members of the Board as the first business at their first meeting.

d. Substitute members
Each Scheme Member representative may agree a nominate substitute at the first meeting who would act in the Board member's absence.

Each Employer representative is there on behalf of the employer so may be replaced by the nominating body with another individual representing the same employer.

e. Periods of office
Each Board member shall be appointed for a fixed period of three years, which can be extended for a further three year period subject to re-nomination.

f. Termination
Each Board member should endeavour to attend all Board meetings during the year and is required to attend at least two meetings each year. In the event of consistent non-attendance by any Board member, then the membership of that particular Board member should be reviewed by the other Board members with advice from Officers

Other than by ceasing to be eligible as set out above, a Board member may only be removed from office during a term of appointment by the unanimous agreement of all the other Board members present at the meeting.

A Board member may choose not to continue in their role, and so shall notify the Board accordingly following which the process for a replacement shall start.

3. Board meetings

a. Frequency of meetings
The Board shall as a minimum meet twice a year, and where possible, should aim to do so four weeks before the Pensions Committee meets. Meetings shall take place at a time and place agreed by the Pensions Board on an annual basis.

b. Voting rights
Each Board member will be entitled to vote and where a vote is taken the matter will be decided by a majority of the Board members present and voting but it is expected that the Pension Board will as far as possible reach a consensus. In the event of an equality of votes, the Chairman will have a second and or a casting vote.

c. Notice and circulation of papers
The papers for each Board meeting shall be circulated to all Board members one calendar week in advance of each meeting. The papers shall be published on the Council's website unless they contain material considered to be exempt or confidential, as defined by the Local Government Act 1972 and subsequently agreed as such by the Board.

d. Minutes
Minutes of all non-confidential or non-exempt parts of the Board's meetings shall be recorded and published on the Council's website.

e. Secretariat service
Council officers will provide the Board with the secretariat services required.

4. Role of Advisers

a. Access to Council advisers
The Board may request that one of the Council's advisers attends a Board meeting to provide advice or information to the Board. The request should be submitted to the Chief Executive.

b. Appointment of advisers specifically for the Board

If the Board requires advice outside that already provided to the Council, then the request should be made to the Pensions Committee and Council officers.

5. Budget and Expenses

a. Budget

An annual budget will be agreed by the Board for professional advice, training or other purposes if such matters are required and Officers being authorised to incur expenditure to implement the programme.

b. Expenses

Each Board member may claim, upon production of the relevant receipts, travel expenses directly incurred in the work of the Pension Board.

6. Additional policies relating to the Board operations

a. Code of Conduct

The role of Pension Board members requires the highest standards of conduct and therefore, all Board members are required to abide by the Pension Board Code of Conduct.

b. Conflict of Interests

The Board is required to always act within these terms of reference. Board members should abide by the separately prepared Conflicts Policy and keep the policy under review.

c. Knowledge and understanding

All Board members are required to have sufficient knowledge and understanding of pensions matters to undertake their roles. Board members are expected to comply with the separate policy on knowledge and understanding and maintain appropriate records.

7. Reporting

a. Annual report on activity

The Pension Board should prepare an annual report on its activities and its compliance with these terms of reference and the associated policies. This report should be addressed to full Council each year, in the first six months of the financial year, reporting on the activities of the Pension Board for the previous financial year. Such a report will be submitted to the Pension Committee for noting prior to submission to Council.

b. Reporting recommendations

If the Pension Board determines that it wishes to make recommendations to the Pension Committee, such recommendations should be reported to the next meeting of the Pension Committee. The Pension Committee’s response to the recommendation will be reported to the next meeting of the Pension Board.

This page is intentionally left blank

City of Westminster

# Pension Board

| | |
|---|---|
| **Date:** | **29 January 2019** |
| **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**<br>***Tri-Borough Director of Treasury and Pensions***<br><br>**ptriggs@westminster.gov.uk**<br>**020 7641 4136** |

## 1. Executive Summary

1.1 The risk register has been revised 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, the bank position continues to be stable.

1.3 The updated forward plan to 31 March 2019 is attached, with a draft forward plan for the upcoming year 2019/20 for the Pension Fund Committee and the Pension Board.

## 2. Recommendations

2.1 The Pension Board is asked to note the risk register for the Pension Fund.

2.2 The Pension Board is asked to note the cash flow position and three-year forecast.

2.3 The Pension Board is asked to note the forward plan of the Pension Fund Committee.

2.4 The Pension Board is asked to approve a forward plan for 2019/20.

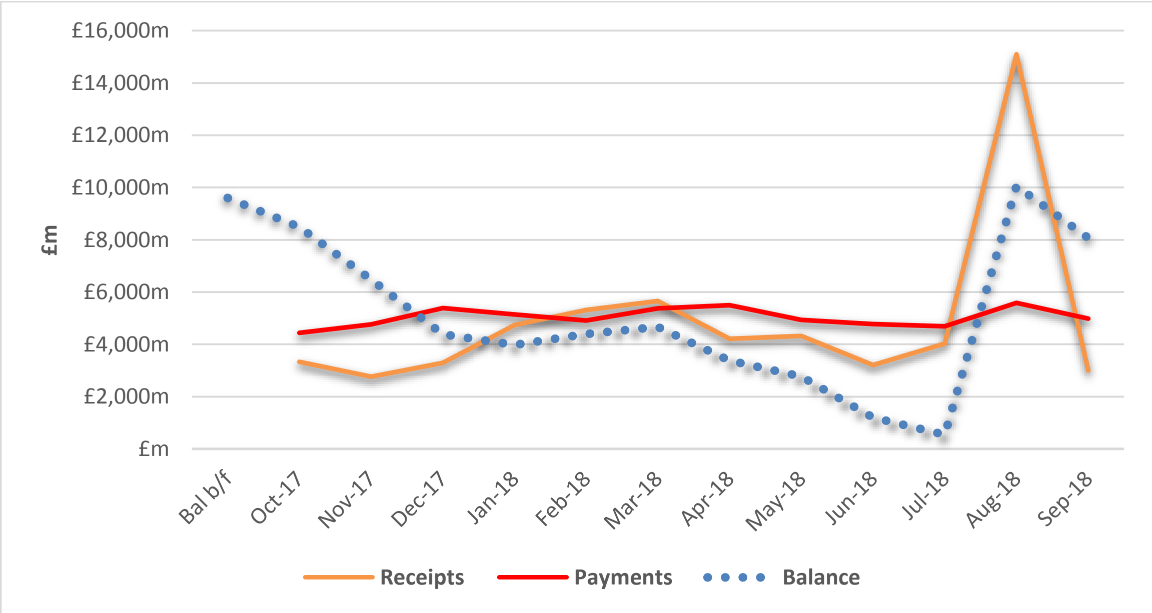
### 3. Risk Register Monitoring

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 £8.068m. 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 shows 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, as per the Councils approved deficit recovery plans. The next deficit recovery payment is expected during March 2019. Officers will continue to keep the cash balance on under review and take appropriate action where necessary.

4.4 Appendix 3 plots forecasted cash flows against actuals for the six months to September 2018. Forecasted cash flows are calculated as an average of previous years cash flows divided equally over the 12 months of the year. There may be monthly variances between the actual and forecasted amounts due to timing differences e.g. transfer values in and out, payment of lump sums, retirement benefits and death grants.

## 5. Forward Plans

5.1 The draft Rolling Forward Plans for the Pension Fund Committee and Pension Board have been attached for 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](mailto: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

This page is intentionally left blank

| Appendix 1 - Tri Borough Pension Fund 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. |

This page is intentionally left blank

## Pension Fund Risk Register - Administration Risk

| Risk Group | New | Risk Ref. | Previous | Risk Description | Impact | | | | Likelihood | Total risk score | Mitigation actions | Revised Likelihood | Net risk score | Reviewed on |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Fund | Employers | Reputation | Total | | | | | | |
| Admin | * | 1 | | Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement. | 5 | 3 | 1 | 9 | 3 | **27** | TREAT 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers planned to be part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis. | 2 | **18** | 05/11/2018 |
| Admin | * | 2 | | Concentration of knowledge in a small number of officers and risk of departure of key staff. | 2 | 2 | 3 | 7 | 3 | **21** | TREAT 1) Practice notes in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs. | 2 | **14** | 05/11/2018 |
| Admin | * | 3 | | Bank reconcilations no longer carried out by BT. Income processing from the bank is being brought in house, no process in place yet. HCC may take on the process but no firm guarantee in place yet. Income not being posted to the system increasing workload for the pensions finance team, potentially for errors and accounts inaccuracy. | 2 | 2 | 2 | 6 | 3 | **18** | TREAT 1) Staff working with HCC and the Tri-Borough Pensions to come up with a solution to ensure bank reconcilations and income is posted promptly and accurately. | 2 | **12** | 05/11/2018 |
| Admin | * | 4 | | Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions. | 4 | 4 | 3 | 11 | 2 | **22** | TREAT 1) Update and enforce admin strategy to assure employer reporting compliance. 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis.<br>TOLERATE 1) Northern Trust provides 3rd party validation of performance and valuation data. Admin team and members are able to interrogate data to ensure accuracy. | 1 | **11** | 05/11/2018 |
| Admin | | 5 | | Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss. | 3 | 2 | 5 | 10 | 2 | **20** | TREAT 1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place. 2) Review of third party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams. | 1 | **10** | 05/11/2018 |
| Admin | | 6 | | BT contract wind down could lead to problems for retirements in 18/19 where data is on two different systems. All returns must be completed prior to BT contract ceasing. The move to Hampshire CC due in December 2018 and ensuring that key working practices continue such as the pension interface will be a Key to reduce risks to members. | 1 | 2 | 2 | 5 | 2 | **10** | TREAT 1) People Services are working with HCC and BT to ensure service transfer is smooth as possible. 2) 2017/18 LGPS files were checked by People Services in June 2018. | 2 | **10** | 05/11/2018 |
| Admin | | 7 | | Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place. | 5 | 2 | 2 | 9 | 2 | **18** | TREAT 1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action. | 1 | **9** | 05/11/2018 |
| Admin | * | 8 | | Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation. | 3 | 3 | 2 | 8 | 2 | **16** | TREAT 1) The Fund has generally good internal controls with regard to the management of the Fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches. | 1 | **8** | 05/11/2018 |
| Admin | | 9 | | Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible. | 1 | 3 | 4 | 8 | 2 | **16** | TREAT 1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments. 2) Process in place for Surrey CC to generate lump sum payments to members as they are due. 3) Officers undertaking additional testing and reconciliation work to verify accounting transactions. | 1 | **8** | 05/11/2018 |
| Admin | * | 10 | | Inability to respond to a significant event leads to prolonged service disruption and damage to reputation. | 1 | 2 | 5 | 8 | 2 | **16** | TREAT 1) Disaster recovery plan in place as part of the Service Specification between the Fund and Surrey County Council 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance. | 1 | **8** | 05/11/2018 |
| Admin | | 11 | | Failure of pension payroll system resulting in pensioners not being paid in a timely manner. | 1 | 2 | 4 | 7 | 2 | **14** | TOLERATE 1) In the event of a pension payroll failure, we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers. | 1 | **7** | 05/11/2018 |
| Admin | | 12 | | Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints. | 1 | 2 | 3 | 6 | 2 | **12** | TOLERATE 1) Surrey CC administers pensions for Surrey, East Sussex, LB Hillingdon and the Tri-Borough. Service has been excellent since this change was made. | 1 | **6** | 05/11/2018 |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Admin | | 13 | | Failure to pay pension benefits accurately leading to under or over payments. | 2 | 2 | 2 | 6 | 2 | **12** | TREAT 1) There are occasional circumstances where under/over payments are identified. Where underpayments occur, arrears are paid as soon as possible, usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months. | 1 | **6** | 05/11/2018 |
| Admin | | 14 | | Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment. | 1 | 1 | 1 | 3 | 2 | **6** | TREAT 1) Pension administration records are stored on the Surrey CC servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue, All files are backed up daily. | 2 | **6** | 05/11/2018 |
| Admin | * | 15 | | Unstructured training leads to under developed workforce resulting in inefficiency. | 2 | 2 | 2 | 6 | 2 | **12** | TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Surrey County Council. | 1 | **6** | 05/11/2018 |
| Admin | * | 16 | | Failure to identify GMP liability leads to ongoing costs for the pension fund. | 3 | 2 | 1 | 6 | 1 | **6** | TREAT 1) GMP to be identified as a Project as part of the Service Specification between the Fund and Surrey County Council. | 1 | **6** | 05/11/2018 |
| Admin | * | 17 | | Lack of guidance and process notes leads to inefficiency and errors. | 2 | 2 | 1 | 5 | 2 | **10** | TREAT 1) Ensure process notes are compiled and circulated in Pension Fund and Administration teams. | 1 | **5** | 05/11/2018 |
| Admin | * | 18 | | Lack of productivity leads to impaired performance. | 2 | 2 | 1 | 5 | 2 | **10** | TREAT<br>1) Regular appraisals with focused objectives for pension fund and admin staff. | 1 | **5** | 05/11/2018 |
| Admin | * | 19 | | Rise in ill health retirements impact employer organisations. | 2 | 2 | 1 | 5 | 1 | **5** | TREAT 1) Engage with actuary re assumptions in contrbution rates. | 1 | **5** | 05/11/2018 |
| Admin | * | 20 | | Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs. | 2 | 2 | 1 | 5 | 1 | **5** | TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations. | 1 | **5** | 05/11/2018 |
| Admin | * | 21 | | Poor reconciliation process leads to incorrect contributions. | 2 | 1 | 1 | 4 | 2 | **8** | TREAT 1) Ensure reconciliation process notes are understood by Pension Fund team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process. | 1 | **4** | 05/11/2018 |

## Pension Fund Risk Register - Investment Risk

| Risk Group | New | Risk Ref. | Previous | Risk Description | Impact | | | | Likelihood | Total risk score | Mitigation actions | Revised Likelihood | Net risk score | Reviewed on |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | Fund | Employers | Reputation | Total | | | | | | |
| Funding | | 1 | | Scheme members live longer than expected leading to higher than expected liabilities. | 5 | 5 | 1 | 11 | 3 | **33** | Review at each triennial valuation and challenge actuary as required | 3 | **33** | 05/11/2018 |
| Governance | * | 2 | | That the London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitous | 5 | 4 | 3 | 12 | 3 | **36** | TOLERATE - 1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives. Member presence on Shareholder Committee and officer groups. | 2 | **24** | 05/11/2018 |
| Funding | | 3 | | Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms. | 4 | 4 | 2 | 10 | 2 | **20** | Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. | 2 | **20** | 05/11/2018 |
| Funding | * | 4 | | Employee pay increases are significantly more than anticipated for employers within the Fund. | 4 | 4 | 2 | 10 | 2 | **20** | TOLERATE - 1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer specific assumptions above the actuary's long term assumption would lead to further review. 3) Employers to made aware of generic impact that salary increases can have upon the final salary linked elements of LGPS benefits (accrued benefits before 1 April 2014). | 2 | **20** | 05/11/2018 |
| Investment | * | 5 | | Significant volatility and negative sentiment in global investment markets following disruptive politically inspired events in US. | 5 | 4 | 1 | 10 | 3 | **30** | TREAT- 1) Continued dialogue with investment managers re management of political risk in global developed markets. 2) Investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2019 valuation. | 2 | **20** | 05/11/2018 |
| Funding | * | 6 | | Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 1.7% | 5 | 3 | 2 | 10 | 3 | **30** | TREAT- 1) The fund holds investment in index-linked bonds (RPI protection which is higher than CPI) and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection. | 2 | **20** | 05/11/2018 |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Investment | * | 7 | | Investment managers fail to achieve benchmark/ outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.4m. | 5 | 3 | 1 | 9 | 3 | **27** | TREAT- 1) The Investment Management Agreements (IMAs)clearly state WCC's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be achieved.. 4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures. | 2 | **18** | 05/11/2018 |
| Investment | * | 8 | 16 | Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union, lack of any trade deal struck by 29 March 2019 and the economic after effects. | 4 | 4 | 1 | 9 | 3 | **27** | TREAT- 1) Officers to consult and engage with advisors and investment managers. 2) Future possibility of looking at move from UK to Global benchmarks on UK Equities and UK Property. 3) Possibility of hedging currency and equity index movements. | 2 | **18** | 05/11/2018 |
| Investment | * | 9 | | Increased risk to global economic stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with declines in oil and commodity prices. Leading to tightened financial conditions, reduced risk appetite and raised credit risks. Geo-political risk as a result of events and political uncertainty. | 4 | 3 | 1 | 8 | 3 | **24** | TREAT- 1) Increased vigilance and continued dialogue with managers as to events on and over the horizon. 2) Continued investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2019 valuation. | 2 | **16** | 05/11/2018 |
| Funding | * | 10 | | Impact of economic and political decisions on the Pension Fund's employer workforce. | 5 | 2 | 1 | 8 | 2 | **16** | TREAT- 1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. Employer responsibility to flag up potential for major bulk transfers outside of the Westminster Fund. The potential for a significant reduction in the workforce as a result of the public sector financial pressures may have a future impact on the Fund. 2) Need to make prudent assumptions about diminishing workforce when carrying out the triennial actuarial valuation. | 2 | **16** | 05/11/2018 |
| Governance | | 11 | | London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers. | 3 | 3 | 2 | 8 | 3 | **24** | Pension Fund Committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV. | 2 | **16** | 05/11/2018 |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operational | * | 12 | | Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process | 2 | 2 | 3 | 7 | 2 | **14** | TOLERATE - Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process. | 2 | **14** | 05/11/2018 |
| Funding | | 13 | | Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers. | 4 | 2 | 1 | 7 | 2 | **14** | Review "budgets" at each triennial valuation and challenge actuary as required. Charge capital cost of ill health retirements to admitted bodies at the time of occurring. Occupational health services provided by the Council and other large employers to address potential ill health issues early. | 2 | **14** | 05/11/2018 |
| Funding | * | 14 | | Impact of increases to employer contributions following the actuarial valuation | 5 | 5 | 3 | 13 | 2 | **26** | TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes. | 1 | **13** | 05/11/2018 |
| Funding | * | 15 | | Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution | 5 | 3 | 2 | 10 | 2 | **20** | TOLERATE - 1) Political power required to effect the change. | 2 | **20** | 05/11/2018 |
| Governance | * | 16 | | Changes to LGPS Regulations | 3 | 2 | 1 | 6 | 2 | **12** | TREAT - 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will considered during the 2016 actuarial valuation process. 3) Fund will respond to consultation processes. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored. | 2 | **12** | 05/11/2018 |
| Governance | * | 17 | | Failure to take difficult decisions inhibits effective Fund management | 5 | 3 | 4 | 12 | 2 | **24** | TREAT-1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (/FSS), Governance policy statement and Committee Terms of Reference and that appropriate advice from experts is sought | 1 | **12** | 05/11/2018 |
| Funding | | 18 | | There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments. | 5 | 4 | 2 | 11 | 2 | **22** | Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. Cashflow requirement is a factor in current investment strategy review. | 1 | **11** | 05/11/2018 |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Funding | * | 19 | 4 | Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy | 5 | 3 | 3 | 11 | 2 | **22** | TREAT- 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Investment strategy review is currently underway with an approved switch from equities to fixed income. 3) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 4) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific. | 1 | **11** | 05/11/2018 |
| Financial | * | 20 | | Financial loss of cash investments from fraudulent activity | 3 | 3 | 5 | 11 | 2 | **22** | TREAT - 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Strong governance arrangements and internal control are in place in respect of the Pension Fund. Internal Audit assist in the implementation of strong internal controls. Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls). | 1 | **11** | 05/11/2018 |
| Operational | * | 21 | | Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation. | 3 | 3 | 5 | 11 | 2 | **22** | TREAT - 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2) Phasing out of holding records via paper files. 3) Pensions Admin (Surrey County Council) manual records are locked daily in a secure safe. 4) WCC IT data security policy adhered to. | 1 | **11** | 05/11/2018 |
| Governance | | 22 | | Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage. | 5 | 2 | 4 | 11 | 2 | **22** | Officers maintain knowledge of legal framework for routine decisions. Eversheds retained for consultation on non-routine matters. | 1 | **11** | 05/11/2018 |
| Funding | | 23 | | Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others. | 5 | 3 | 3 | 11 | 2 | **22** | Transferee admission bodies required to have bonds in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds. | 1 | **11** | 05/11/2018 |
| Governance | | 24 | | Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation. | 5 | 3 | 2 | 10 | 2 | **20** | At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. Committee and officers scrutinise and challenge advice provided. | 1 | **10** | 05/11/2018 |
| Operational | * | 25 | | Financial failure of third party supplier results in service impairment and financial loss | 5 | 4 | 1 | 10 | 2 | **20** | TOLERATE - 1) Performance of third parties (other than fund managers) regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers. | 1 | **10** | 05/11/2018 |
| Governance | * | 26 | | Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding | 2 | 2 | 1 | 5 | 4 | **20** | TREAT - 1) Succession planning process in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer. | 2 | **10** | 05/11/2018 |
| Investment | | 27 | | Failure of global custodian or counterparty. | 5 | 3 | 2 | 10 | 2 | **20** | At time of appointment, ensure assets are separately registered and segregated by owner. Review of internal control reports on an annual basis. Credit rating kept under review. | 1 | **10** | 05/11/2018 |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operational | * | 28 | 9 | Financial failure of a fund manager leads to value reduction, increased costs and impairment. | 4 | 3 | 3 | 10 | 2 | **20** | TREAT - 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager. 4) Fund has the services of the London Collective Investment Vehicle (LCIV). | 1 | **10** | 05/11/2018 |
| Investment | * | 29 | | Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers. | 5 | 3 | 2 | 10 | 2 | **20** | TREAT- 1) Proportion of total asset allocation made up of equities, bonds, property funds and fixed income, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review ttake place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential | 1 | **10** | 05/11/2018 |
| Operational | * | 30 | | Inaccurate information in public domain leads to damage to reputation and loss of confidence | 1 | 1 | 3 | 5 | 3 | **15** | TOLERATE - 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed. Stage AGM every year. | 2 | **10** | 05/11/2018 |
| Governance | | 31 | | Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves. | 4 | 3 | 3 | 10 | 2 | **20** | Person specifications are used at recruitment to appoint officers with relevant skills and experience. Training plans are in place for all officers as part of the performance appraisal arrangements. Shared service nature of the pensions team provides resilience and sharing of knowledge. | 1 | **10** | 05/11/2018 |
| Governance | * | 32 | 29 | Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests | 3 | 3 | 4 | 10 | 2 | **20** | TOLERATE - 1) Publication of all documents on external website. 2) Managers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews. | 1 | **10** | 05/11/2018 |
| Funding | | 33 | | Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing. | 5 | 3 | 1 | 9 | 2 | **18** | Review maturity of scheme at each triennial valuation. Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. Cashflow position monitored monthly. | 1 | **9** | 05/11/2018 |
| Governance | | 34 | | Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions. | 4 | 3 | 2 | 9 | 2 | **18** | External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval) | 1 | **9** | 05/11/2018 |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Operational | * | 35 | | Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage. | 3 | 2 | 4 | 9 | 2 | **18** | TREAT-1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published ISS. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors. | 1 | **9** | 05/11/2018 |
| Financial | * | 36 | | Inaccurate cash flow forecasts or drawdown payments lead to shortfalls on cash levels and borrowing becomes necessary to ensure that funds are available | 3 | 4 | 2 | 9 | 2 | **18** | TREAT - 1) Borrowing limits with banks are set at levels that are more than adequate should cash be required at short notice. 2) Cashflow analysis of pension fund undertaken at regular intervals. | 1 | **9** | 05/11/2018 |
| Regulation | | 37 | | Loss of flexibility to engage with Fund Managers that the fund has not ‘opted up’ with regard to new products, resulting in reduced knowledge about investment opportunities that may benefit the fund. (The Fund is a retail client to counterparties unless opted up) | 5 | 2 | 2 | 9 | 2 | **18** | More reliance on investment advisor to keep Officers and Committee updated. Officers are considering other financial institution outside of the current mandates to ‘opt up’ with. Maintaining up to date information about the fund on relevant platforms. Fund can opt up with prospective clients. | 1 | **9** | 05/11/2018 |
| Governance | * | 38 | | Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator | 1 | 3 | 5 | 9 | 2 | **18** | TOLERATE - 1) Ensure that an cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board. | 1 | **9** | 05/11/2018 |
| Regulation | | 39 | | Loss of 'Elective Professional Status’ with any or all of existing Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund’s investment options. | 4 | 2 | 2 | 8 | 2 | **16** | Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. There is a training programme and log in place to ensure knowledge and understanding is kept up to date. Existing and new Officer appointments subject to requirements for professional qualifications and CPD. | 1 | **8** | 05/11/2018 |
| Funding | | 40 | | The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities. | 4 | 2 | 1 | 7 | 2 | **14** | Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises. | 1 | **7** | 05/11/2018 |
| Regulation | | 41 | | Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration. | 4 | 2 | 1 | 7 | 2 | **14** | Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood. | 1 | **7** | 05/11/2018 |

| | | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Governance | * | 42 | | Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales | 3 | 2 | 1 | 6 | 2 | **12** | TREAT- 1) Officers consult and engage with MHCLG, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines. | 1 | **6** | 05/11/2018 |

This page is intentionally left blank

| | Apr-18 | | | May-18 | | | Jun-18 | | | Jul-18 | | | Aug-18 | | | Sep-18 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| | F’cast | Actual | Var | F’cast | Actual | Var | F’cast | Actual | Var | F’cast | Actual | Var | F’cast | Actual | Var | F’cast | Actual | Var |
| **Balance b/f** | **4,668** | **4,668** | **0** | **3,356** | **3,379** | **(24)** | **2,043** | **2,768** | **(725)** | **731** | **1,200** | **(470)** | **418** | **543** | **(125)** | **9,106** | **10,055** | **(949)** |
| | | | | | | | | | | | | | | | | | | |
| Contributions | 3,558 | 3,012 | 547 | 3,558 | 3,399 | 159 | 3,558 | 3,135 | 423 | 3,558 | 2,905 | 653 | 3,558 | 3,158 | 400 | 3,558 | 2,816 | 742 |
| [1] Misc. Receipts | 233 | 1,202 | (969) | 233 | 922 | (689) | 233 | 68 | 166 | 233 | 129 | 104 | 233 | 941 | (707) | 233 | 181 | 52 |
| Pensions | (3,042) | (3,236) | 194 | (3,042) | (3,204) | 163 | (3,042) | (3,198) | 156 | (3,042) | (3,191) | 149 | (3,042) | (3,232) | 190 | (3,042) | (3,227) | 186 |
| HMRC Tax Payments | (625) | (569) | (56) | (625) | (642) | 17 | (625) | (568) | (57) | (625) | (613) | (12) | (625) | (555) | (70) | (625) | (563) | (62) |
| [2] Misc. Payments | (1,250) | (1,528) | 278 | (1,250) | (1,074) | (176) | (1,250) | (965) | (285) | (1,250) | (720) | (530) | (1,250) | (1,680) | 430 | (1,250) | (1,055) | (195) |
| Expenses | (188) | (170) | (18) | (188) | (12) | (176) | (188) | (41) | (147) | (188) | (168) | (20) | (188) | (121) | (67) | (188) | (139) | (49) |
| **Net cash in/(out) in month** | **(1,313)** | **(1,289)** | **(24)** | **(1,313)** | **(611)** | **(701)** | **(1,313)** | **(1,568)** | **256** | **(1,313)** | **(1,657)** | **345** | **(1,313)** | **(1,489)** | **176** | **(1,313)** | **(1,987)** | **674** |
| | | | | | | | | | | | | | | | | | | |
| Withdrawals from Fund Managers | 0 | 0 | *0* | 0 | 0 | *0* | 0 | 0 | *0* | 1,000 | 1,000 | 0 | 0 | 1,000 | *0* | 0 | 0 | *0* |
| Special Contributions* | 0 | 0 | *0* | 0 | 0 | *0* | 0 | 0 | *0* | 0 | 0 | *0* | 10,000 | 10,000 | *0* | | 0 | *0* |
| | | | | | | | | | | | | | | | | | | |
| **Balance c/f** | **3,356** | **3,379** | **(24)** | **2,043** | **2,768** | **(725)** | **731** | **1,200** | **(470)** | **418** | **543** | **(125)** | **9,106** | **10,055** | **51** | **7,793** | **8,068** | **(275)** |

Notes

*Deficit recovery cotributions

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

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

This page is intentionally left blank

## 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

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

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

This page is intentionally left blank

City of Westminster

# Pension Board

| | |
|---|---|
| **Date:** | **29 January 2019** |
| **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**<br>***Tri-Borough Director of Treasury and Pensions***<br><br>**ptriggs@westminster.gov.uk**<br>**020 7641 4136** |

## 1. Executive Summary

1.1 This report presents the performance of the Pension Fund's investments to 30 September 2018, together with an update of the funding position as at 31 December 2018.

1.2 The fund underperformed the benchmark net of fees by 0.2% over the quarter to September 2018 and the estimated funding level as at 31 December 2018 was 94.5%, therefore the position remains stable subject to market volatility.

## 2. Recommendation

2.1 The Board 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 attended the Pension Fund Committee meeting on 10 December 2018 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.

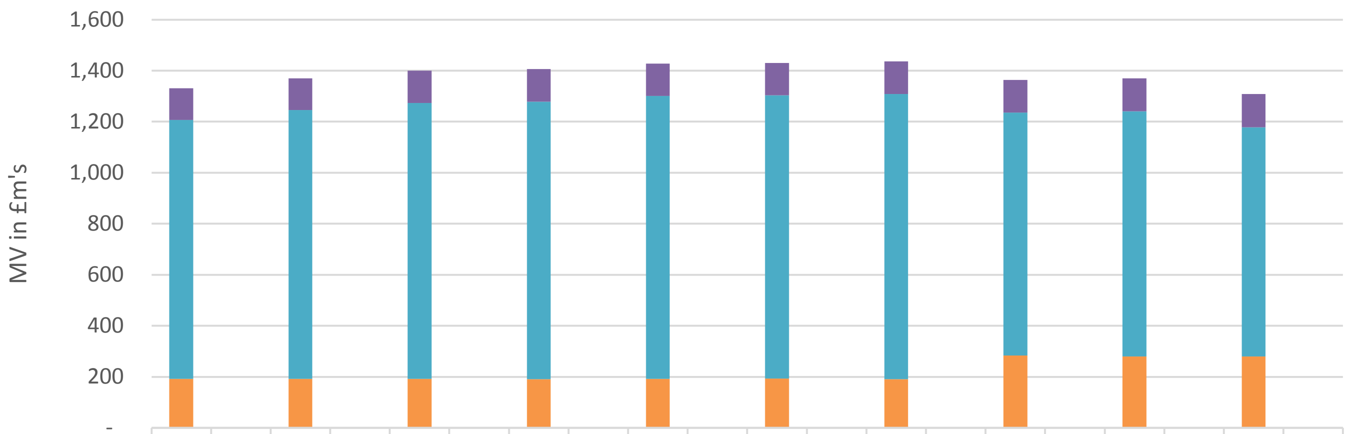
3.5 The advisors continue to rate the fund managers favourably, with the exception of Longview, with the retirement of the Chief Executive, Ramzi Rishani still a major concern. They have also expressed ongoing concern about resignations and vacancies at senior management level within the London Collective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

3.7 The funding update (Appendix 2) has been prepared by the fund actuary, Barnett Waddingham. The estimated funding level for the Westminster City Council Fund as assessed by the actuary at 31 December 2018 was 94.5% (95.8% at 30 September 2018) a decrease of 1.3%, this was mainly due to a fall in equity markets during December. However, the position is an improvement on the March 2018 of funding level of 92.2% and is also up 15.8% on the funding level of 80% that was calculated at the triennial valuation of 31 March 2016.

3.8 The chart below shows the changes in asset allocation of the fund from 1 March 2018 to 31 December 2018. Asset allocations may vary due to changes in market value.

Asset Allocation




| | Mar | | Apr | | May | | June | | July | | Aug | | Sept | | Oct | | Nov | | Dec | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Property | 124 | 9% | 125 | 9% | 126 | 9% | 127 | 9% | 127 | 9% | 127 | 9% | 128 | 9% | 128 | 9% | 129 | 9% | 130 | 10% |
| Equities | 1,015 | 76% | 1,053 | 77% | 1,081 | 77% | 1,087 | 77% | 1,109 | 78% | 1,111 | 78% | 1,117 | 78% | 952 | 70% | 961 | 70% | 898 | 69% |
| Fixed Income* | 192 | 14% | 192 | 14% | 193 | 14% | 191 | 14% | 192 | 13% | 193 | 13% | 191 | 13% | 283 | 21% | 280 | 20% | 280 | 21% |

Fixed Income* Equities Property

*Fixed Income includes bonds and Multi Asset Credit

## 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. 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.

4.3 Mike O'Donnell has now been appointed as the London CIV's new Chief Executive Officer and it is the intention that his employment will commence during March 2019. Mike is an experienced Finance Director with a background in local government finance, so understands the needs of London CIV's client shareholders well. The LCIV intend to recruit to the CIO position now that the CEO appointment process has been completed.

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

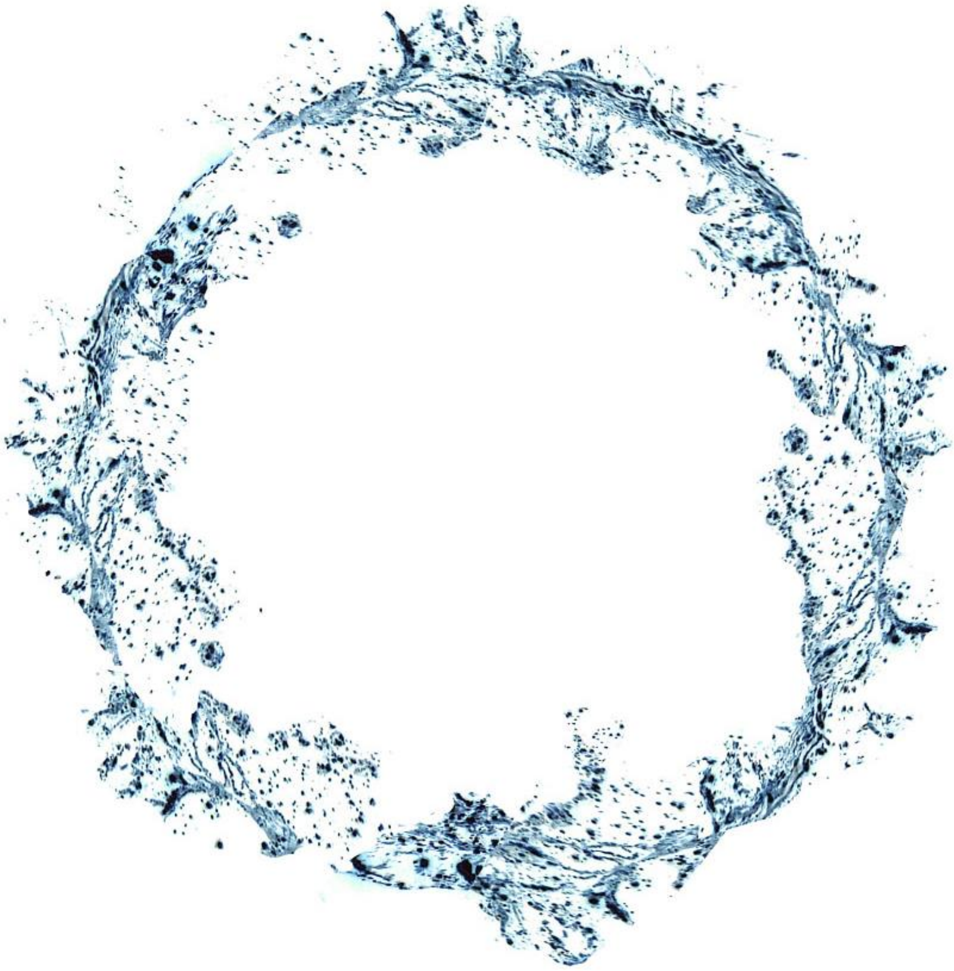
**Billie Emery pensionfund@westminster.gov.uk or 0207 641 7062**

**BACKGROUND PAPERS:** None

**APPENDICES:**

Appendix 1: Deloitte Investment Report, Quarter Ending 30 September 2018
Appendix 2: Barnett Waddingham Funding Update as at 31 December 2018
Appendix 3: LCIV MAC Fund Timeline

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%.

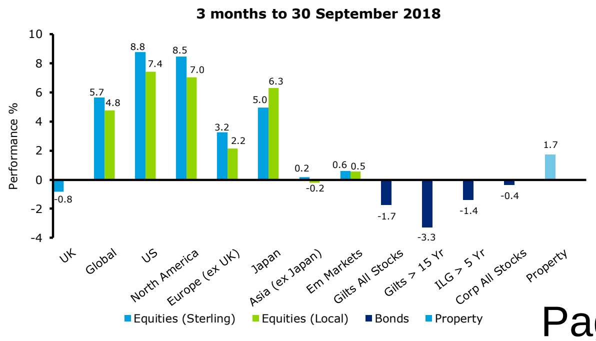
Global equity markets performed positively over the third quarter driven by the US, which continued to report strong earnings and robust economic data, despite a backdrop of geopolitical tensions and the escalating trade war. Other regions fared less well, particularly the Asia Pacific region and Emerging 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%.

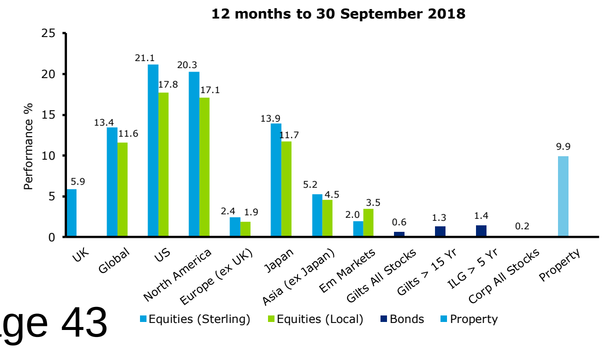
Nominal gilt yields increased across the curve as inflation expectations increased and the Bank of England raised the base rate from 0.5% to 0.75%. The All Stocks Gilts Index subsequently delivered a return of -1.7% over the quarter. Real yields fell at the very short end but increased for mid- and longer-dated 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** |

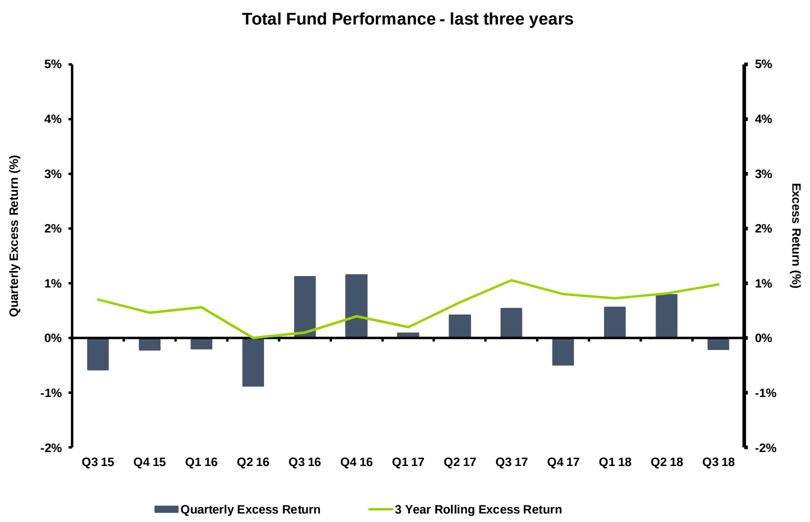
Source: Northern Trust

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

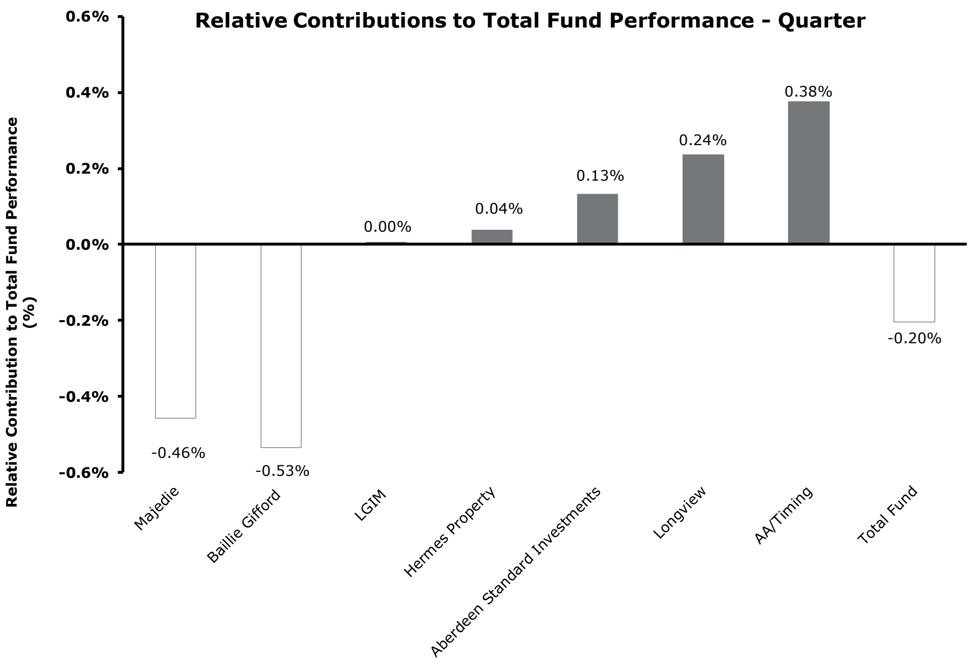
See appendix 1 for more detail on manager fees and since inception dates

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.

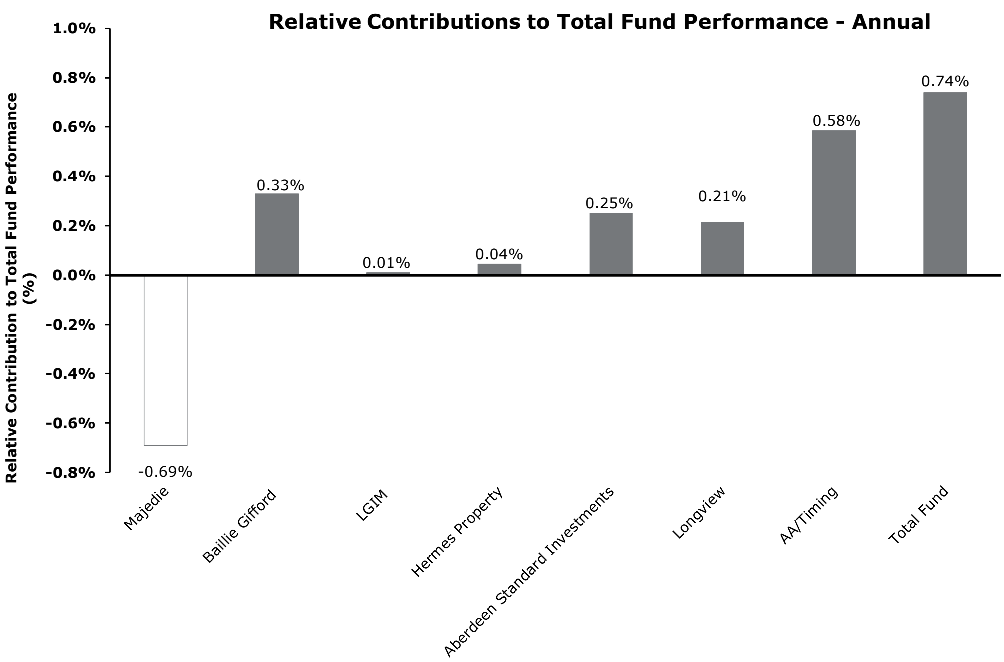



## 2.2 Attribution of Performance to 30 September 2018




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<br>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<br>Change in investment approach<br>Lack of control in growth of assets under management | 1 |
| **Longview** | Global Equity | Loss of key personnel<br>Change in investment approach<br>Lack of control in growth of assets under management | 2 |
| **LGIM** | Global Equity (Passive) | Major deviation from benchmark returns<br>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<br>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<br>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 |

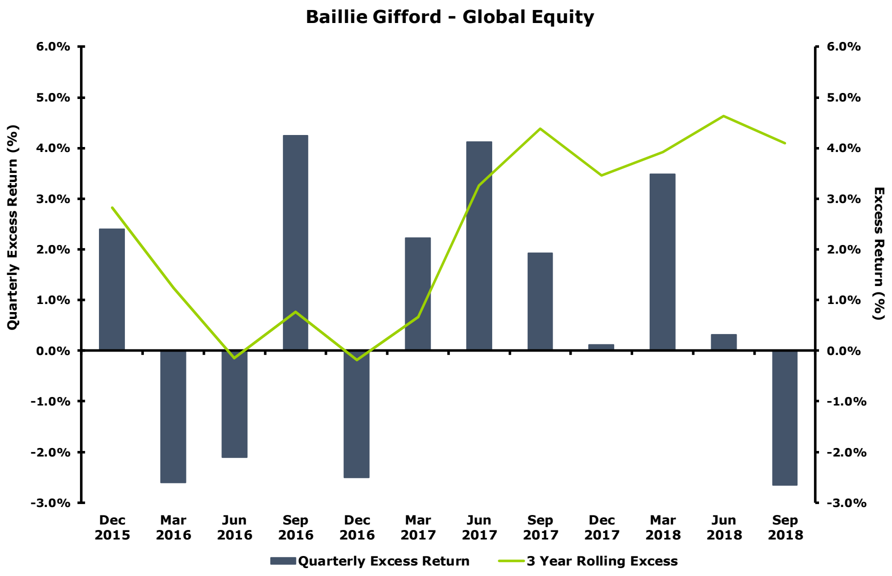
Source: Northern Trust and estimated by Deloitte.

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

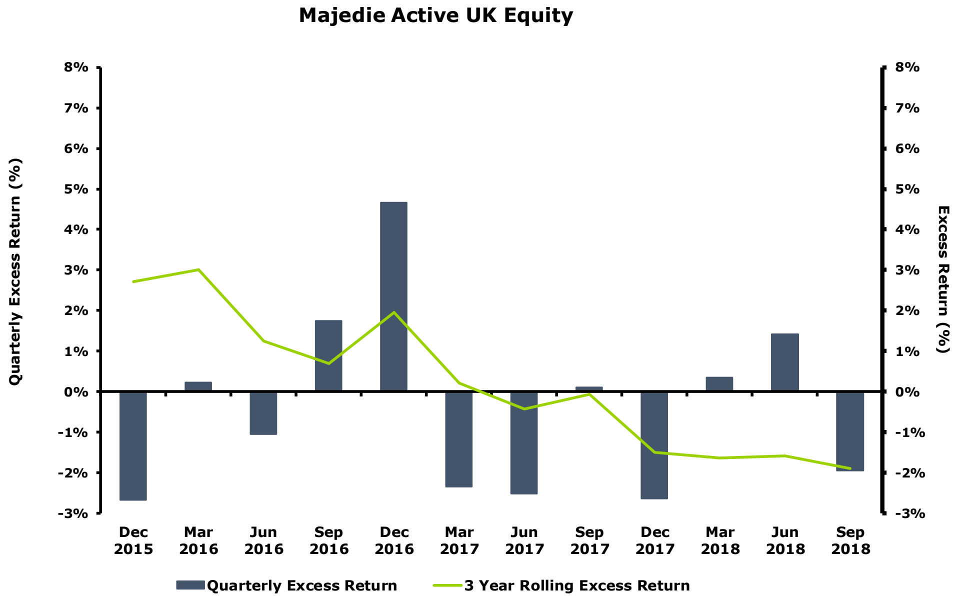
| | Last Quarter (%) | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) |
|---|---|---|---|---|
| **Majedie - Gross of fees** | -2.6 | 3.5 | 10.2 | 12.1 |
| **Net of fees[1]** | -2.8 | 2.9 | 9.6 | 11.5 |
| **MSCI AC World Index** | -0.8 | 5.9 | 11.5 | 10.4 |
| **Relative (on a net basis)**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

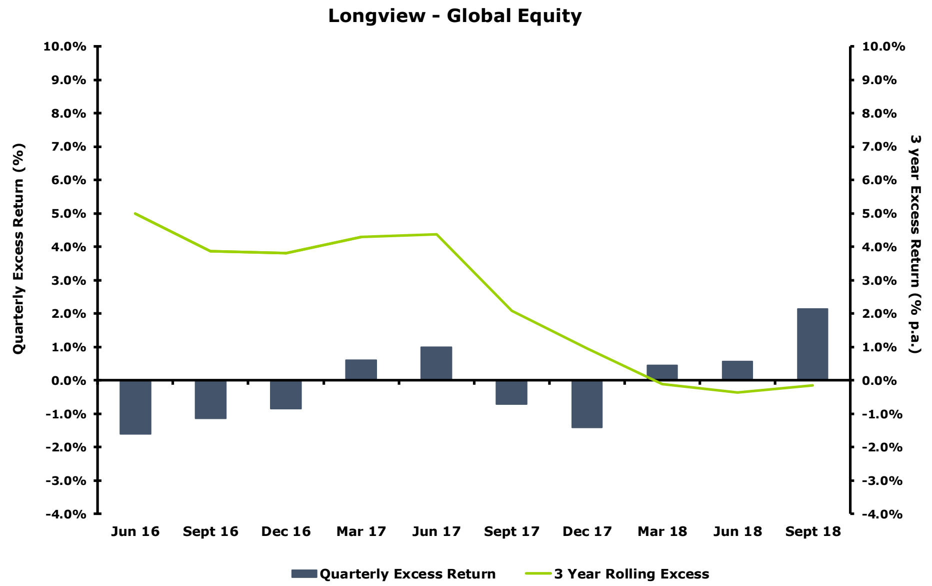
(1) Estimated by Deloitte

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.

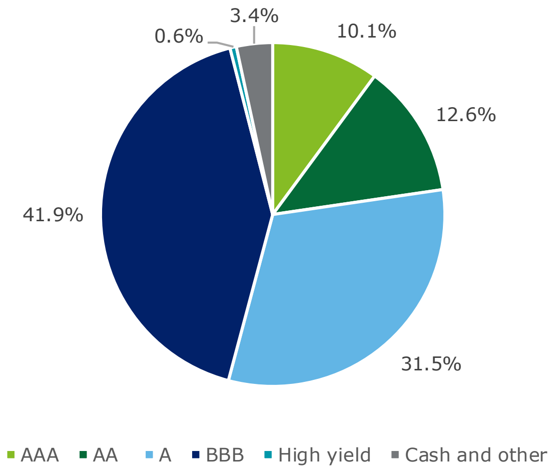
Over the quarter to 30 September 2018 the Insight Buy and Maintain Fund performed in line with its temporary iBoxx non-gilt benchmark on a net of fees basis.

## 9.2 Performance Analysis

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

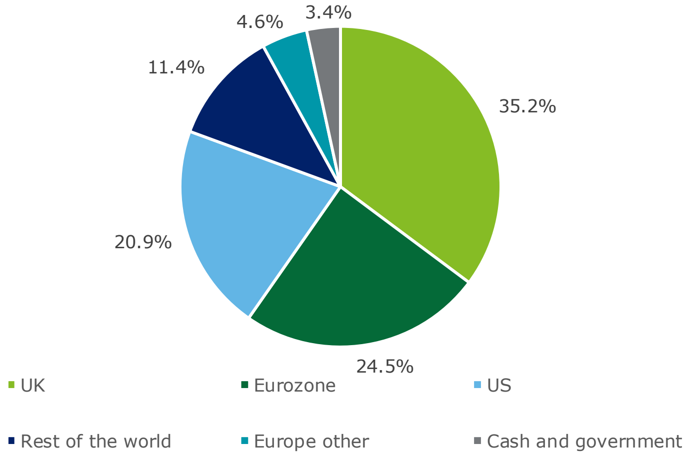
| | 30 Sept 2018 |
|---|---|
| **No. of issuers** | 157 |
| **Modified duration (years)** | 8.2 |
| **Spread duration (years)** | 7.9 |
| **Government spread (bps)** | 135 |
| **Largest issuer (%)** | 1.4 |
| **10 largest issuers (%)** | 11.4 |
| | |

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



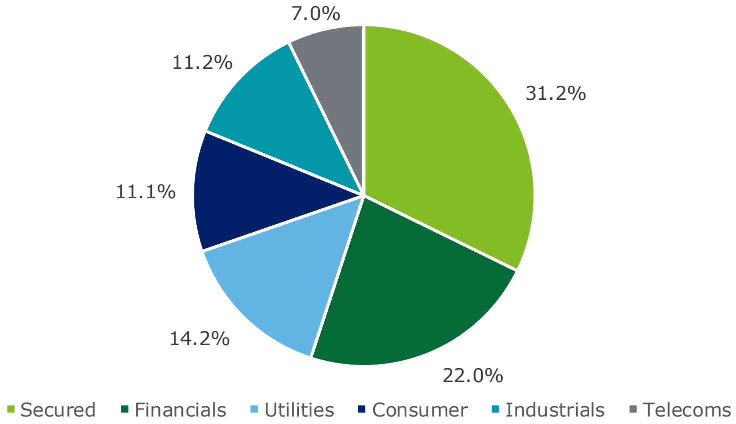

The Fund's investment grade holdings made up c. 96.1% of the portfolio as at 30 September 2018, with the fund predominantly invested in AA and A rated bonds.

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

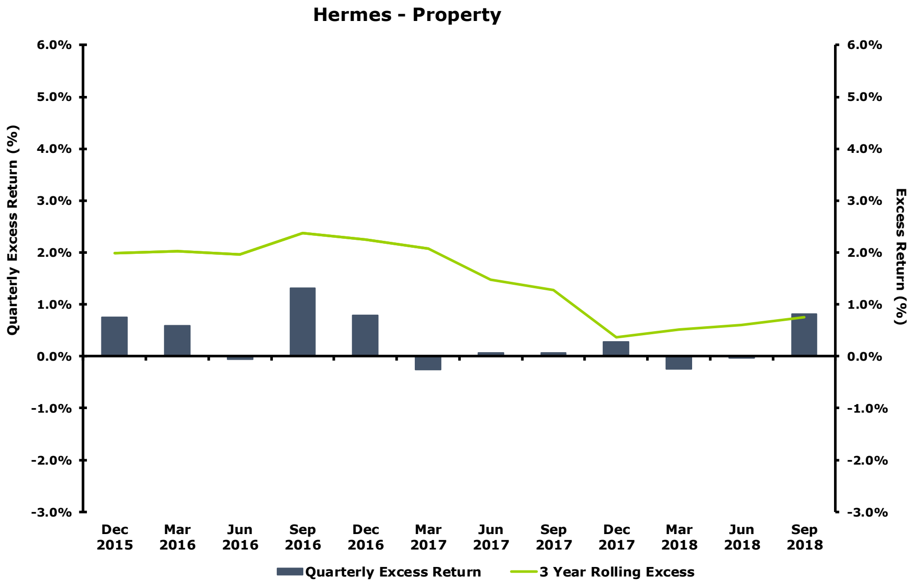
(1) Estimated by Deloitte

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

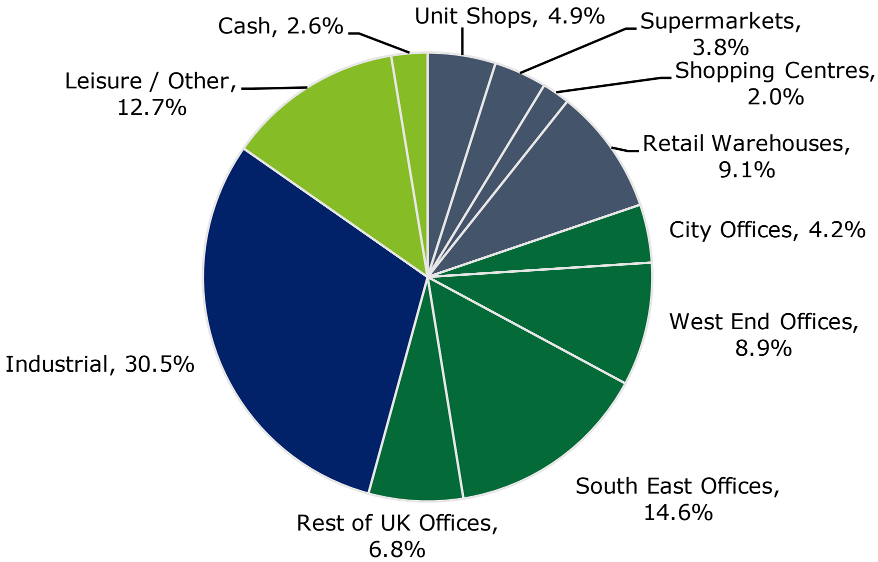
In July 2018, the Trust purchased a multi-let industrial estate located in the South Eastern industrial market for £27.5 million, reflecting an initial yield of 4.85% (including rental guarantees), an equivalent yield of 4.80%, and a capital value per sq.ft. of £145. There is a strong occupier interest 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

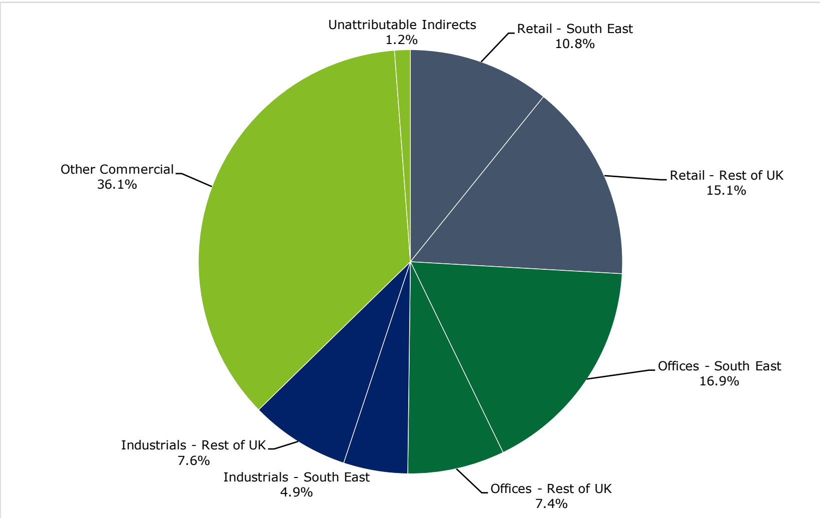
See appendix 1 for more detail on manager fees

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.

Deloitte Total Reward and Benefits Limited is authorised and regulated by the Financial Conduct Authority.

Deloitte.

Other than as stated below, this document is confidential and prepared solely for your information and that of other beneficiaries of our advice listed in our engagement letter. Therefore you should not refer to or use our name or this document for any other purpose, disclose them or refer to them in any prospectus or other document, or make them available or communicate them to any other party. If this document contains details of an arrangement that could result in a tax or National Insurance saving, no such conditions of confidentiality apply to the details of that arrangement (for example, for the purpose of discussion with tax authorities). In any event, no other party is entitled to rely on our document for any purpose whatsoever and thus we accept no liability to any other party who is shown or gains access to this document.

© 2018 Deloitte Total Reward and Benefits Limited. All rights reserved.

Deloitte Total Reward and Benefits Limited. Registered office: Hill House, 1 Little New Street, London EC4A 3TR, United Kingdom. Registered in England and Wales No 3981512.

Deloitte Total Reward and Benefits Limited is a subsidiary of Deloitte LLP, the United Kingdom member firm of Deloitte Touche Tohmatsu Limited ("DTTL"), a UK private company limited by guarantee, whose member firms are legally separate and independent entities. Please see www.deloitte.co.uk/about for a detailed description of the legal structure of DTTL and its member firms.

Deloitte Total Reward and Benefits Limited is authorised and regulated by the Financial Conduct Authority.

# City of Westminster Pension Fund

## Funding update report as at 31 December 2018

**Barnett Waddingham LLP**

11 January 2019

# 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 31 December 2018. The purpose of this assessment is to provide an update on the funding position.

We have shown the funding position as at 31 December 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 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 this rate 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.

This is version 2 of the report which supersedes the initial report. This version contains additional information about the projected financial position of Westminster City Council up until 31 March 2020. This projection can be found in Appendix 3.

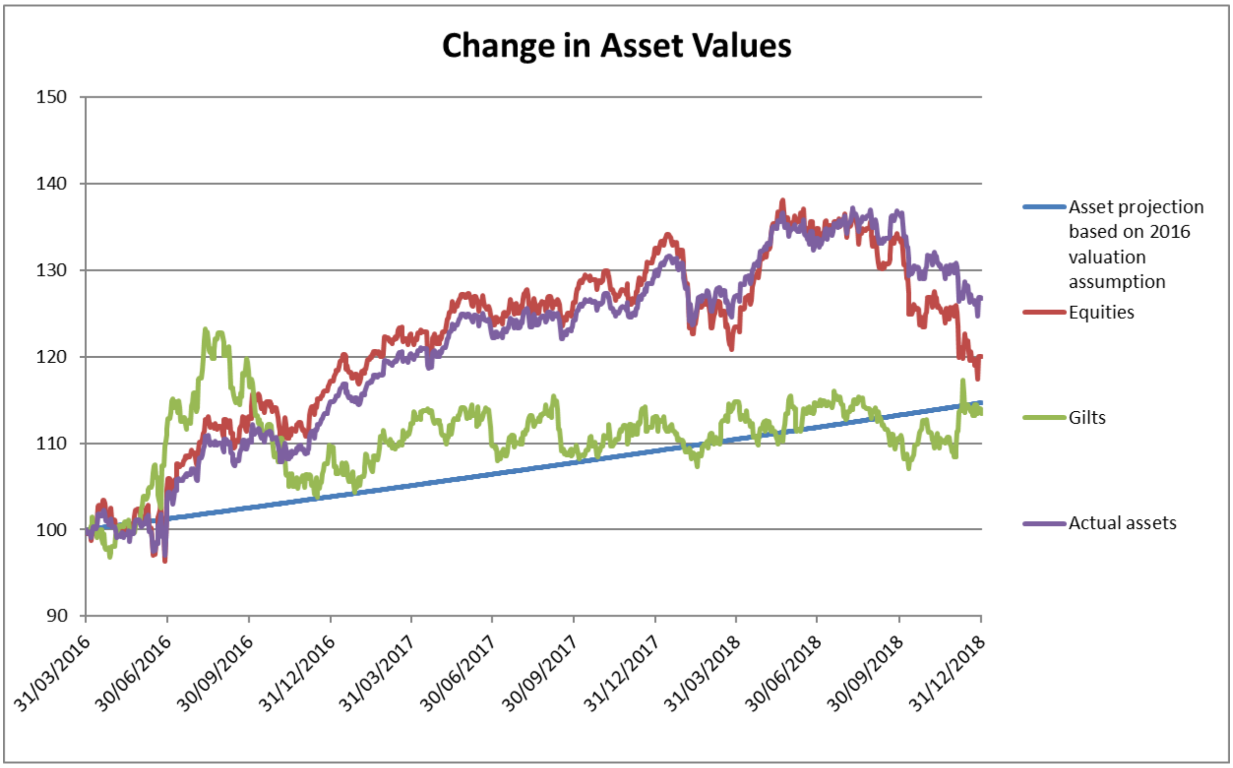
# Assets

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

| Assets (market value) | 31 Dec 2018 | | 30 Sep 2018 | | 31 Mar 2016 | |
|---|---|---|---|---|---|---|
| | £000s | % | £000s | % | £000s | % |
| UK and overseas equities | 908,047 | 68.1% | 1,103,033 | 76.8% | 790,289 | 74.1% |
| Bonds | 281,358 | 21.1% | 191,031 | 13.3% | 130,390 | 12.2% |
| Property | 127,148 | 9.5% | 125,928 | 8.8% | 105,811 | 9.9% |
| Gilts | 0 | - | 0 | - | 26,733 | 2.5% |
| Cash and accruals | 16,780 | 1.3% | 16,250 | 1.1% | 13,120 | 1.2% |
| Total assets | **1,333,332** | **100%** | **1,436,242** | **100%** | **1,066,343** | **100%** |

The investment return achieved by the Fund's assets in market value terms for the quarter to 31 December 2018 is estimated to be -7.2%. The return achieved since the previous valuation is estimated to be 26.8% (which is equivalent to 9.0% p.a.).

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




As we can see the asset value as at 31 December 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) | 31 Dec 2018 | | 30 Sep 2018 | | 31 Mar 2016 | |
|---|---|---|---|---|---|---|
| | Nominal | Real | Nominal | Real | Nominal | Real |
| | % p.a. | | % p.a. | | % p.a. | |
| Pension increases (CPI) | 2.76% | - | 2.68% | - | 2.39% | - |
| Salary increases | 4.26% | 1.50% | 4.18% | 1.50% | 3.89% | 1.50% |
| Discount rate | 5.52% | 2.75% | 5.29% | 2.61% | 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 31 December 2018 is 94.5% and the average required employer contribution would be 20.6% 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 31 December 2018 is 5.5% p.a. The investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 5.8% 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 | 883,354 | 1,032,151 | (148,796) | 86% | 16.3% |
| 31 Dec 2018 | 857,312 | 1,014,836 | (157,524) | 84% | 15.5% |

BARNETT WADDINGHAM
beyond the expected

## SCAPE basis

The results summarised above and in the Appendix are based on the ongoing basis. On the SCAPE basis, as at 31 December 2018, we estimate the comparable funding level for the Fund to be 89% and the average required employer contribution rate would be 27.3% 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 8.5% of payroll towards deficit recovery.

On the SCAPE basis, as at 31 December 2018, we estimate the comparable funding level of Westminster City Council to be 79% and the average required employer contribution rate would be 33.1% 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 15.6% 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).

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.

M Paton

**Matthew Paton FFA**
**Actuary**
**Barnett Waddingham LLP**

Version 2

# 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<br>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 | 1,406,781 | 1,480,121 | (73,340) | 95% | 17.9% | 3.5% | 21.4% | 5.2% | 5.5% |
| 30 Sep 2018 | 1,407,799 | 1,468,021 | (60,222) | 96% | 17.5% | 2.9% | 20.4% | 5.3% | 5.5% |
| 31 Oct 2018 | 1,391,799 | 1,460,566 | (68,767) | 95% | 17.2% | 3.4% | 20.6% | 5.4% | 5.6% |
| 30 Nov 2018 | 1,383,503 | 1,452,101 | (68,598) | 95% | 17.0% | 3.4% | 20.4% | 5.4% | 5.7% |
| 31 Dec 2018 | 1,365,927 | 1,445,343 | (79,416) | 95% | 16.7% | 3.9% | 20.6% | 5.5% | 5.8% |

# 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 31 December 2018; and
- Estimated Fund returns based on Fund asset statements provided to 31 December 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 31 December 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 31 December 2018 without completing a full valuation. However, we are satisifed that the approach of rolling forward the previous valuation data to 31 December 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 31 December 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 Projected financial position

Below we show the projected financial position on a smoothed basis for each following quarter up to 31 March 2020. We assume that the assets increase in line with the ongoing discount rate as at 31 December 2018, i.e. 5.5%. For the liabilities we show the results on both an ongoing basis and the SCAPE basis. The relevant cashflows are estimated based on the Fund accounts for the period from 31 March 2017 to 31 March 2018 and the revised contribution rates from 1 April 2017. Please note that the following projections make no allowance for the review of employer contribution rates and the funding basis of the Fund that will take place during the 2019 valuation.

| Smoothed | | Ongoing Basis | | | SCAPE basis | | |
|---|---|---|---|---|---|---|---|
| Valuation date | Assets £000s | Liabilities £000s | Surplus / Deficit £000s | Funding level % | Liabilities £000s | Surplus / Deficit £000s | Funding level % |
| 31 Mar 2019 | 867,548 | 1,022,892 | (155,345) | 85% | 1,089,093 | (221,546) | 80% |
| 30 Jun 2019 | 877,922 | 1,031,058 | (153,136) | 85% | 1,097,235 | (219,313) | 80% |
| 30 Sep 2019 | 888,437 | 1,039,335 | (150,898) | 85% | 1,105,480 | (217,043) | 80% |
| 31 Dec 2019 | 899,094 | 1,047,724 | (148,630) | 86% | 1,113,830 | (214,737) | 81% |
| 31 Mar 2020 | 909,895 | 1,056,227 | (146,333) | 86% | 1,122,287 | (212,393) | 81% |

Any changes to the discount rate or inflation assumption will affect the funding level at all times in the same way as described in Appendix 1.

**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

This page is intentionally left blank

City of Westminster

# Pension Board

| | |
|---|---|
| **Date:** | **29 January 2019** |
| **Classification:** | **General Release** |
| **Title:** | **Integrated Business Centre migration update and changes to Employee LGPS 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**<br>***Tri-Borough Director of Treasury and Pensions***<br><br>**ptriggs@westminster.gov.uk**<br>**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 LGPS employee 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, however this is unlikely to impact a significant number of members.

## 2. RECOMMENDATIONS

2.1 The Board 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 ENROLMENT

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 207 641 4126**

**BACKGROUND PAPERS:** None

**APPENDICES:**

Appendix 1: Draft Tri-Borough Payroll Pensions Analysis Report

Deloitte.

Hampshire County Council

# IBC On-boarding Project

## Tri Borough Payroll

## LGPS Pension Analysis (from CR4 results)

Draft Version

## 1. Introduction

This paper sets out the explanation of the key differences in LGPS Pensions calculations between SAP and Agresso.

- The first is the effect of the different method of calculating Pensionable Pay and the impact on bandings.
- The second is the impact of Auto-Enrolment.

## 2. Pensionable Pay Calculations and Impact on Bandings

***LGPS EEs % Assessment - Issue Background***

There are number of employees across the Tri Borough who opted into the Local Government Pension Scheme (LGPS). Difference in approach of calculating Pension contribution resulted in number of differences when comparing payroll results between SAP and Agresso. This is a known difference in the basis of the calculation that was discussed and agreed during fit/gap workshops.

***Assessment of LGPS Pensions***

- The calculation of assessed pensionable pay for LGPS is at the discretion of the employer.
- Monthly Pension Contribution is pensionable pay for the month times % contribution (Tiered rate based upon Assessed Annual Pensionable Pay)
- Tiered rates are as follows:

| Pe... | Description | Band | Start Date | End Date | Range Start | Range End | EEs % |
|---|---|---|---|---|---|---|---|
| LG6 | LGPS Variable ... | 1 | 01.04.2018 | 31.03.2019 | 0.00 | 14,100.99 | 5.5000 |
| LG6 | LGPS Variable ... | 2 | 01.04.2018 | 31.03.2019 | 14,101.00 | 22,000.99 | 5.8000 |
| LG6 | LGPS Variable ... | 3 | 01.04.2018 | 31.03.2019 | 22,001.00 | 35,700.99 | 6.5000 |
| LG6 | LGPS Variable ... | 4 | 01.04.2018 | 31.03.2019 | 35,701.00 | 45,200.99 | 6.8000 |
| LG6 | LGPS Variable ... | 5 | 01.04.2018 | 31.03.2019 | 45,201.00 | 63,100.99 | 8.5000 |
| LG6 | LGPS Variable ... | 6 | 01.04.2018 | 31.03.2019 | 63,101.00 | 89,400.99 | 9.9000 |
| LG6 | LGPS Variable ... | 7 | 01.04.2018 | 31.03.2019 | 89,401.00 | 105,200.99 | 10.5000 |
| LG6 | LGPS Variable ... | 8 | 01.04.2018 | 31.03.2019 | 105,201.00 | 157,800.99 | 11.4000 |
| LG6 | LGPS Variable ... | 9 | 01.04.2018 | 31.03.2019 | 157,801.00 | 999,999.99 | 12.5000 |

- The Assessed Annual Pensionable pay is calculated differently between SAP and Agresso.

- SAP standard is to use current month's static pay (ignoring this month's ad-hoc payments such as overtime) plus the previous 12 months ad-hoc payments.
- Agresso uses current months' pay (static data and ad-hoc payments in the month) x 12.

- Practically the SAP solution results in the employee paying the correct band based on their earnings over a year, whereas in Agresso they would only pay a higher band for any month they receive the ad-hoc payment. (SAP effectively averages the effect of ad-hoc payments over a year).

Some Examples are provided below.

**Example 1:** This example is business as usual case where Employee earns static salary payments and adhoc payments (except where indicated 0 when they did not receive any adhoc payments)

| SAP Calculation | | | | | |
|---|---|---|---|---|---|
| | ***Static Pay*** | ***Adhoc payments*** | ***Assessed Annual Pensionable Pay*** | ***EE %*** | ***Pension Contributions*** |
| January'18 | 3500 | 550 | 42000 | 6.80% | 275.40 |
| February'18 | 3500 | 560 | 42550 | 6.80% | 276.08 |
| March'18 | 3500 | 0 | 43110 | 6.80% | 238.00 |
| April'18 | 3500 | 150 | 43110 | 6.80% | 248.20 |
| May'18 | 3500 | 200 | 43260 | 6.80% | 251.60 |
| June'18 | 3500 | 0 | 43460 | 6.80% | 238.00 |
| July'18 | 3500 | 450 | 43460 | 6.80% | 268.60 |
| August'18 | 3500 | 300 | 43910 | 6.80% | 258.40 |
| September'18 | 3500 | 0 | 44210 | 6.80% | 238.00 |
| October'18 | 3500 | 450 | 44210 | 6.80% | 268.60 |
| November'18 | 3500 | 500 | 44660 | 6.80% | 272.00 |
| December'18 | 3500 | 560 | 45160 | 6.80% | 276.08 |
| January'19 | 3500 | 250 | 45720 | 8.50% | 318.75 |

| Agresso Calculation | | | | | |
|---|---|---|---|---|---|
| | ***Static Pay*** | ***Adhoc payments*** | ***Assessed Annual Pensionable Pay*** | ***EE %*** | ***Pension Contributions*** |
| January'18 | 3500 | 550 | 48600 | 8.50% | 344.25 |
| February'18 | 3500 | 560 | 48720 | 8.50% | 345.10 |
| March'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| April'18 | 3500 | 150 | 43800 | 6.80% | 248.20 |
| May'18 | 3500 | 200 | 44400 | 6.80% | 251.60 |
| June'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| July'18 | 3500 | 450 | 47400 | 8.50% | 335.75 |
| August'18 | 3500 | 300 | 45600 | 8.50% | 323.00 |
| September'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| October'18 | 3500 | 450 | 47400 | 8.50% | 335.75 |
| November'18 | 3500 | 500 | 48000 | 8.50% | 340.00 |
| December'18 | 3500 | 560 | 48720 | 8.50% | 345.10 |
| January'19 | 3500 | 250 | 45000 | 6.80% | 255.00 |

**Example 2:** Another example of business as usual case where Employee earns static salary payments and adhoc payments (but only twice in a year)

| SAP Calculation | | | | | |
|---|---|---|---|---|---|
| | Static Pay | Adhoc payments | Assessed Annual Pensionable Pay | EE % | Pension Contributions |
| January'18 | 3500 | 2000 | 42000 | 6.80% | 374.00 |
| February'18 | 3500 | 0 | 44000 | 6.80% | 238.00 |
| March'18 | 3500 | 0 | 44000 | 6.80% | 238.00 |
| April'18 | 3500 | 0 | 44000 | 6.80% | 238.00 |
| May'18 | 3500 | 0 | 44000 | 6.80% | 238.00 |
| June'18 | 3500 | 0 | 44000 | 6.80% | 238.00 |
| July'18 | 3500 | 2000 | 44000 | 6.80% | 374.00 |
| August'18 | 3500 | 0 | 46000 | 8.50% | 297.50 |
| September'18 | 3500 | 0 | 46000 | 8.50% | 297.50 |
| October'18 | 3500 | 0 | 46000 | 8.50% | 297.50 |
| November'18 | 3500 | 0 | 46000 | 8.50% | 297.50 |
| December'18 | 3500 | 0 | 46000 | 8.50% | 297.50 |
| January'19 | 3500 | 0 | 46000 | 8.50% | 297.50 |

| Agresso Calculation | | | | | |
|---|---|---|---|---|---|
| | Static Pay | Adhoc payments | Assessed Annual Pensionable Pay | EE % | Pension Contributions |
| January'18 | 3500 | 2000 | 66000 | 8.50% | 467.50 |
| February'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| March'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| April'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| May'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| June'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| July'18 | 3500 | 2000 | 66000 | 8.50% | 467.50 |
| August'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| September'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| October'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| November'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| December'18 | 3500 | 0 | 42000 | 6.80% | 238.00 |
| January'19 | 3500 | 0 | 42000 | 6.80% | 238.00 |



Comparison runs /Go live examples are explained below.

**Month 1:** In this scenario Joe Bloggs earns salary and rotating shift each period. These are static components. Joe also earns Overtime and other payments, but these are ad-hoc payments and vary each period. In this scenario SAP has NO ad-hoc payments history to include in the banding assessment of pension contributions.

See below detailed calculation and differences.

| | | | |
|---|---|---|---|
| Employee | Joe Bloggs | Assume 1st go live period | |
| **SAP Calculation** | | | |
| Basic Pay | Static Component | | 3230.5 |
| Rotating Shift | Static Component | | 516.04 |
| Overtime x1.5 | Adhoc Component | | 339.12 |
| Overtime x2.0 | Adhoc Component | | 301.44 |
| Enhancement x0.5 | Adhoc Component | | 503.44 |
| Assessment for LGPS % = (3230.50+516.04)*12 = £44,958.48 | | | |
| £44,958.48 | Band 4 from LGPS Assessment table | | 6.80% |
| **Pensionable Pay** | **4890.54** | | |
| **LGPS EE Contribution** | **6.80%** | | **332.56** |

| | | | |
|---|---|---|---|
| Employee | Joe Bloggs | Assume what would have been | |
| **Agresso Calculation** | | | |
| Basic Pay | Static Component | | 3230.5 |
| Rotating Shift | Static Component | | 516.04 |
| Overtime x1.5 | Adhoc Component | | 339.12 |
| Overtime x2.0 | Adhoc Component | | 301.44 |
| Enhancement x0.5 | Adhoc Component | | 503.44 |
| Assessment for LGPS % = (3230.50+516.04+339.12+301.44+503.44)*12 = £58,686.00 | | | |
| £58,686.00 | Band 5 from LGPS Assessment table | | 8.50% |
| **Pensionable Pay** | **4890.54** | | |
| **LGPS EE Contribution** | **8.50%** | | **415.7** |

**Month 2:** Assume this is second month after go live and in this scenario Joe Bloggs continues to earn salary and rotating shift just like the previous period. Joe also earned Overtime and other payments but these adhoc payments varied this period to the last period.

See below detailed calculation and differences. SAP has now built 1 month of adhoc payments history and Agresso continues to look at current months' pay.

| | | | |
|---|---|---|---|
| Employee | Joe Bloggs | Assume 2nd go live period | |
| **SAP Calculation** | | | |
| Basic Pay | Static Component | | 3230.5 |
| Rotating Shift | Static Component | | 516.04 |
| Overtime x1.5 | Adhoc Component | | 100 |
| Overtime x2.0 | Adhoc Component | | 150 |
| Enhancement x0.5 | Adhoc Component | | 250 |
| Static Pay = (3230.50+516.04) = £3746.54<br>Previous 12 Months Adhoc = £1144<br>Assessment for LGPS % = (3746.54*12)+1144<br>= £46102.48 | | | |
| £46,102.48 | Band 5 from LGPS Assessment table | | 8.50% |
| **Pensionable Pay** | **4246.54** | | |
| **LGPS EE Contribution** | **8.50%** | | **360.96** |

| | | | |
|---|---|---|---|
| Employee | Joe Bloggs | Assume what would have been | |
| **Agresso Calculation** | | | |
| Basic Pay | Static Component | | 3230.5 |
| Rotating Shift | Static Component | | 516.04 |
| Overtime x1.5 | Adhoc Component | | 100 |
| Overtime x2.0 | Adhoc Component | | 150 |
| Enhancement x0.5 | Adhoc Component | | 250 |
| Assessment for LGPS % = (3230.50+516.04+100+150+250)*12<br>= £50958.48 | | | |
| £58,686.00 | Band 5 from LGPS Assessment table | | 8.50% |
| **Pensionable Pay** | **4246.54** | | |
| **LGPS EE Contribution** | **8.50%** | | **360.96** |

**Month 2:** As an alternate example to scenario 2, Assume this is second month after go live and in this scenario Joe Bloggs continues to earn salary and rotating shift just like the previous period. Joe did not earn Overtime and any other adhoc payments this period.

See below detailed calculation and differences. SAP has now built 1 month of adhoc payments history and Agresso continues to look at current months' pay.

| | | | |
|---|---|---|---|
| Employee | Joe Bloggs | Assume 2nd go live period | |
| **SAP Calculation** | | | |
| Basic Pay | Static Component | | 3230.5 |
| Rotating Shift | Static Component | | 516.04 |
| Overtime x1.5 | Adhoc Component | | 0 |
| Overtime x2.0 | Adhoc Component | | 0 |
| Enhancement x0.5 | Adhoc Component | | 0 |
| Static Pay = (3230.50+516.04) = £3746.54<br>Previous 12 Months Adhoc = £1144<br>Assessment for LGPS % = (3746.54*12)+1144<br>= £46102.48 | | | |
| £46,102.48 | Band 5 from LGPS Assessment table | | 8.50% |
| **Pensionable Pay** | **3746.54** | | |
| **LGPS EE Contribution** | **8.50%** | | **318.46** |

| | | | |
|---|---|---|---|
| Employee | Joe Bloggs | Assume what would have been | |
| **Agresso Calculation** | | | |
| Basic Pay | Static Component | | 3230.5 |
| Rotating Shift | Static Component | | 516.04 |
| Overtime x1.5 | Adhoc Component | | 0 |
| Overtime x2.0 | Adhoc Component | | 0 |
| Enhancement x0.5 | Adhoc Component | | 0 |
| Assessment for LGPS % = (3230.50+516.04+0+0+0)*12<br>= £44958.48 | | | |
| £44,958.48 | Band 4 from LGPS Assessment table | | 6.80% |
| **Pensionable Pay** | **3746.54** | | |
| **LGPS EE Contribution** | **6.80%** | | **254.76** |

***Questions & Answers***

1. Does the difference between SAP v Agresso calculations affect **pensionable pay**?
   No.

2. Does the difference between SAP v Agresso calculation affect pension contributions?
   Yes.

3. Is there a difference in LGPS Assessment table between SAP and Agresso?
   No. It is the statutory table used to derive EE Contribution %

4. Are there any wage types that are pensionable in SAP and NOT pensionable in Agresso?
   No.

5. What is the difference between Assessed Annual pensionable pay and Annual pensionable pay
   Assessed Annual pensionable pay is a notional value to derive the banding %.
   Annual pensionable pay is actual pensionable for the year.



***Conclusion***

Loading 12 month history from Agresso into SAP would result in employees potentially over contributing to the pension fund, as these ad hoc earnings have already been included in "in month" Agresso calculations determining the rate of contribution. These historic earnings would then also be included in the SAP calculation to determine the current contribution rate.

Ignoring the 12 months history therefore results in either no change or a benefit to the employee but at a marginal level. There is also no impact to the annual Career Average Earnings (CARE) calculation for the employee.

The marginal difference is to the detriment to the respective organisations Pension Fund which will be addressed as part of the normal triennial valuation process but the difference should be insignificant in that process.

## 3. Pension Auto Enrolment

***Issue Background***

There are few employees across the Tri Borough who opted out of their Auto Enrolment pension scheme. However when pension auto enrolment data is provided opt out dates are NOT provided for the HCC as this data is not available in Agresso.

Statutory rules state an employee to be enrolled into a pension scheme (subject to qualifying criteria) if they are not already in a pension scheme and if they are not opted out. SAP puts them into a pension scheme and takes pension deduction from the employee's pay.

As a result of this, there are differences in net pay which are categorised as known differences due to auto enrolment. This was discussed and agreed in the previous meetings with the London Borough Payroll SMEs.

Example below- In this scenario employee has a known pension difference of £153.

| SAP Calculation | | | | | |
|---|---|---|---|---|---|
| | ***Static Pay*** | ***Adhoc payments*** | ***Assessed Annual Pensionable Pay*** | ***EE %*** | ***Pension Contributions AUTO ENROLMENT*** |
| December '18 | 2000 | 250 | 24000 | 6.80% | 153.00 |

| Agresso Calculation | | | | | |
|---|---|---|---|---|---|
| | ***Static Pay*** | ***Adhoc payments*** | ***Assessed Annual Pensionable Pay*** | ***EE %*** | ***Pension Contributions*** |
| December '18 | 3500 | 250 | 45000 | 0.00% | 0.00 |

***CR4 Statistics***

| ***Difference Reason Description*** | ***LBHF*** | ***RBKC*** | ***WCC*** |
|---|---|---|---|
| Total | 158 | 135 | 176 |
| Pension Contribution % | 25 | 44 | 116 |
| Auto enrolled on SAP | 123 | 69 | 41 |
| Pension calculation difference | 10 | 22 | 19 |

*The results are from interim payroll results and these shall be reviewed once the final payroll run is completed.

***Appendix:***

- Excel sheet with WCC- 176 differences directly related to this issue with comments.
- Excel sheet with RBKC and LBHF examples.
- .

City of Westminster

# Pension Board

| | |
|---|---|
| **Date:** | **29 January 2019** |
| **Classification:** | **General Release** |
| **Title:** | **Ministry of Housing, Communities and Local Government (MHCLG) statutory guidance on asset pooling in the Local Government Pension Scheme consultation** |
| **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**<br>***Tri-Borough Director of Treasury and Pensions***<br><br>**ptriggs@westminster.gov.uk**<br>**020 7641 4136** |

## 1. EXECUTIVE SUMMARY

1.1 The MHCLG has been preparing new statutory guidance on LGPS asset pooling. This guidance will set out the requirements on administering authorities, replacing previous guidance, and builds on previous ministerial communications and guidance on investment strategies.

1.2 They are now inviting views on the draft guidance and the consultation process will close on 28 March 2019.

## 2. RECOMMENDATIONS

2.1 The Pension Board is recommended to note the draft guidance on pooling and express any desired feedback for the consultation process.

## 3 MHCLG DRAFT GUIDANCE

3.1 A summary of the key points are as follows:

3.2 Pool members must appoint a pool company to implement their investment strategies, including the selection, appointment and dismissal of managers.

3.3 Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account.

3.4 Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period. However, some existing investments may be retained by pool members on a temporary basis if the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so.

3.5 Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. Following the 2019 valuation, pool members will review their investment strategies and implement revised strategies 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

3.6 There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area.

3.7 Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance Preparing the Annual Report, with effect from the 2018-19 annual report.

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

**Billie Emery 0207 641 7062**

**BACKGROUND PAPERS:** None

**APPENDICES:**

Appendix 1: MHCLG draft guidance on pooling

# Local Government Pension Scheme

## Statutory guidance on asset pooling

# Contents

**Foreword**

The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. LGPS administering authorities responded by coming together in groups of their own choosing to form eight asset pools.

Through the hard work and commitment of people across the scheme, those eight pools are now operational. Their scale makes them significant players at European or global level, and significant annual savings have already been delivered, with the pools forecasting savings of up to £2bn by 2033. Along the way many lessons have been learnt and great progress has been made in developing expertise and capacity, including in private markets and infrastructure investment.

This is a considerable achievement in itself, but there is still a long way to go to complete the transition of assets and to deliver the full benefits of scale. In the light of experience to date with pooling and the challenges ahead, authorities have requested guidance on a range of issues. The time is now right for new guidance to support further progress.

## 1 Introduction

1.1 This guidance sets out the requirements on administering authorities in relation to the pooling of LGPS assets, building on previous Ministerial communications and guidance on investment strategies, and taking account of the current state of progress on pooling. It is made under the powers conferred on the Secretary of State by Regulation 7(1) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations). Administering authorities are required to act in accordance with it.

1.2 This guidance replaces the section at pages 7 to 8 of Part 2 of *Guidance for Preparing and Maintaining an Investment Strategy*, issued in September 2016 and revised in July 2017, which deals with regulation 7(2)(d) of the 2016 Regulations. It also replaces *Local Government Pension Scheme: Investment Reform Criteria and Guidance,* issued in November 2015.

## 2 Definitions

2.1 This guidance introduces a set of definitions for use in this and future guidance, as follows:

**'Pool'** the entity comprising all elements of a Local Government Pension Scheme (LGPS) asset pool
**'Pool member'** an LGPS administering authority which has committed to invest in an LGPS pool and participates in its governance
**'Pool governance body'** the body used by pool members to oversee the operation of the pool and ensure that the democratic link to pool members is maintained (for example, Joint Committees and officer committees)
**'Pool company'** the Financial Conduct Authority (FCA) regulated company which undertakes selection, appointment, dismissal and variation of terms of investment managers, and provides and operates pool vehicles for pool members
**'Pool fund'** a regulated unitised fund structure operated by a regulated pool company, such as an Authorised Contractual Scheme (ACS)
**'Pool vehicle'** an investment vehicle (including pool funds) made available to pool members by a regulated pool company
**'Pooled asset'** an investment for which the selection, appointment, dismissal and variation of terms for the investment manager is delegated to a regulated pool company, or an investment held in a pool vehicle
**'Retained asset'** an existing investment retained by a pool member during the transition period
**'Local asset'** a new investment by a pool member which is not a pooled asset

## 3 Structure and scale

3.1 All administering authorities must pool their assets in order to deliver the benefits of scale and collaboration. These include:

- reduced investment costs without affecting gross risk-adjusted returns
- reduced costs for services such as custody, and for procurement
- strengthened governance and stewardship and dissemination of good practice
- greater investment management capacity and capability in the pool companies, including in private markets
- increased transparency on total investment management costs
- diversification of risk through providing access to a wider range of asset classes, including infrastructure investments

3.2 In order to maximise the benefits of scale, pool members must appoint a pool company or companies to implement their investment strategies. This includes:

- the selection, appointment, dismissal and variation of terms of investment managers, whether internal or external

- the management of internally managed investments
- the provision and management of pool vehicles including pool funds

It is for the pool companies to decide which investment managers to use for pool vehicles, including whether to use in-house or external management. Pool members may continue to decide if they wish to invest via in-house or externally managed vehicles.

3.3 Pool companies may be wholly owned by pool members as shareholders or may be procured and appointed by the pool members as clients.

3.4 A pool company must be a company regulated by the Financial Conduct Authority (FCA) with appropriate FCA permissions for regulated activities. This helps ensure the pools comply with financial services legislation, and provides additional assurance to scheme members and employers. Depending on the structure of the pool, appropriate permissions may include permissions for execution, acting as agent, provision of advice, or such other permissions as required by the FCA. Where regulated funds (e.g. in an ACS) are operated by the pool company it should comply with relevant UK legislation.

*Regular review of services and procurement*

3.5 Pool governance bodies, working with the pool company, should regularly review the provision of services to the pool, and the process of procurement, to ensure value for money and cost transparency. Where services are procured or shared by pool members, pool members should regularly review the rationale and cost-effectiveness of such arrangements, compared to procurement and management through the pool company. Pool members and pool companies should consider using the national LGPS procurement frameworks (www.nationallgpsframeworks.org) where appropriate.

*Regular review of active and passive management*

3.6 Pool members, working with the pool company, should regularly review the balance between active and passive management in the light of performance net of total costs. They should consider moving from active to passive management where active management has not generated better net performance over a reasonable period. Pool members should also seek to ensure performance by asset class net of total costs is at least comparable with market performance for similar risk profiles.

## 4 Governance

4.1 Pool members must establish and maintain a pool governance body in order to set the direction of the pool and to hold the pool company to account. Pool governance bodies should be appropriately democratic and sufficiently resourced to provide for effective decision making and oversight.

4.2 Pool members, through their internal governance structures, are responsible for effective governance and for holding pool companies and other service providers to account. Strategic asset allocation remains the responsibility of pool members, recognising their authority's specific liability and cash-flow forecasts.

4.3 Members of Pension Committees are elected representatives with duties both to LGPS employers and members, and to local taxpayers. Those who serve on Pension Committees and equivalent governance bodies in LGPS administering authorities are, in many ways, required to act in the same way as trustees in terms of their duty of care to scheme employers and members, but are subject to a different legal framework, which derives from public law. In particular while they have legal responsibilities for the prudent and effective stewardship of LGPS funds, LGPS benefits are not dependent on their stewardship but are established and paid under statute in force at the time.

4.4 Those who serve on Pension Committees and equivalent governance bodies in pool members should therefore take a long term view of pooling implementation and costs. They should take account of the benefits across the pool and across the scheme as a whole, in the interests of scheme members, employers and local taxpayers, and should not seek simply to minimise costs in the short term.

4.5 Local Pension Boards of pool members have a key role in pool governance, given their responsibilities under the LGPS Regulations 2013 (regulation 106 (1)) for assisting authorities in securing compliance with legislation, and ensuring effective and efficient governance and administration of the LGPS. They can provide additional scrutiny and challenge to strengthen pool governance and reporting, and improve transparency and accountability for both members and employers.

4.6 Local Pension Boards may also provide a group of knowledgeable and experienced people from which observers may be drawn if pool members wish to include observers on pool governance bodies.

*Strategic and tactical asset allocation*

4.7 Pool members are responsible for deciding their investment strategy and asset allocation, and remain the beneficial owners of their assets, in accordance with *Guidance for Preparing and Maintaining an Investment Strategy.*

4.8 Pool members collectively through their pool governance bodies should decide the pool's policy on which aspects of asset allocation are strategic and should remain with the administering authority, and which are tactical and best undertaken by the pool company. Pool governance bodies, when determining where such decisions lie, should be mindful of the trade-off between greater choice and lower costs and should involve the pool company to ensure the debate is fully informed on the opportunities and efficiencies available through greater scale.

4.9 Providing pool members with asset allocation choices through an excessively wide range of pool vehicles or investment managers will restrict the pool company's ability to use scale to drive up value. On the other hand maximising scale by significantly limiting asset allocation options may not provide all pool members with the diversification needed to meet their particular liability profile and cash flow requirements. Pool members should set out in their Funding Strategy Statement and Investment Strategy Statement how they, through the pool governance body, have balanced these considerations and how they will keep this under regular review.

4.10 Where necessary to deliver the asset allocation required by pool members, pool companies may provide a range of pool vehicles and in addition arrange and manage segregated mandates or access to external specialist funds. Pool governance bodies should ensure that their regulated pool companies have in place the necessary permissions to enable pool vehicles to be made available where appropriate.

4.11 Determining where asset allocation decisions lie will not be a one-off decision as pool member requirements will change over time. Pool governance bodies should ensure that a regular review process, which involves both pool members and pool companies, is in place.

## 5 Transition of assets to the pool

5.1 Pool members should transition existing assets into the pool as quickly and cost effectively as possible. Transition of listed assets should take place over a relatively short period.

5.2 Pool governance bodies, working with pool companies and, where appointed, external transition managers, should seek to minimise transition costs to pool members while effectively balancing speed, cost and timing, taking into account exit or penalty costs and opportunities for crossing trades.

5.2 The transition process will incur direct or indirect costs which may fall unevenly across pool members. For example, where the selected managers are used by some pool members but not others. In such cases pool members who are already using the selected manager may incur significantly lower (if any) transition costs than those who do not.

5.3 Inter-authority payments (or other transfers of value) may be desirable in order to share these costs equitably between pool members. The Government's view is that such payments are investment costs within Regulation 4(5) of the 2016 Regulations, and payments made by a pool member to meet its agreed share of costs may be charged to the fund of that pool member, whether the payments are made to other pool members, the pool company, or another body by agreement.

*Temporary retention of existing assets*

5.4 In exceptional cases, some existing investments may be retained by pool members on a temporary basis. If the cost of moving the existing investment to a pool vehicle exceeds the benefits of doing so, it may be appropriate to continue to hold and manage the existing investment to maturity before reinvesting the funds through a pool vehicle.

5.5 In many cases there will be benefits in such retained assets being managed by the pool company in the interim. However pool members may retain the management of existing long term investment contracts where the penalty for early exit or transfer of management would be significant. These may include life insurance contracts ('life funds') accessed by pool members for the purpose of passive equity investment, and some infrastructure investments. Pool members may also retain existing direct property assets where these may be more effectively managed by pool members.

*Regular review of retained assets*

5.6 Pool members, working with the pool company, should undertake regular reviews (at least every three years) of retained assets and the rationale for keeping these assets outside the pool. They should review whether management by the pool company would deliver benefits. Pool members should consider the long term costs and benefits across the pool, taking account of the guidance on cost-sharing, and the presumption should be in favour of transition to pool vehicles or moving such assets to the management of the pool company.

## 6 Making new investments outside the pool

6.1 Pool members should normally make all new investments through the pool company in order to maximise the benefits of scale. Following the 2019 valuation, pool members will review their investment strategies and put revised strategies in place from 2020. From 2020, when new investment strategies are in place, pool members should make new investments outside the pool only in very limited circumstances.

6.2 A small proportion of a pool member's assets may be invested in local initiatives within the geographical area of the pool member or in products tailored to particular liabilities specific to that pool member. Local assets should:

- Not normally exceed an aggregate 5% of the value of the pool member's assets at the point of investment.
- Be subject to a similar assessment of risk, return and fit with investment strategy as any other investment.

6.3 Pool members may invest through pool vehicles in a pool other than their own where collaboration across pools or specialisation by pools can deliver improved net returns.

6.4 During the period of transition, while pool governance bodies and pool companies work together to determine and put in place the agreed range of pool vehicles, a pool member may make new investments outside the pool, if following consultation with the pool company, they consider this is essential to deliver their investment strategy. This exemption only applies until the pool vehicles needed to provide the agreed asset allocation are in place.

## 7 Infrastructure investment

7.1 Infrastructure investment has the potential to provide secure long term returns with a good fit to pension liabilities, and form part of investment strategies of authorities. The establishment of the pools was intended to provide the scale needed for cost-effective investment in infrastructure, and to increase capacity and capability to invest in infrastructure.

7.2 There is no target for infrastructure investment for pool members or pools, but pool members are expected to set an ambition on investment in this area. Pool companies may provide pool vehicles for investment in UK assets, or overseas assets, or both, as required to provide the risk and return profile to meet pool member investment strategies. However the Government expects pool companies to provide the capability and capacity for pools over time to move towards levels of infrastructure investment similar to overseas pension funds of comparable aggregate size.

7.3 Pool companies may provide pool vehicles for investment in existing (brownfield) or new (greenfield) infrastructure, based on an assessment of the benefits and risks in relation to pool member liabilities, and non-financial factors where relevant. Pool members may invest in their own geographic areas but the asset selection and allocation decisions should normally be taken by the pool company in order to manage any potential conflicts of interest effectively, maintain propriety, and ensure robust evaluation of the case for investment.

7.4 For the purpose of producing annual reports, infrastructure assets are defined in the Chartered Institute of Public Finance and Accountancy (CIPFA) guidance *Preparing the Annual Report* as follows:

*Infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics:*

- *Substantially backed by durable physical assets;*
- *Long life and low risk of obsolescence;*
- *Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked;*
- *Revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry;*
- *Returns to show limited correlation to other asset classes.*

*Key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health and education facilities, social accommodation and private sector housing.*

*Conventional commercial property is not normally included, but where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs it may be.*

7.5 All residential property is included in this definition of infrastructure. It is not restricted to social accommodation or private sector housing.

7.6 A variety of platforms may be required to implement the infrastructure investment strategies of pool members. Pool companies are expected to provide access to a range of options over time including direct and co-investment opportunities.

## 8 Reporting

8.1 Pool members are required to report total investment costs and performance against benchmarks publicly and transparently in their annual reports, following the CIPFA guidance *Preparing the Annual Report*, with effect from the 2018-19 report.

8.2 In summary, pool member annual reports should include:

- opening and closing value and proportion of pooled assets by asset class
- opening and closing value and proportion of local assets by asset class
- net and gross performance of pooled assets by asset class
- total costs of pooled assets by asset class
- for actively managed listed assets, net performance by asset class net of total costs compared to appropriate passive indices over a one, three and five year period
- net and gross performance of local assets by asset class
- total costs of local assets by asset class
- asset transition during the reporting year
- transition plans for local assets
- pool set-up and transition costs, presented alongside in-year and cumulative savings from pooling
- ongoing investment management costs by type, with a breakdown between pooled assets and local assets

8.3 Investments should be classed as pool assets on the basis of the definition in the CIPFA guidance *Preparing the Annual Report.*

*For the purpose of defining those assets which are classed as being within an asset pool, 'pooled assets' are those for which implementation of the investment strategy – i.e. the selection, appointment, dismissal and variation of terms for the investment managers (including internal managers) – has been contractually, transferred to a third party out with the individual pension fund's control.*

8.4 Any investment where a pool member retains the day to day management, or the responsibility for selecting or reappointing an external manager, is not a pool asset.

8.5 Pool members should provide a rationale for all assets continuing to be held outside the pool, including the planned end date and performance net of costs including a comparison which costs of any comparable pool vehicles. They should also set out a high level plan for transition of assets.

8.6 The SAB will publish an annual report on the pools based on aggregated data from the pool member annual reports, in the Scheme Annual Report. Pool members should comply with all reasonable requests for any additional data and information from the SAB to enable it to publish a comprehensive report.

8.7 Pool members should ensure that pool companies report in line with the SAB Code of Cost Transparency. They should also ensure that pool companies require their internal and external investment managers to do so.

8.8 Pool members should also ensure that the annual report of the pool company is broadly consistent with the reports of pool members, and with the Scheme Annual Report, in so far as it relates to their investments, and that the report includes a narrative to explain differences. These may arise for example from reporting periods of pool companies which differ from that of the pool member.

8.9 Pool members are required to report any change which results in failure to meet the requirements of this guidance to the LGPS Scheme Advisory Board (SAB) and to MHCLG.

This page is intentionally left blank

City of Westminster

# Pension Board

| | |
|---|---|
| **Date:** | **29 January 2019** |
| **Classification:** | **General Release** |
| **Title:** | **Member Knowledge and Skills Training** |
| **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**<br>***Tri-Borough Director of Treasury and Pensions***<br><br>**ptriggs@westminster.gov.uk**<br>**020 7641 4136** |

## 1. EXECUTIVE SUMMARY

1.1 The members Knowledge and Skills Self-Assessment training form has been revised as per the Pension Board's feedback.

## 2. RECOMMENDATIONS

2.1 The Board is recommended to note and comment on the updated Knowledge and Skills Self-Assessment training form.

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

**Billie Emery or 0207 641 7062**

**BACKGROUND PAPERS:** None

**APPENDICES:**

Appendix 1: Knowledge and Skills Self-Assessment form

This page is intentionally left blank

**Westminster City Council Pension Fund**

<u>Knowledge and Skills Self-Assessment</u>

Name: ……………………………………………………….

Role: Pensions Board member

1) Pensions Legislative and governance context

| | | |
|---|---|---|
| I have all the knowledge detailed below and do not require additional training | Y/N | Please provide details of your experience: |
| I would like further training on the areas highlighted below | Y/N | |

| | |
|---|---|
| Awareness of the law relating to pensions in the UK | |
| Overall understanding of the Local Government Pension Scheme regulations in relation to benefits, administration and investments | |
| Knowledge of the discretion policies in place for the Fund and other policies regarding administration | |
| Understanding of the role and powers of the Pensions Regulator, and the Scheme Advisory Board | |
| Understanding of the role of the Investment Committee, pensions board, director of finance and monitoring officer | |
| Awareness of Environmental, Social and Governance (ESG) investment issues | |
| Awareness of the UK Code of Corporate Governance and the Stewardship code | |

2) Pensions accounting and auditing standards

| | | |
|---|---|---|
| I have all the knowledge detailed below and do not require additional training | Y/N | Please provide details of your experience: |
| I would like further training on the areas highlighted below | Y/N | |

| | |
|---|---|
| Awareness of the Accounts and Audit regulations and legislative requirements relating to the role of the committee in considering signing off the accounts and annual report | |
| Awareness of the role of both internal and external audit in the governance and assurance process | |

3) Financial services procurement and relationship management

| | | |
|---|---|---|
| I have all the knowledge detailed below and do not require additional training | Y/N | Please provide details of your experience: |
| I would like further training on the areas highlighted below | Y/N | |

| | |
|---|---|
| General understanding of the main public procurement requirements of UK and EU legislation and how they apply to procuring services for local authority Pension Funds | |
| Awareness of supplier risk management and the nature and scope of risks to be considered when selecting third parties | |

4) Investment performance and risk management

| | | |
|---|---|---|
| I have all the knowledge detailed below and do not require additional training | Y/N | Please provide details of your experience: |
| I would like further training on the areas highlighted below | Y/N | |

| | |
|---|---|
| Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long term risks | |
| Awareness of the Myners principles of performance management and the approach adopted by the committee | |
| Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime | |

5) Financial markets and products knowledge

| | | |
|---|---|---|
| I have all the knowledge detailed below and do not require additional training | Y/N | Please provide details of your experience: |
| I would like further training on the areas highlighted below | Y/N | |

| | |
|---|---|
| Awareness of the risk and return characteristics of the main asset classes and understanding of the role of these asset classes in long term pension fund investing | |
| Understanding of the primary importance of the investment strategy decision | |
| The role of Fund Managers including the appointment process and fee structures | |
| A broad understanding of the workings of the financial markets and of investment vehicles available to the pension fund and the nature of the associated risks | |

| | |
|---|---|
| An awareness of the limits placed by regulation on the investment activities of local government pension funds. | |

6) Actuarial methods, standards and practices

| | | |
|---|---|---|
| I have all the knowledge detailed below and do not require additional training | Y/N | Please provide details of your experience: |
| I would like further training on the areas highlighted below | Y/N | |

| | |
|---|---|
| Knowledge of the valuation process, including developing the funding strategy in conjunction with the Fund Actuary and inter-valuation monitoring | |
| Awareness of the importance of monitoring early and ill health retirement strain costs | |
| A broad understanding of the implications of including new employers into the Fund and of the cessation of existing employers | |
| A general awareness of the relevant considerations in relation to outsourcings and bulk transfers | |

Signed:………………………………………………. Date:………………………

Once complete, please return to:

Phil Triggs
Tri Borough Director of Treasury & Pensions

ptriggs@westminster.gov.uk

City of Westminster

# Pension Board

| | |
|---|---|
| **Date:** | **29 January 2019** |
| **Classification:** | **General Release** |
| **Title:** | **Discussion Paper – Members' Training** |
| **Wards Affected:** | **Not Applicable** |
| **Policy Context:** | **Training for Members** |
| **Financial Summary:** | **There are no immediate financial implications arising from this report.** |
| **Report of:** | **Councillor Angela Harvey**<br>***Chairman of the Pension Board*** |

## 1. Executive Summary

1.1 Following earlier discussions at the recent Pension Board Meeting, it is apparent that Pensions Board members understand the necessity of remaining up to date, and that to support this WCC should arrange joint training opportunities. Members have stated they would prefer regular training for an hour/ half hour depending on subject, immediately prior to the start of the Pension Board's meetings

1.2 It is further understood that in their role scrutinising the Pension Fund Committee, members must have some knowledge of the investment process and more importantly the responsibility of the Pension Fund Committee to act prudently to secure the best returns in the interests of the fund and its members (and for that matter, taxpayers). However, it may not be thought necessary for Board members to have training to the same level as Pension Fund Committee members (as is outlined in the first half of the training survey form).

## 2. Training Suggestions from Members

2.1 One of the Pension Board members, Terry Neville, has suggested the following topics would fulfil the Board's needs. The Chair wishes to discuss this at this meeting, and to see if there are other areas of interest:

- The different asset classes and Asset Allocation, the role of fund managers, their appointment and their fee structures, and the importance of negotiating the best fee levels and the risk attached to investments.

- Focus on the role and responsibilities of Board Members and their powers to set the Council's contribution rate, LGPS benefits and administration, the role of the actuary and the triennial valuation.

- Risk management

- The importance and topicality of Environmental, Social and Governance matters in investments.

**3. Key Matters for the Board**

3.1 The Board is asked to note the report and to discuss future Members' training.

**PENSION BOARD** **Draft Forward Plan – 2019/20**

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

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

**Appendix 1**

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

| **Area of work** | **21 Jun 2018** | **18 Oct 2018** | **10 Dec 2018** | **14 Mar 2019** |
|---|---|---|---|---|
| Standing Items | Pension Board minutes<br>Quarterly Performance Reports<br>Quarterly Fund Financial Management Update<br>Pensions Administration Key Performance Indicators<br>Forward Plan | Pension Board minutes<br>Quarterly Performance Reports<br>Quarterly Fund Financial Management Update<br>Pensions Administration Key Performance Indicators<br>Forward Plan | Pension Board minutes<br>Quarterly Performance Reports<br>Quarterly Fund Financial Management Update<br>Pensions Administration Key Performance Indicators<br>Forward Plan | Pension Board minutes<br>Quarterly Performance Reports<br>Quarterly Fund Financial Management Update<br>Pensions Administration Key Performance Indicators<br>Forward Plan |
| Governance | Pension Fund Annual Report and Accounts 2017/18<br>Business Plan | Progress on compliance with TPR Code of Practice<br>ESG Monitoring Update | Training Plan | Investment Strategy Statement Review<br>Briefing on Triennial Valuation<br>Annual report of Pension Board activities<br>Review of Governance Compliance Statement |
| Investments | Pooling and CIV update<br>Annual report to Scheme Advisory Board re pooling arrangements | Pooling and CIV update<br>Infrastructure Investment Strategy<br>Equity Protection strategy | Infrastructure Investment Strategy | Pooling and CIV update<br>Investment Strategy Review<br>MiFID II annual review |

| Area of work | 21 Jun 2018 | 18 Oct 2018 | 10 Dec 2018 | 14 Mar 2019 |
|---|---|---|---|---|
| Administration | Voluntary Scheme Pays, Tax Paper.<br><br>Pension Administration Strategy (PAS) – update Initial Audits<br><br>Western Union certification exercise for Overseas Pensioners. | Update on Hampshire Project. Impact on Pension Administration going Forward.<br><br>Discretionary Policies Paper. | Transition Update for Hampshire Project. First Months Issues for Pension Administration.<br><br>Pension Administration Strategy (PAS) – update Initial Audits | |

**Appendix 2**

**PENSION FUND COMMITTEE** **Draft Forward Plan – 2019/20**

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

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