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City of Westminster

Committee Agenda

Title:	**Pension Fund Committee**
Meeting Date:	**Wednesday 23rd October, 2019**
Time:	**6.30 pm**
Venue:	**Room 18.03, 18th Floor, City Hall, 64 Victoria Street, London, SW1E 6QP**
Members:	**Councillors:** Antonia Cox (Chairman) Melvyn Caplan Patricia McAllister Eoghain Murphy

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

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

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

Tel: 020 7641 8470; Email: thowes@westminster.gov.uk
Corporate Website: www.westminster.gov.uk

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

AGENDA

PART 1 (IN PUBLIC)

1.	**MEMBERSHIP** To note any changes to the membership.	
2.	**DECLARATIONS OF INTEREST** To receive declarations of interest by Members and Officers of any pecuniary interest or any other significant interest in matters on this agenda.	
3.	**MINUTES** To approve the minutes of the Pension Fund Committee held on 20 June 2019.	**(Pages 5 - 12)**
4.	**PENSION ADMINISTRATION UPDATE** Report of the Director of People Services.	**(Pages 13 - 30)**
5.	**PENSION DATA QUALITY PLAN** Report of the Director of People Services.	**(Pages 31 - 44)**
6.	**ADMISSION AGREEMENT REQUEST AND REQUEST TO HAVE A DEED OF AN AMENDMENT TO A CONTRACT** Report of the Director of People Services.	**(Pages 45 - 48)**
7.	**TRAINING NEEDS ASSESSMENT** There will be a verbal update and presentation at the meeting.	
8.	**PENSION FUND ANNUAL REPORT** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 49 - 232)**

9.	**CARBON EXPOSURE REVIEW** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 233 - 242)**
10.	**CUSTODY CONTRACT** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 243 - 246)**
11.	**DRAFT ACTURIAL VALUATION** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 247 - 300)**
12.	**FUND FINANCIAL MANAGEMENT** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 301 - 320)**
13.	**INVESTMENT CONSULTANT AIMS AND OBJECTIVES** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 321 - 324)**
14.	**LONDON COLLECTIVE INVESTMENT VEHICLE MINISTRY FOR HOUSING, COMMUNITIES AND LOCAL GOVERNMENT PROGRESS REPORT** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 325 - 326)**
15.	**LONDON COLLECTIVE INVESTMENT VEHICLE REMUNERATION REVIEW** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 327 - 330)**
16.	**QUARTERLY PERFORMANCE REPORT** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 331 - 382)**
17.	**SCHEME ADVISORY BOARD GOOD GOVERNANCE REPORT** Report of the Tri-Borough Director of Treasury and Pensions.	**(Pages 383 - 420)**

18. REPORT FOR THE PENSIONS REGULATOR

(Pages 421 - 524)

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

19. ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

20. EXCLUSION OF PRESS AND PUBLIC

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

Item Nos	Grounds	Para. of Part 1 of Schedule 12A of the Act
14 (Appendix only), 15 (Appendices only), 21 and 22	Information relating to the financial and business affairs of an individual including the authority holding the information and legal advice	3

21. MINUTES

To approve the confidential minutes of the Pension Fund Committee held on 20 June 2019.

22. UK EQUITY MANDATE REVIEW

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

Stuart Love
Chief Executive
15 October 2019

CITY OF WESTMINSTER

MINUTES

Pension Fund Committee

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Thursday 20th June, 2019**, Room 18.01, 18th Floor, 64 Victoria Street, London, SW1E 6Q.

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

Officers Present: Gerald Almeroth (Executive Director – Finance and Resources), Phil Triggs (Tri-Borough Director of Treasury and Pensions), Matthew Hopson (Strategic Investment Manager), Sarah Hay (Senior Payroll and Pensions Officer) and Toby Howes (Senior Committee and Governance Officer).

1 MEMBERSHIP

1.1 There were no changes to the membership.

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

3 MINUTES

3.1 **RESOLVED:**

That the minutes of the meeting held on 14 March 2019 be signed by the Chairman as a correct record of proceedings.

4 PENSION ADMINISTRATION UPDATE

4.1 Sarah Hay (Senior Pensions and Payroll Adviser) presented the report and advised that Surrey County Council (SCC), who carried out pension administration services on behalf of the Council, had appointed an interim Pension Manager. Sarah Hay informed Members that the key performance indicators (KPIs) for 1 January 2019 to 31 March 2019 had slipped compared to earlier performance, however the KPIs for April 2019 had improved markedly, and the figures coming in for May 2019 were also promising. A meeting had taken place with SCC where the performance between January to March 2019 had been raised. SCC advised that the reason for the drop in

performance was due to a failure to check all parts of the workflow systems through which cases are allocated to SCC's Pensions Team. Subsequently, checks were now being carried out on all work systems resulting in the upturn in performance.

4.2 Sarah Hay advised that progress on data cleansing continued, however not at the pace that had been hoped. This was due to SCC significantly reducing the number of batches forwarded and the processes being used by JLT, who were carrying out the exercise. The Council's Pension Officer and the Pension Project Officer had met with SCC and JLT to discuss the backlog of outstanding cases and JLT had now appointed four additional checking resources. Members noted that JLT were due to report back to SCC on a revised timescale for processing and checking claims.

4.3 Sarah Hay confirmed that the Local Government Pension Scheme (LGPS) end of year file for 2018-2019 had been completed. In respect of the Western Union existence checking for pensioners based overseas, she advised that the first letters had been sent and the existence check visits would soon be underway.

4.4 During discussion by the Committee, Members queried whether there had been any pension overpayments in respect of overseas pensioners who may have since passed away and what was the procedure carried out when there had been overpayments. Members asked whether SCC's Pension Manager could be invited to attend a future Committee meeting. Members welcomed progress in respect of data cleansing. In respect of the KPI targets, it was asked if these were realistic and were there sufficient resources in place to achieve these. Members also asked whether SCC would be subject to any contractual penalties if performance targets were not met and how sure were officers that the KPI performances recorded were accurate.

4.5 In reply to issues raised by the Committee, Sarah Hay advised that there had been no significant pension overpayments. Where there had been overpayments, those under £100 were written off as the cost of pursuing these would not make the exercise worthwhile. For those exceeding £100, these would be followed up by contacting the next of kin requesting repayment. Sarah Hay confirmed that SCC's Pension Manager could be invited to attend a future meeting. She felt the KPI targets were realistic and had confidence in the senior pension officers at SCC. Matters such as tax calculations were however complex and conversations could be had with SCC about resourcing levels. Sarah Hay advised that contractual penalties could not be applied in respect to SCC in respect of performance targets as agreement between the Council and the SCC was through a Section 100 shared agreement. She added that the auditors had not raised any issues concerning recording of performance targets at their last visit to SCC.

5 GMP RECONCILIATION UPDATE

5.1 Sarah Hay presented the report and advised that HM Revenue and Customs were closing the section that issues Guaranteed Minimum Pension (GMP) notifications. As a result, organisations would be required to undertake their

own GMP reconciliation exercise. SCC and JLT had been working together to review and resolve where possible any GMP queries for the Fund. Sarah Hay advised that 80% of the Fund's membership queries had been completed to date.

5.2 Members sought clarification that only a small number would be affected and that mainly this was a reconciliation exercise. Sarah Hay confirmed that this was the case.

6 PINNACLE AND CONTINENTAL ADMISSION REQUEST

6.1 Sarah Hay introduced the report and explained that since the Transfer of Undertakings (Protection of Employment) Regulations 2006 (TUPE) of CityWest Homes (CWH) staff to the Council had been carried out on 1 April, CWH had advised of two contracts that would be let out. These were Continental with regard to gardening services and Pinnacle concerning a staff member covering concierge services. These contracts were due to go live on 1 June.

6.2 Members asked whether the employer contributions would be large and were the bond and guarantee arrangements satisfactory.

6.3 In reply, Sarah Hay advised that the employer contributions were large because of their older age profile of the staff members concerned. She confirmed that she was content with both the bond and guarantee arrangements for both organisations concerned.

6.4 **RESOLVED:**

That the closed admission agreements for Pinnacle and Continental be approved on the basis that both organisations provide the Fund with the relevant security through a bond or guarantee.

7 FUND FINANCIAL MANAGEMENT

7.1 Matthew Hopson (Strategic Investment Manager, Tri-Borough Treasury and Pensions) presented the report and advised that in respect of the Risk Register for Investment Risk, Risk 10 concerning implementation of proposed changes to Local Government Pension Scheme (LGPS) pooling, the risk had actually decreased rather than increased as erroneously stated in the report. With regard to cashflow, the spike in March 2019 was attributable to a deficit recovery payment.

7.2 During discussions by the Committee, Members commented that the cash injections to the Fund were driven by the General Fund and the preferred cashflow position. Providing that the General Fund could afford it, it made sense to make such cash injections and represented an effective return to the Council. Members commented that they hoped that the employer contributions would decrease or at least remain the same following the next actuarial valuation. Further explanation as to why Risk 4 had become a greater risk on the Pension Administration Risk Register was sought.

Members also referred to the conviction of a former Pension Fund Director from a few years back and asked if there had been any further changes with regard to audit arrangements to ensure that this did not reoccur. Members added that there should be sound arrangements in place with regard to sign off.

7.3 In reply to issues raised by the Committee, Matthew Hopson advised that in respect of the cash injections to the Fund, these had been front loaded on this occasion. He also advised that Risk 4 on the Pension Administration Risk Register had been erroneously been assessed as becoming a greater risk when in fact this risk had reduced.

7.4 Gerald Almeroth (Executive Director – Finance and Resources) commented in respect of employer rates that it was desirable for these to reduce after the next actuarial evaluation and a balance always needed to be struck.

7.5 Phil Triggs (Tri-Borough Director of Treasury and Pensions) advised that a number of audit tests had been added in light of a former Director of Pensions' fraudulent activity that had led to his conviction. The authorisation process had also been reviewed and the fraudulent activity had been identified following the annual reconciliation. Phil Triggs advised Members that the Council was in the process of recovering the proceeds that had been taken during the fraud. With regard to sign off, this was also subject to internal audit controls, whilst the accounts were subject to external controls, effectively meaning there were at least two audit review processes every year.

7.6 **RESOLVED:**

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

2. That the cashflow position , the rolling 12 month forecast and the three year forecast be noted.

3. That the Forward Plan for 2019-20 for the Committee be noted.

8 QUARTERLY PERFORMANCE REPORT

8.1 Kevin Humpherson (Deloitte) presented the report and advised that the Fund had performed a return of 7.8% for the quarter to 31 March, which matched the benchmark. Over the 12 month period, the Fund had underperformed its benchmark by 0.6:%. Kevin Humpherson advised that a newly appointed fund manager, Pantheon, had issued a draw down request which now stood at £20m and this would rise to £70m over time.

8.2 Turning to the London Collective Investment Vehicle (LCIV), Kevin Humpherson advised that the LCIV had appointed Mike O'Donnell and Mark Thompson as the new Chief Executive Officer and Chief Investment Officer respectively. The lead manager for Hermes had taken extend leave, whilst the co-lead manager had left the organisation and this situation needed to be monitored.

8.3 The Committee expressed concern about the continuing underperformance of Majedie. Furthermore, there appeared to be an overreliance in the use of graduate trainees. Majedie's fees, which were now flat fees, were also quite high. It was queried why the Fund still continued to focus on a portfolio of UK assets rather than global, especially as many other LGPS schemes were looking to be less UK focused. Members asked if consideration was being taken to reduce the amount of assets with Majedie and what impact it would have on the Fund. Members queried whether Majedie would be further affected by a hard Brexit. It was also remarked that whilst Majedie was currently struggling, care must be taken to not move assets too swiftly as Majedie had performed well for long periods in the past. Members asked what remained for assets under Longview.

8.4 In reply to issues raised by the Committee, Kevin Humpherson advised that Majedie took a multi-manager approach and had a history of promoting from within. Majedie's exposure to UK assets were significant and there should be consideration on the proportion of assets with them as part of the Investment Strategy, although he did not think there was a need to move funds away at the moment. Consideration of the Investment Strategy would also take into account a hard Brexit scenario. The performance of Majedie had also been raised with the LCIV.

8.5 Phil Triggs advised the Committee that the LCIV had also raised concerns about Majedie's performance, as had fellow London borough pension fund directors. If assets were moved away from Majedie, he informed Members that this provided an element of risk for the London Borough of Hammersmith and Fulham (LBHF) as they would be only London borough holding assets under Majedie. In reply from Members as to whether the same would apply to the Fund if LBHF decided to move assets away from Majedie, Kevin Humpherson advised that being the sole Fund remaining could cause some delay in receiving all assets if the Fund decided to terminate in the future.

8.6 **RESOLVED:**

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

9 EXIT CAP CONSULTATION

9.1 Phil Triggs presented the report and advised that the Government was consulting on plans for a proposed cap of £95,000 cap on exit payments in the public sector. People Services had undertaken an assessment of the potential impact on staff which indicated that long serving staff on middle incomes would be unduly affected by the changes.

9.2 During Members' discussions, it was commented that such a proposal could inhibit local authorities in their ability to restructure and details were sought as to how it would be applied. Members commented that although it was recognised that the proposals were designed to reduce large pay outs to senior staff who had only been with the Council for a short while, it would also affect staff that it did not intend to, such as long serving staff on more modest incomes. Members asked what the effects would have on early retirement.

The Chairman requested that the draft response to the proposals be circulated to the Committee.

9.3 In reply to Members' questions, Phil Triggs stated that the current guidance for the proposals did not set out clearly how they would be applied. He advised that if the proposals did come into effect, there would be fewer people taking up the option of early retirement.

9.4 Gerald Almeroth advised that the draft response to the proposals could be circulated to the Committee in July.

9.5 **RESOLVED:**

That the report be noted.

10 MCCLOUD, COST CAP AND VALUATION

10.1 Phil Triggs presented the report and advised that the LGPS cost cap had been suspended pending the outcome of the McCloud case. The Government was also consulting on proposals for LGPS funds to undertake a quadrennial as opposed to a triennial actuarial valuation, in line with other public service pension schemes. Phil Triggs stated that he would circulate the Council's response to the consultation to the Committee.

10.2 **RESOLVED:**

1. That the report and the potential implication to the Pension Fund be noted.

2. That the consultation on the actuarial process in Appendix 1 of the report be noted.

11 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

11.1 There was no other business.

12 EXCLUSION OF PRESS AND PUBLIC

12.1 **RESOLVED:**

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

Items 13. 14 and 15.

13 MINUTES

13.1 **RESOLVED:**

That the confidential minutes of the meeting held on 14 March 2019 be signed by the Chairman as a correct record of proceedings.

14 VOLUNTARY SCHEME PAYS REQUEST

14.1 The Committee considered a confidential report on a voluntary schemes pay request.

15 FUND COST SUMMARY

15.1 The Committee considered a confidential report on the Fund's costs.

15.2 **RESOLVED:**

That the Pension Fund costs for the three year period to 31 March 2019 and the associated LCIV savings and costs be noted.

16 INVESTMENT STRATEGY CONSIDERATION

16.1 Kevin Humpherson (Deloitte) presented the report and advised that the Fund's current asset allocation was 65% in equities, 20% in fixed income, 10% in property and 5% in infrastructure. By way of comparison, the equities allocation had been 75% ten years earlier. Kevin Humpherson advised that the estimated median return for the current allocation would be 5.4% per annum. The last valuation had shown that the Fund was 80% funded as of 31 March 2016, and the Fund's actuary had estimated that the funding level would have risen to 95% as of December 2018. Kevin Humpherson advised that the Fund was expecting a £150m payment over the next 12 months through a forward funding agreement that was expected to take the overall funding position into surplus.

16.2 Kevin Humpherson then drew Members' attention to the three potential future investment strategic options. The first option involved using the funds to invest across the current strategic asset allocation. However, this option exposed the Fund to a high equity risk and there would also be significant transaction costs investing across all asset classes. The second option was to de-risk the Fund by investing in fixed income and the estimated return would be 5.2 % per annum, with a standard deviation of 11.3%. The third option involved de-risking the Fund further by investing solely in the buy and maintain credit mandate, with an estimated return of 5.1% and a standard deviation of 11.1%.

16.3 Members asked when the £150m payment though a forward funding agreement was likely to be completed. Clarification was also sought as to whether option 3 was considered the preferred option.

16.4 In reply to Members' questions, Kevin Humpherson confirmed that he considered option 3 as the preferred option. In respect of the forward funding

agreement, Matthew Hopson advised that the Fund had already received £26m, whilst the remaining amount to take the payment up to £150m was expected in April or May 2020.

16.5 The Committee agreed option 3 as the future strategy investment option using Insight's buy and maintain credit mandate. The Chairman requested that the Committee receive training on this area.

16.3 **RESOLVED:**

1. That the strategy consideration paper prepared by the City Council's investment advisor, Deloitte, be noted.

2. That option 3 be approved as an outline investment strategy option for the forward funding receipt, pending clarification of future funding decisions taken by the Cabinet.

The Meeting ended at 8.58 pm.

CHAIRMAN: _____ **DATE** _____

City of Westminster

Pension Fund Committee

Date:	**23rd October 2019**
Classification:	**General Release**
Title:	**Pension Administration Update**
Report of:	**Sarah Hay, Pensions Officer People Services**
Wards Involved:	**All**
Policy Context:	**Service Delivery**
Financial Summary:	**Limited**

1. Introduction

1.1. This report provides a summary of the performance of Surrey County Council (SCC) with the Key Performance Indicator (KPI) for the period May 2019 to August 2019. The detailed KPIs are shown in Appendix 1, There have been some improvements in the period outlined in section 2. This report also provides the detail of the current data cleansing projects and the progress that has been made in resolving data queries ahead of the pension fund valuation in section 3. Section 4 outlines the current progress on the Western Union existence check for overseas pensioners.

2. Executive Summary

2.1. The Pension Administration KPIs for the period May to August 2019 still show room for improvement in a few areas however the KPI work is generally within our agreed timescales.

2.2. The data cleansing work has made significant progress since the last committee report. The data score improvements in the last year demonstrate the impact of the work that has been undertaken in the last 12 months. There is still work to be done on resolving the remaining Status 2 and Status 1 legacy cases as well as agreeing a solution with Orbis with regards to the backlog.

2.3. WCC have made the decision to engage directly with an external tracing company, given the issues experienced with the JLT. We will undertake our own

tracing exercise to confirm the correct address for an estimated 731 members with preserved pension records in our fund.

2.4. The Western Union existence project is now complete and 22 pension records will be suspended in October. We will update the committee regarding the suspensions at the next committee. This exercise is now pencilled in as an annual exercise that we will commence again next summer.

2.5. Finally we are notifying the committee that discussions are underway with Surrey for a new 101 agreement. That agreement will need to reflect the service that the fund requires and in particular to ensure that our data is being continuously improved and monitored going forward. The committee will be provided with details of any proposal at the next committee meeting.

3. Surrey County Council (SCC) Performance

3.1 This Paper covers the period May to August 2019, during this timeframe the pension administration team have had to process large amounts of data being provided from all fund employers ahead of the pension fund valuation. There have been a number of pressures on workload levels beyond other periods that have impacted the administration resource. In addition, pension fund annual benefit statements had to be produced and available online by 31st August 2019 and this period has seen the administration team have to complete a number of estimates as one of our fund employers restructures with staff over 55 leaving.

Overall the performance has improved but where concern still exists we need to reflect on the wider work the team has been covering not all of which is measured in the KPI data.

3.2 PI performance in appendix 1 is summarised below:

3.21 We are pleased to report that during this period no claim forms were sent late to dependents following a death. No deferred benefit statements were sent out late following notification of leaver forms. Notification that pension could be claimed where the member held a deferred benefit was 100% on target.

3.22 We are disappointed that in July 2019 we had three late retirement option forms issued, two of these were one day late but the remaining case was 9 days late. The majority of retirement options during the period were sent out on time. In June 2019 we had one retirement benefit processed for payment late by two days. All other retirement benefits were processed on time during the period.

3.23 The next two KPI regarding the payment of lump sum and paying the member on the next available pay run for deferred members taking

pension was consistently poor during this period with two cases late for both measures in May, June and July. It is important to note that large numbers under both these KPI's were processed on time however we do view this KPI as particularly important for the impact on our members. We are pleased that in August 2019 this KPI reverted to 100% timeliness.

3.24 We had one late transfer out processed in both June and July and two interfund in quotations processed in July that had been generated following backlog work. Finally, we had one late correspondence in July out of the 25 completed.

3.25 The pension team have advised that they do not have any complaints in progress as a result of the delays but we will review this with the team going forward.

4. Data Cleansing

4.1 WCC have been notified that the two measures of data quality that we need to report to the Pension Regulator have improved significantly over the last 12 months as below;

2019

Common Data Score	89.9%
Conditional (Scheme Specific) Data Score	93.1%

2018

Common Data Score	77.0%
Conditional (Scheme Specific) Data Score	71.0%

This improvement demonstrates the effectiveness of the steps that WCC has taken during the interim period to improve our data quality. This includes the Status 2 JLT project work and the Status 1 error work and working with Surrey, HCC and other fund employers to ensure ongoing queries are resolved as quickly as possible ahead of pension fund valuation. We are waiting to receive the full data quality report for 2018/19, which we will analyse and incorporate any improvements with the ongoing data improvement work to ensure the fund makes continuous progress on data quality.

4.2 The Status 2 project has been running since March 2019, all approximately 1500 Status 2 cases have been completed by the fund employer providing the relevant leaver information to the Surrey team. As agreed with Committee previously WCC had elected to ask a third party JLT to process our Status 2 cases due in part to the pension fund valuation and the limited resources that Surrey had available to process the data prior to valuation.

4.3 Westminster have agreed the completion of approximately 1500 Status 2 cases across the City of Westminster (CoW) pension fund to JLT at a cost of up to £19 a case. Surrey were project managing the status 2 resolution on behalf of Westminster and a number of other funds that they provide administration services for. The processing rate that JLT worked through was not what WCC officers hoped and although it fluctuated from week to week some weeks the rate processed was a low as 6 cases.

To date 423 cases have been processed by JLT, Surrey have processed a further 61 of these cases and the remaining 183 cases that have already been sent to JLT are yet to be processed. There is also a batch of 900 status 2 cases that have not been processed and are sat with the Surrey team as a backlog. The Senior Payroll and Pension Officer has elected not to send any additional cases to JLT where the fund is obligated to pay them for processing cases given the slow response rate and following data already being sent for valuation. The Surrey team have been asked to present WCC with options as part of a data improvement plan to deal with the backlog. Discussions are ongoing at the time of writing this report. We will update the committee on any decision or recommendation at the next meeting.

4.4 Progress on the Status 1 errors has halted as Surrey and WCC work together to find the best solution to continue this work. Originally there were 2373 data "failures" across the 5 memberships groups; actives, deferred, pensioners, dependants and undecided. Work on this data has meant that by the end of April 2019 the number of data failures had reduced by 36%. The admin team switched focus in May and June 2019 to look at the year-end files from all employers in the Fund which also helped to improve the data scores detailed in 3.1. Additional resource that had been used by Surrey prior to the valuation to help support some of the data cleansing work has now left the service. The Senior Payroll and Pension Officer is awaiting confirmation of what resource is available to make further data improvement as part of our data improvement plan. Discussions with Surrey on the next steps will continue and we will update the committee at the next committee meeting.

4.5 Surrey have also identified to the Senior Payroll and Pension Officer on the 5th of August 2019 that there is a backlog of work on the team which we are assured is not currently being added to. The Senior Payroll and Pension Officer has asked Surrey management for options on this backlog as part of their data improvement plan. Dealing with this backlog of work, the Status 2 cases and the remaining Status 1 cases will be key to improving the data scores in 3.1 further in the coming year.

4.6 An area that WCC had elected to take a lead on outside of Surrey is in relation to address tracing for records that have a recorded address as "Gone Away". The Senior Pension Specialist (interim) has led on a procurement process to independently appoint a tracing agency to provide address details for 731 deferred members who have not yet claimed their pension. The address tracing will help further in improving our data scores and this exercise will form part of our overall data improvement plan.

4.7 The Senior Pension Specialist (Interim) has been the primary driving force pushing Surrey to complete the various data streams as part of our overall data improvement work. Her role will continue to support the Senior Payroll and Pension Officer to outline and implement a data improvement plan that includes the Status 2, Status 1 and backlog work.

5. Valuation

5.1 Data was sent to the actuary as agreed on the 7th of August 2019 allowing Surrey to complete as much data cleansing as could practicably be achieved.

6. Western Union Existence Checking

6.1 The existence checking exercise was completed on 30th September 2019. At the end of the exercise 79% of individuals completed the existence check which Western Union have confirmed is normal the first time that the exercise is run. However we have been notified that 31 of our overseas pensioners have not completed the check. The details of those 31 pensioners were passed onto the Surrey administration team to suspend the pension from the October pension payroll run. Surrey have checked the details of the pensioners prior to suspension and 9 of them the Surrey team now hold some different data for including some members that have now moved back to the UK. The Surrey team have been asked to pay these members their October pension but complete a life certificate exercise for assurance. The remaining 22 cases are being suspended in October.

6.2 The pension payroll pays on the last working day of the month, overseas based bank accounts may credit a few days later. We are therefore expecting some members to be in contact in the first week of November. We believe that a number of the 22 people, who we will have suspended payment for, will not be living at the address we have on record for them. We have agreed with Orbis that they will be checking details of any individual that gets in contact following the suspension to ascertain why they did not complete the existence exercise. We have agreed that in order to reinstate the pension the member will need to complete a traditional life certificate exercise accompanied ideally by some photo ID. If the member is living at a different address to the one we hold on record, then the team will request to see a copy of a bill or other document with the members name at that address. Emergency payments will be available if the member makes a case that they have a financial hardship case however we will normally expect the member to wait for payment for the next available pay run after they have completed the required checks. This could be several months depending on when they get in touch, we will advise the committee at the next meeting on the number of current suspensions and further action.

7. 101 Administration Agreement with Surrey

7.1 The Committee are informed that officers are in discussion with the Surrey pension administration team regarding a new 101 agreement (shared service arrangement). The current 101 agreement was effective from the 1st of September 2014 and could not expire before the 1st of September 2017. As a shared service agreement there is no definitive expiry date however in schedule 4 of that agreement it was set out that both parties would review the cost at the commencement of the 5th year of the agreement which was 1st September 2018. Last year people services needed to resource the move from BT to HCC for payroll/ HR and finance services. With the move to HCC now completed both WCC and Surrey are aware that the current 101 agreement needs to be reviewed both in terms of the scope and in terms of the costing of that service. We will aim to present a proposal to the Committee at the next meeting.

Westminster County Council - May 2019 to August 2019 R

Description	Target time/date as per Partnership Agreement	Target	Actual Score for Quarter	Quantity May 2019
Pension Administration				
Death Benefits Notify potential beneficiary of lump sum death grant	5 days	**100%**	%	1
Write to dependant and provide relevant claim form	5 days	**100%**	%	0
Set up any dependants benefits and confirm payments due	14 days	**100%**	%	0
Retirements Retirement options issued to members	5 days	**100%**	%	1
New retirement benefits processed for payment following receipt of all necessary documents	5 days	**100%**	%	5
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		%	5
Refunds of Contributions Refund paid following receipt of claim form	14 days	**100%**	%	8
Deferred Benefits Statements sent to member following receipt of leaver notification	30 days	**100%**	%	13
Notification to members 2 months before payments due	2 months		%	20
Lump Sum (on receipt of all necessary documentation)	5 days		%	22

Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		%	22
New Joiners New starters processed	30 days	**100%**	%	23
Transfers In Non LGPS transfers-in quotations	30 days	**100%**	%	4
Non LGPS transfers-in payments processed	30 days	**100%**	%	0
Transfers Out Non LGPS transfers-out quotations processed	30 days	**100%**	%	7
Non LGPS transfers out payments processed	30 days	**100%**	%	0
Interfunds In - Quotations	30 days	**100%**	%	3
Interfunds In - Actuals	30 days	**100%**	%	1
Interfunds Out - Quotations	30 days	**100%**	%	11
Interfunds Out - Actuals	30 days	**100%**	%	4
Estimates				
1-10 cases	5 Days		%	10
11-50 cases	Agreed with WCC		%	
51 cases or over	Agreed with WCC		%	
Material Changes				
Any changes to data which materially affect actual or potential benefits to be processed within 30 days of receiving all necessary data	30 days		%	15
Buying Additional Pensions				

Members notified of terms of purchasing additional pension	15 days		%	
Monthly Pensioner Payroll				
Full reconciliation of payroll and ledger report provided to WCC	Last day of month			
Issue of monthly payslips	3 days before pay day			
RTI file submitted to HMRC	3 days before pay day			
BACS File submitted for payment	3 days before pay day			
P35	EOY			
Annual Exercises			**Date Achieved**	
Annual Benefit Statements Issued to Active members	31 August each year			
Annual Benefit Statements Issued to Deferred members	31 August each year			
P60s Issued to Pensioners Non LGPS transfers-in quotations processed within 20 days	31 May each year			
Apply Pensions Increase to Pensioners	April each year			
Pensioners Newsletter	April each year			
Correspondence				
Acknowledgement if more than 5 days	2 days			
Response	10 days			17
3rd party enquires	10 days			
Helpdesk Enquiries				
Volumes of Enquiries Handled By Helpdesk	Number of Enquiries Handled			390

Customer Surveys				
Monthly survey to retirees	Percentage Satisfied with Service			

esults on KPI Reporting

Actual Score May 2019	Comments	Quantity June 2019	Actual Score June 2019	Comments	Quantity July 2019	Actual Score July 2019	Comments
100%		0	N/A		0	N/A	
N/A		3	100%		0	N/A	
N/A		2	100%		0	N/A	
100%		11	100%		9	67%	3 over, no more than 9 days, no complaint made
100%		9	97%	1 case over due by 2 days	5	100%	
100%		9	100%		5	100%	
100%		8	100%		17	100%	
100%		35	100%		36	100%	
100%		38	100%		22	100%	
91%	2 cases late	24	91%	2 cases late	19	90%	2 over, max of 4 days late no complaint made

91%	2 cases late	24	91%	2 cases late	19	90%	2 over, max of 4 days late no complaint made
100%	New starter records created in May 2019	57	100%	New starters created for May 2019, 15 mannually set up	7	100%	7 manual
100%		5	100%		5	100%	
N/A		0	N/A		0	N/A	
100%		6	83%	1 case late by 8 days	6	83%	1 Case over by 10 days
N/A		3	100%		0	n/a	
100%		2	100%		7	72%	2 over, backlog cases completed by Surrey team
100%		5	100%		0	n/a	
100%		14	100%		12	100%	
100%		11	100%		9	100%	
100%		25	100%		10	100%	
100%		28	100%		63	100%	

		0	N/A		2	100%	
100%			100%			100%	
100%			100%			100%	
100%			100%			100%	
100%			100%			100%	
########			31-Mar-19			31-Mar-19	
Annual			Annual			Annual	
Annual			Annual			Annual	
100%	Issued April 2019		100%	Issued April 2019		100%	Issued April 2019
100%			100%			100%	
100%			100%			100%	
	Issued April 2019			Issued April 2019			Issued April 2019
100%		25	96%	1 case late	10	100%	
	90%						

-			-			-	

Quantity August 2019	Actual Score August 2019	Comments	Trend	People services Comments
1	100%			
8	100%			case previously late in January 19
0	N/A			
2	100%			The July 19 KPI were dissapointing. Two cases were 1 day late.
4	100%			June 19 issue however not a significant delay in payment and all other months 100%.
4	100%			
24	100%			
89	100%			There had been late cases in February 19 on this KPI. Consistent performance 100% an improvement.
39	100%			Previously late cases reported in Feb and March 19
28	100%			This KPI has been a continuing concern in the period. We are please that August was 100%

28	100%			This KPI has been a continuing concern in the period. We are please that August was 100%
24	100%	24 set up manually		
4	100%			
5	100%			
4	100%			This KPI is not our main priority as a fund given that it does not impact the immediate payment to members. We are disspointed with the two late cases in June and July 19.
1	100%			
2	100%			The two late cases on this KPI seem to have been generated from the backlog work generated by JLT processing leavers. BAU seems ok.
9	100%			All 100%
12	100%			All 100%
6	100%			All 100%
	n/a			All 100%
13	100%			
				no cases in period.
115	100%			All 100%

1	100%			
	100%			All 100%
	100%			All 100%
	100%			All 100%
	100%			All 100%
	31-Mar-19			
	Annual			
	Annual			
	100%	Issued April 2019		April 19 Actions completed.
	100%			April 19 Actions completed.
	100%			April 19 Actions completed.
		Issued April 2019		
	100%			two cases had been late in prior period.

	-			

City of Westminster

Pension Fund Committee

Date:	**23rd October 2019**
Classification:	**General Release**
Title:	**Pension Data Quality Plan**
Report of:	**Eleanor Dennis, Interim Pensions Specialist People Services**
Wards Involved:	**All**
Policy Context:	**Compliance**
Financial Summary:	**Limited**

1. Executive Summary

1.1 The Pensions Regulator expects all pension schemes to look at the quality of their data on an annual basis and put in place a data improvement plan. This plan should be in place regardless of whether the administration is carried out by a third party or in house, (any third-party administrator is expected to have in place their own data improvement plan).

2. The Data Quality Report

2.1. The data quality improvement plan is attached as an appendix to this report. It was formulated as a result of the data quality scores produced by Aquila Heywood the funds softwear provider from the funds data as at 31st of March 2018. Then the subsequent error details that funds actuary Barnet Waddingham provided after last year's data submission to them.

2.2. The committee has been advised of our improved data scores this year for the data as at 31st March 2019. The fund will next need to review the new errors that Barnet Waddingham identify, this will feed into the evolution of the data improvement plan as we move forward.

3. How the work was prioritised

3.1 Barnet Waddingham were able to identify 2,103 data failures, across 40 different check measures. Funding of £16k was agreed by the COWPF Committee to allow the administration team in Lewes to recruit a temporary resource to assist in the processing of the data errors from April 2019. The team's focus thereafter switched to processing valuation and year end critical data, which also impacted on the improvement of the Fund's data.

3.2 The indicative scores for 2018/19 show an improvement of 14.5% in the common data score and 22.1% conditional data score respectively. Once the report and detail is received work will continue to improve the data.

3.3 The collaborative working across all stakeholders in the Fund's data should lead to continually improving data quality score, a better member experience and a compliant robust member data for the City of Westminster pension Fund.

4. Recommendations

4.1 That the data improvement plan be produced annually to ensure the fund is compliant with the regulator's guidance. It includes recommendations for the fund to consider implementing internal controls in collaboration with the fund's administrator. The data improvement plan will be updated and presented to the committee annually.

City of Westminster Pension Fund

Data Improvement Plan 2017/18

By Eleanor Dennis

Contents

Introduction

The Pension Regulator has written guidelines for public sector pension schemes, the objectives are to promote accurate records to help safeguard the benefits of pension scheme members.

It expects public sector schemes such as the Local Government Pension Scheme (LGPS), to look at the quality of their data on an annual basis and put in place a data improvement plan. This plan should be in place regardless of whether the administration is carried out by a third party or in house, (any third-party administrator is expected to have in place their own data improvement plan).

Westminster City Council employees can join the LGPS, NHS and TPS, dependant on their role. This report looks solely at the data quality of the member data of those employees in the City of Westminster Pension Fund (COWPF) which operates the LGPS.

A review of the COWPF data was carried out by Haywards on behalf of the Fund, who found that the data accuracy scores were 71% for the scheme specific data and 77% for common data.

The Pension Regulator aim is that all schemes should be aiming for a score of 100%.

The data looked at was taken from the scheme database at 31 March 2018, looking at data held for 5 membership groups; actives, deferreds, beneficiaries, undecided and pensioners.

This plan aims to look at the main data quality trends and identify steps that the COWPF will take to improve the quality both in the short and long term.

Aims

It is the Fund's responsibility to ensure there is accurate record keeping of the Fund's data, to help safeguard the contributions and benefits of members, dependants and beneficiaries.

To put in place internal controls (i.e. checks and processes) to enable the Fund to aim towards 100% accurate member data.

To ensure that member records are kept up to date to minimise the occurrence of the incorrect member benefits being paid out resulting in the correct pension benefits being paid in a timely manner.

To ensure that accurate member data is kept, to improve the quality of the valuation in providing a true picture of the Funds liabilities and enabling reflective contribution rates to be set and ensure that the Fund's recovery plan is appropriate and achieves its goals.

To enhance the member experience to ensure that members are able to have an accurate picture of their benefits.

To minimise the occurrence of incorrect member benefits information being sent out.

To minimise the occurrence of incorrect member benefits being paid out.

To enable more automation in the administration of the scheme data to enable faster, more accurate data processing to provide an efficient service to the Fund, it's members and beneficiaries

To enable the easier transfer of data between systems or provider.

To ensure the scheme data is robust enough for both internal and external audit and regulatory auditing.

Objectives

- To reduce complaints
- To improve member experience by more regular quality proactive communication
- More accurate scheme valuations
- To reduce errors and increase accuracy
- To achieve higher data quality scores each year
- To reduce administration costs
- Cleaner administration team environment means less likelihood of backlogs occurring
- Higher quality of administration service delivered
- Opportunity to look at other areas of scheme management rather than all focus on administration such as better online support

How the work was prioritised

- The actuary Barnet Waddington were able to identify 2,103 number of data failures, across 40 different check measures. Given this number the decision was made to prioritise trying to resolve these for actives and deferreds member data across all employers within the COWPF.
- This is because the cleansing of the data for these membership groups would have the most impact on the forthcoming valuation extract to be taken in August 2019. As well as on annual benefit statements in July 2019. The administration team themselves would also have to switch focus to these cyclical events and pick up the data improvement work in quarter 3.
- Funding of £16k was agreed by the COWPF committee to allow the administration team in Lewes to recruit a temporary resource to assist in the processing of the data errors, managed by an existing experienced member of the team. The small team looked at each "failure" raised on the actuary portal and were able to identify if this was a true failure or if commentary need to be entered on the portal to override and correct the database.
- Updating the portal ("tell us once") would ensure this "failure" would not appear in future reports it would no longer register as a failure in future data quality exercises. True failures were corrected on Altair and the revised data uploaded onto the portal. This approach of enlisting a dedicated administrator, also enabled minimum impact on the BAU team and their delivery to the Fund.
- In data conversations, we were able to identify that there were a large number of member data with unknown addresses (2,373 records), a decision was made to prioritise tracing two groups; the deferreds aged over 55 and pensioners (a total of 731 records) due to them being the most likely to be in receipt of COWPF fund. An external dedicated tracing company will be used for this in October 2019.
- Separately a pensioner existence exercise was carried out using Western Union to confirm the existence of all pensioners with an overseas addresses. Those who did not make contact within the 3 month timeline would cease receiving their monthly pension income. To date approximately 31 pension payments will cease as result of this exercise. However, this group's details will be added to the data tracing exercise that will incorporate both UK and non-UK gone aways. A separate comprehensive report on this project is available.
- In addition, the Fund were able to look at legacy member data collated prior to November 2018 that the administrator database was missing the relevant pay data and listed as status 2 i.e. a leaver. The Fund, on the administrator's recommendation agreed to pay £19 a case and engage with an external provider to focus on processing this data on their behalf. 424 records have been updated to date.

Recommendations

Recommendation	Action	Outcomes	Timeline	Owner
Surrey to put in place a risk register	WCC to present to the administrator	Visibility of issues and progress to resolve	October 2019 To review annually	Administrator
Log to collate issues and be used in internal and quarterly admin meetings	Implemented September 2019	Already implemented by WCC and on shared drive	Ongoing	WCC
Monthly meeting to discuss data	Implemented February 2019	In place	Ongoing	WCC
Issuing employer engagement and improve online guidance available for employers	To agree content plan and implement	Better employer understanding of their obligations	November 2019 Ongoing	WCC
Dedicated data quality resource in administrator and WCC to monitor progress	To commence discussions on viability	True ownership by both parties to ensure recommendation continue to be actioned and measure progress	November 2019	WCC /Administrator
To use external data tracing company to review gone aways - deferreds over 55, pensioners, members with AVC's	To trace current addresses for as many members as possible	To reduce the number of gone away member records for over 55 deferreds and pensioners	October 2019	WCC/ Target
To implement iConnect with administrators to allow Fund employers to have visibility of their data and clean data on a monthly basis rather than annually	To continue to engage with administrators and employers to launch this for the next scheme year	To make the cleaning of data more immediate and identify errors early on	April 2020	WCC/Administrator
To issue communication annually, reminding members to update their personal details ahead of Annual benefit statements being issued	Communication to be placed on WCC intranet and reminder to employers asking them to remind scheme members	Minimise confusion and spike in member queries on receipt of their statements, when details are incorrect	March 2020	WCC/Fund employers
To implement an over 75 process	Define process map and template letters, agree with administrator and rollout	Minimise the likelihood of a member not taking their LGPS benefits after age 75	October 2019	WCC

Conclusion

The collaborative team working approach taken by COWPF, employers, the WCC inhouse pension team and Surrey administrators were able to reduce data errors across the membership groups as below;

Actives – 26.5%, Deferreds – 63%, Dependants 53%, Pensioners 45%, Undecided by 6.5% (Appendix 2)

WCC will be pro activate in engaging with employers on their data quality.

Data quality is not a one-off exercise is an ongoing part of scheme management and paramount to running an efficient effective scheme. The exercise has helped highlight the need to keep data quality on the agenda.

WCC will be pro active in engaging with employers on their data quality.

A majority of the work will need to be carried out by the scheme administrators, but a collaborative approach is required to achieve the best outcome for the Fund where employers, administrator and WCC work to closely together to achieve a quality scheme for its members and beneficiaries.

Already we have reaped benefits from dedicated focus to the data quality of the scheme, with administration team improving the leaver process, The Fund's great visibility of data issues through more reporting from the administrators and the cleansing and verification of 132 pensioners member details, updating 484 status 2 records.

There is a conflict between the data quality work and the focus of the BAU, so resources will need to be managed tightly and correctly to ensure both focuses are able to deliver. As well as adequate time pressures in discussion at the quarterly admin meetings and the need for separate more focused meetings on data quality.

Data quality is added as a standing item on the Committee agenda and administration meetings. In addition additional temporary resource has been brought into the Fund's team to manage the project and drive the initiative going forward there is also identified gaps in WCC inhouse resource that will soon be improved up with 2 permanent roles. The interim pensions specialist lead has been the focus of the liaison with the administrator enabling a significant increase in the quality scores to be achieved for 2019/20.

Appendices

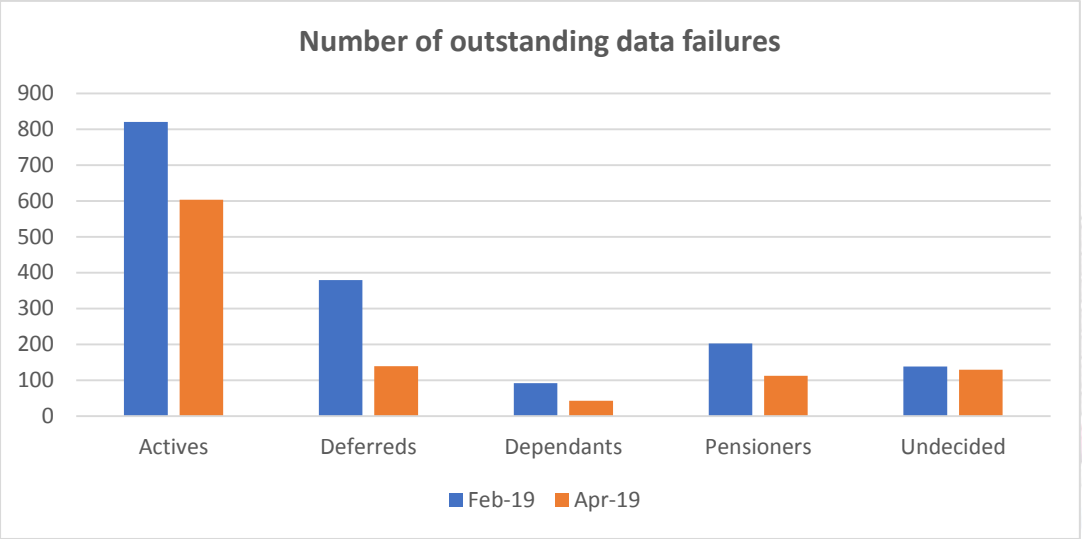
Appendix 1

Barnett Waddingham Check Criteria

Check Number	Check Name
1	NI Number exists
2	Unique identifier 1 exists
3	Unique identifier 2 exists
4	Employer code exists
5	Employer code same as in previous record
6	Gender is valid
7	Gender is same as in previous record
8	Member is aged between 15 and 75
9	Date of birth is within 30 days of date of birth in previous record
10	Current record status code is valid
11	Date joined fund exists
12	Date of deferment exists
13	Date of deferment is between date joined fund and data date
14	Exit mode exists (for leavers)
15	Date of exit since last valuation date exists (for leavers)
16	Date of exit is blank for current members
17	Group is as expected
18	CRD is within a year of expected value (based on Date of Birth and qualifying service)
19	Last pension increase date exists
20	Last pension increase date is after last valuation date
21	Final salary pension (CRA) is within £2k of expected value
22	Final salary pension (CRA) is within £500 of expected value
23	Final salary pension (Taper) is within £2k of expected value
24	Final salary pension (Taper) is within £500 of expected value
25	Final salary pension (65) is within £2k of expected value
26	Final salary pension (65) is within £500 of expected value
27	CARE pension is less than £10k
28	50:50 CARE pension is less than £5k
29	CARE pension is within £500 of expected value
30	50:50 CARE pension is within £500 of expected value
31	Total pension equals sum of individual pension tranches
32	Total pension debits are less than total pension
33	Final salary lump sum (CRA) is within £2k of expected value
34	Final salary lump sum (Taper) is within £2k of expected value
35	Final salary lump sum (65) is within £2k of expected value
36	Spouse pension (final salary) is within £5k of expected value
37	Spouse pension (CARE) is within £5k of expected value

38 Pre88 GMP is between 0 and total pension
39 Post88 GMP is between 0 and total pension
40 Date GMP revalued to exists (for members with GMP)

Appendix 2



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City of Westminster

Pension Fund Committee Report

Date:	**23rd October 2019**
Classification:	**General Release**
Title:	**Request to amend the Amey admission agreement to allow two former LBHF fund members access to the WCC fund through Amey for one month. Request The Approval of Bouygues as an Admission Bodies in the WCC Pension Fund.**
Report of:	**Sarah Hay Pensions Officer**
Financial Summary:	**Negligible risk**
Report Author and Contact Details:	**Eleanor Dennis c/o Sarah Hay 0207 641 6015**

1. Executive Summary

1.1 This report is requesting that the committee agree to allow two ex employees of the London Borough of Hammersmith and Fulham access to the WCC pension fund for the month of May 2019.This report then seeks to request access for one of these members be granted access through a closed admission agreement with Bouygues whom WCC has outsourced services to from the first of June.

1.2 WCC, LBHF and RBKC had been part of a tri borough facilities contract with Amey. All three boroughs tupe transferred staff to Amey and had closed admission arrangements with Amey that restrict membership to the fund of the originating borough.

1.3 During the course of the contract employees that had been transferred out from one of the boroughs had helped cover the service needs of another and management of all three had wanted Amey to manage the contract as efficiently as possible to ensure value for money for all.

1.4 Late in 2018 the contractual relationship between all three boroughs and Amey was dissolving. All three gave notice that they were exiting the contract but the exit date for each borough would be different. Amey advised the boroughs that there could be people that were primarily meeting the needs of one council that had been transferred out by another. There was no confirmation of names

or roles at this time but Amey requested clarification that where one employer exited the service and their admission agreement effectively ended any staff not being transferred back into the originating borough would be allowed in principle into the LGPS fund of any borough that they were working for. Amey required a guarantee from the boroughs as part of an exit agreement with Amey that the employees would not be left without a fund as part of the exit arrangement. Management were notified that agreement for admission does sit with the pension committee.

1.5 Late in April 2019 we were advised that two former LBHF employees were due to be transferred to WCC on the 1st of June as they were supporting our facilities service. LBHF were exiting the Amey contract on the 30th of April and WCC were exiting on the 31st of May. This meant that for the month of May the two individuals would not have access to the LBHF fund as that agreement ended and that to remain in the LGPS they would have to join the WCC fund.

1.6 This paper is requesting consent that we approve a deed of amendment for the WCC Amey admission agreement that allows just these two named employees to be added to the admission agreement for the one month of May 2019.

1.7 On June the 1st one of the employees was tupe transferred into WCC and joined our fund as an employee. The second employee was tupe transferred to Bouygues working on a unitary WCC facilities contract which is set to last five years with a possible two year extension.

1.8 This paper requests that the committee agree that we can enter into a closed admission agreement for this member from the 1st of June. The employer rate for this one member is 35.9%

1.9 The admission agreement will only be agreed with a bond to the value of £32k as calculated by our actuary or an equivalent guarantee from a suitable alternative.

2. Recommendation

2.1 That the committee approve that a deed of amendment can be made to the WCC admission contract to allow two former LBHF employees into the WCC fund for the month of May 2019.

2.2 That the committee agree that the fund enter into a closed admission agreement for the one employee that is tupe transferred to Bouygues from the 1st of June with a bond or guarantee.

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If you have any questions about this report, or wish to inspect one of the background papers, please contact:
Sarah Hay Tel: 0207 641 6015

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 OCTOBER 2019**
Classification:	**General Release**
Title:	**Pension Fund Annual Report and Statement of Accounts 2018-19**
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:	**Gerald Almeroth** ***Executive Director, Finance and Resources*** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1 This report presents the draft Pension Fund Annual Report and Statement of Accounts for the year ended 31 March 2019.

2. Recommendation

2.1 The Committee is asked to approve the Pension Fund Annual Report 2018/19.

2.2 Note the pension fund accounts for 2018/19.

3. Background

3.1 The Council's Annual Statement of Accounts for 2018/19, which includes the accounts for the Pension Fund, were prepared and submitted to the Council's external auditors for audit on 11 April 2019, with an unqualified audit opinion produced on 2 May 2019.

3.2 This was six weeks in advance of the statutory requirement of 31 May 2019. Despite the accounts receiving an unqualified opinion from external audit, there is a statutory public inspection period required before the authority is able to approve or publish the accounts. To comply with this arrangement, the Council's Statement of Accounts were re-presented to the Audit and Performance Committee on 18 July 2019 for approval, the earliest permitted date. Uncertainty over the McCloud Supreme Court judgement also required restating of the Pension Fund liabilities over this period

3.3 The production of the Pension Fund Annual Report, which includes the Pension Fund Accounts, is a regulatory requirement and needs to be approved by the Pension Fund Committee by 1 December following the year end. The draft Pension Fund Annual Report for 2018/19 is attached as Appendix 1.

3.4 Committee members are asked to comment on any matters in the draft Pension Fund Annual Report and delegate approval of the final document to the Tri-Borough Director of Treasury and Pensions in consultation with the Chairman.

4. Annual Report Overview

4.4 The Pension Fund accounts were produced on the 11 April 2019 and received an unqualified opinion from the auditors on the 2 May 2019.

4.5 The Pension Fund's assets have had an excellent year in absolute terms, returning 6.1%, although this was 0.6% below the Fund's benchmark for the year.

4.6 The Fund's performance was around the median for all LGPS funds for 2018/19, as seen in the London League table report by PIRC (appendix 4). This Fund still shows excellent long term performance against its benchmark with an outperformance of +0.7% annualised since inception.

4.7 The decision taken to hedge the Fund's passive equity portfolio meant that the Fund did not benefit as much as some other LGPS funds from the significant deprecation in Sterling during 2018/19. Continued allocation to UK Equity, as well as the selection of UK Equity manager, were also a drag on overall performance.

4.8 The Pension Fund has benefitted from its continued deficit recovery contributions, with improving cash flow and no need to liquidate assets in the short term to pay benefits.

4.9 The Pension Fund administration has seen significant improvements over the last few years in its KPIs as a result of hard work from both the City of Westminster's internal officers and external partners Surrey

County Council and BT. Retirement benefit letters are now meeting the 5-day target 99% of the time, as opposed to 62% of the time in 2015/16.

4.10 Administration costs remain low when benchmarked with other London Funds, demonstrating the Fund's value for money for its members.

5. Audit Findings Report

5.1 One point to note in the Audit Findings Report drafted on 24 April 2019 is the understatement in the Net Asset Statement in the amount £5.6m due to the use of 28 February 2019 asset values for the Pension Fund's passive equity manager, Legal and General. For the final version of the accounts signed on 18 July 2019, this was updated to 31 March 2019 values, with the Audit and Performance Committee advised when the report was presented to them.

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

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

BACKGROUND PAPERS: None

APPENDICES

Appendix 1: Pension Fund Annual Report and Statement of Accounts 2018/19
Appendix 2: Audit Findings Report
Appendix 3: PIRC Annual Review
Appendix 4: London League Tables

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City of Westminster

City for All

Annual Report

City of Westminster Pension Fund • 2018/19


THEATRE · ROYAL · HAYMARKET

Contents

1. Preface

Report from Chair of the Pension Fund Committee

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

The Pension Fund Committee is responsible for overseeing the management of the City of Westminster Pension Fund including investment management and pension administration. As the Chairman of this Committee, I am pleased to introduce the Pension Fund's Annual Report for the year 2018/19.

During the year, the value of the Fund increased by £82m to £1,418m, reflecting the continued increase in global markets last year and the weakening of sterling. Markets have shown a greater degree of volatility during 2018/19 and the Pension Fund Committee continues to monitor the Fund closely at every meeting and challenges the investment advisers and investment managers as necessary to ensure the Fund's investments are being managed effectively.

Recognising the challenges in equity markets, which have grown significantly, the Pension Fund Committee elected to rebalance its equity portfolio, switching funds from equities to fixed income (multi asset credit) and infrastructure. This resulted in the transitioning of £91m to a Multi Asset Credit product with LCIV, and allocating £70m to an infrastructure portfolio with Pantheon. This move should help reduce the Fund's volatility and provide greater diversification of risk.

The Pension Fund was last valued by the Fund's actuary, Barnett Waddingham, as at the 31 March 2016 actuarial valuation. The actuary reported that the Fund has assets to cover 80% of the liabilities and an overall deficit of £264m. Preparations are commencing for the next actuarial valuation as at 31 March 2019. The latest funding update as at 31 December 2018 showed the funding level had increased to an indicative 94.5%, as asset levels have risen far higher than expected.

The City Council's deficit recovery plan is continuing to pay in enhanced contributions to the Fund, with the aim of improving the overall funding level and reducing the deficit recovery period.

The Fund continues to work with the London Collective Investment Vehicle (LCIV) to gain efficiencies through pooling of Pension Fund assets. The Baillie Gifford and Majedie portfolio have been transferred to LCIV in 2017/18, with the LCIV MAC Fund transitioned during this year. The Fund has also benefitted from lower fees negotiated by LCIV on its Legal and General Passive Equities Portfolio. The Fund's proportion of assets pooled now is over 70%, making the City of Westminster Pension Fund the biggest LCIV stakeholder in London.

The Fund had its Annual General Meeting on 17 April 2019, which was well attended with presentations from council officers, Barnett Waddingham, and Majedie Asset Management. There was a range of questions from members, and I am pleased that this annual event continues to be popular.

I would like to thank all those involved in the management of the Pension Fund during the year during 2019.

Councillor Antonia Cox
Chairman of the Pension Fund Committee

Introduction

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

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

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

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

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

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

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

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

Introduction (continued)

This annual report comprises the following sections:

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

The funding position of the Fund with a statement from the Fund's actuary.

- **The Fund's annual accounts** for the year ended 31 March 2019
- **List of contacts** and a glossary of some of the more technical terms
- **Appendices** setting out the various regulatory policy statements of the Fund:
  - Governance Compliance Statement
  - Statement of Investment Principles
  - Communication Policy
  - Funding Strategy Statement
- Further information about the Local Government Pension Scheme can be found at *www.westminster.gov.uk/council-pension-fund*

2. Management and Financial Information

Governance Arrangements

PENSION FUND COMMITTEE

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

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

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

The current membership of the Pension Fund Committee is:

- Councillor Antonia Cox (Chairman)
- Councillor Melvyn Caplan
- Councillor Patricia McAllister
- Councillor Eoghain Murphy

Councillors may be contacted at 64 Victoria Street, London, SW1E 6QP

LOCAL PENSION BOARD

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

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

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

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

CONFLICTS OF INTEREST

The Pension Fund is governed by elected members acting as trustees and the Code of Conduct for elected members' sets out how any conflicts of interests should be addressed. A copy is available from Legal and Democratic Services at 64 Victoria Street, London, SW1E 6QP or by telephone: 020 7641 3160.

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

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

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

GOVERNANCE COMPLIANCE STATEMENT

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

The key issues covered by the best practice principles are:

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

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

Scheme Management and Advisors

EXTERNAL PARTIES

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

OFFICERS

Director of Finance and Resources and Section 151 Officer Director of People Services	Gerald Almeroth from March 2019 Lee Witham	Steven Mair to November 2018
Tri-Borough Pensions Team	Phil Triggs Matthew Hopson Mathew Dawson from March 2019 Miriam Adams to August 2018 Yvonne Thompson-Hoyte Billie Emery from November 2018	Tim Mpofu from August 2018 Damien Pantling to August 2018 Sue Hands to June 2018 Alastair Paton from May 2018 Jaimina Shah to July 18
Pensions and Payroll Officer	Sarah Hay	

Contact details are provided in Section 7 of this report.

Risk Management

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

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

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

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

Objective area at risk	Risk	Risk rating	Mitigating actions
Funding	Scheme members live longer than expected leading to higher than expected liabilities.	High	Review at each triennial valuation and challenge actuary as required.
Administration	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.	Medium	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.
Governance	Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	Medium	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.

Risk Management (continued)

Risks arising from financial instruments are outlined in the notes to the Pension Fund Accounts (Note 15).

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

Objective area at risk	Risk	Risk rating	Mitigating actions
Governance	That the London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious.	High	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. 2) Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives. 3) Member presence on Shareholder Committee and officer groups.
Funding	Employee pay increases are significantly more than anticipated for employers within the Fund.	Medium	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).
Investment	Significant volatility and negative sentiment in global investment markets following disruptive politically inspired events in US.	Medium	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.
Funding	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%	Medium	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.

THIRD PARTY RISKS

The Council has outsourced the following functions of the Fund:

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

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

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

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

The results of these reviews are summarised below and cover 100% of investment holdings at 31 March 2019.

Fund manager	Type of assurance	Control framework	Compliance with control	Reporting accountant
Baillie Gifford (LCIV)	ISAE3402	Reasonable assurance	Reasonable assurance	PwC LLP
Hermes[2]	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Insight[1]	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
LGIM[3]	ISAE3402	Reasonable assurance	Reasonable assurance	PwC LLP
Longview	ISAE3000	Reasonable assurance	Reasonable assurance	Earnest and Young LLP
Majedie (LCIV)[4]	N/A	N/A	N/A	KPMG LLP
Pantheon Ventures	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Standard Life	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
CQS (LCIV)	ISAE3402	Reasonable assurance	Reasonable assurance	Deloitte LLP
Custodian				
Northern Trust	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP

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

[1] Insight - "To the best of our knowledge there have been no material adverse changes to the control environment and/or objectives, and the control environment continued to operate substantially in accordance with the objectives, policies and procedures as stated and tested in the latest available report, between 1st October 2018 and 31st March 2019."

[2] Hermes - "To the best of our knowledge, the AAF 01/06, ISAE 3402 and SSAE 16 report for the year to 31 December 2017 continues to provide a substantially accurate description of the internal controls environment within Hermes Fund Managers Limited for the period 1 January 2018 to date.

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

[4] Majedie - "Majedie do not produce a control report, reflecting the deliberately small size and scope of the business and the fact that they do not hold client monies."

Financial Performance

The Fund asset value increased by £82m to £1,418bn as at 31 March 2019 from £1,336bn as at 31 March 2019 largely due to the continued strong performance within the equity markets.

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

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

ANALYTICAL REVIEW

	2015/16	2016/17	2017/18	2018/19
Fund Account	**£'000**	**£'000**	**£'000**	**£'000**
Dealings with members				
Contributions	(38,401)	(38,715)	(58,868)	(61,242)
Pensions	51,473	51,632	57,350	58,189
Net (additions)/withdrawals from dealings with members	13,372	12,917	(1,518)	(3,053)
Management expense	7,791	5,052	5,734	5,823
Net investment returns	(8,558)	(9,891)	(15,785)	(12,242)
Change in market value	20,024	(209,434)	(56,708)	(72,884)
Net (increase)/decrease in the Fund	32,629	(201,356)	(68,277)	(82,356)

Over the four year period, pensions paid have exceeded contributions by £21.7m. This reflects the maturity of the Fund membership in that there are fewer contributors than beneficiaries, although increased deficit recovery contributions in 17/18 and 18/19 have reduced this.

Net investment returns in 2018/19 have remained healthy despite falling significantly in comparison to previous years, reflecting the fact that 16/17 was a particularly good year for equities compounded with the weakening of sterling.

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

Financial Performance (continued)

	2015/16	2016/17	2017/18	2018/19
Net Asset Statement	**£'000**	**£'000**	**£'000**	**£'000**
Fixed Interest Securities	157,123	173,673	183,879	-
Equities	-	-	150	150
Pooled Investment Vehicles	896,184	1,085,498	1,129,276	1,402,288
Cash Deposits	2,598	1,726	10,321	5,802
Other	2,030	996	6,453	120
Total Investment Assets	1,057,935	1,261,893	1,330,079	1,408,360
Current assets	9,677	7,010	6,728	11,293
Current Liabilities	(1,269	(1,204)	(831)	(1,321)
Total Net Assets available to fund benefits	1,066,343	1,267,699	1,335,976	1,418,332

The points to note are:

- 69% of pooled investment vehicles comprise of equity shareholdings both domestic and overseas, 21% within fixed income funds, 11% is in property pooled funds while the remaining 1% is invested in Infrastructure (89% in equity pooled funds and 11% within property pooled funds in 2017/18)
- The overall value of pooled investment vehicles increased by £273m (24%) during the year
- The Fund no longer holds direct investments within fixed interest securities.

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

Financial Performance (continued)

ANALYSIS OF DEALINGS WITH SCHEME MEMBERS

	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000
Contributions receivable				
- Members	(8,700)	(8,706)	(8,894)	(8,982)
- Employers	(27,244)	(27,200)	(44,982)	(45,363)
- Transfers in	(2,157)	(2,809)	(4,992)	(6,897)
Total Income	**(38,101)**	**(38,715)**	**(58,868)**	**(61,242)**
Benefits/Expenses				
- Pensions	41,141	41,315	43,802	45,610
- Lump sum retirements and death benefits	7,274	7,894	8,674	7,464
- Transfers out	2,962	2,385	4,807	4,919
- Refunds	96	38	67	196
Total Expenditure	51,473	51,632	57,350	58,189
Net Dealings with Members	**13,372**	**12,917**	**(1,158)**	**(3,053)**

The key variances were due to the following:

- Lump sums decreased in 2018/19 due to less members retiring than in previous years.
- Transfers out increased in 2018/19 because more members chose to transfer their benefits to another employer or remove them under the freedom of choice legislation.
- Transfers in were higher, reflecting the number of new starters joining the scheme and members choosing to transfer in benefits on commencement of employment.

Financial Performance (continued)

ANALYSIS OF OPERATIONAL EXPENSES

The costs of running the pension fund are shown below.

	2016/17	2017/18	2018/19
	£'000	£'000	£'000
Administration			
Employees	178	167	184
Supplies and services	393	219	363
	571	**386**	**546**
Governance and Oversight			
Employees	178	263	240
Investment advisory services	73	57	100
Governance and compliance	42	11	44
External audit	21	18	16
Actuarial fees	16	24	36
	330	**373**	**437**
Investment Management			
Management fees	2,790	4,663*	4,572
Performance fees	380	0	0
Custodian fees	70	63	38
Transaction Costs	911	249*	230
	4,151	**4,975**	**4,840**
Total	**5,052**	**5,734**	**5,823**

*Transaction costs reclassified as Management fees

The key variances were due to the following:

- Increased costs for administrative services in 2018/19 from 2017/18 due to the need for ad hoc work related to guaranteed minimum pension (GMP) reconciliation, data cleansing and microfiche retrieval works.
- The reduction in investment management costs in 2018/19 reflects participation in the London CIV which has led to economies of scale through lower management fees and transaction costs. Additionally, the Fund has benefited from reduced management fees by transferring assets from a segregated bond portfolio into a Buy and Maintain pooled bond fund.
- Governance and oversight costs have increased in 2018/19 due to higher Investment advisory costs in relation to manager appointment processes during the year, along with increased actuarial work. This has been slightly offset by a decrease in employee costs due to appointment of permanent staff members.

Administration Management Performance

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

PERFORMANCE INDICATORS

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

Performance Indicators	Target	Performance		
		2016/17	2017/18	2018/19
Letter detailing transfer in quote	30 days	100%	100%	100%
Letter detailing transfer out quote	30 days	86%	99%	99%
Process refund and issue payment voucher	14 days	100%	100%	96%
Letter notifying estimate of retirement benefit	5 days	83%	96%	99%
Letter notifying actual retirement benefit	5 days	96%	99%	99%
Letter acknowledging death of member	5 days	100%	100%	95%
Letter notifying amount of dependant's benefits	5 days	100%	100%	98%
Calculate and notify deferred benefits	30 days	85%	90%	98%

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

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

ORBIS

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

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

Scheme employers can use the new system to:

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

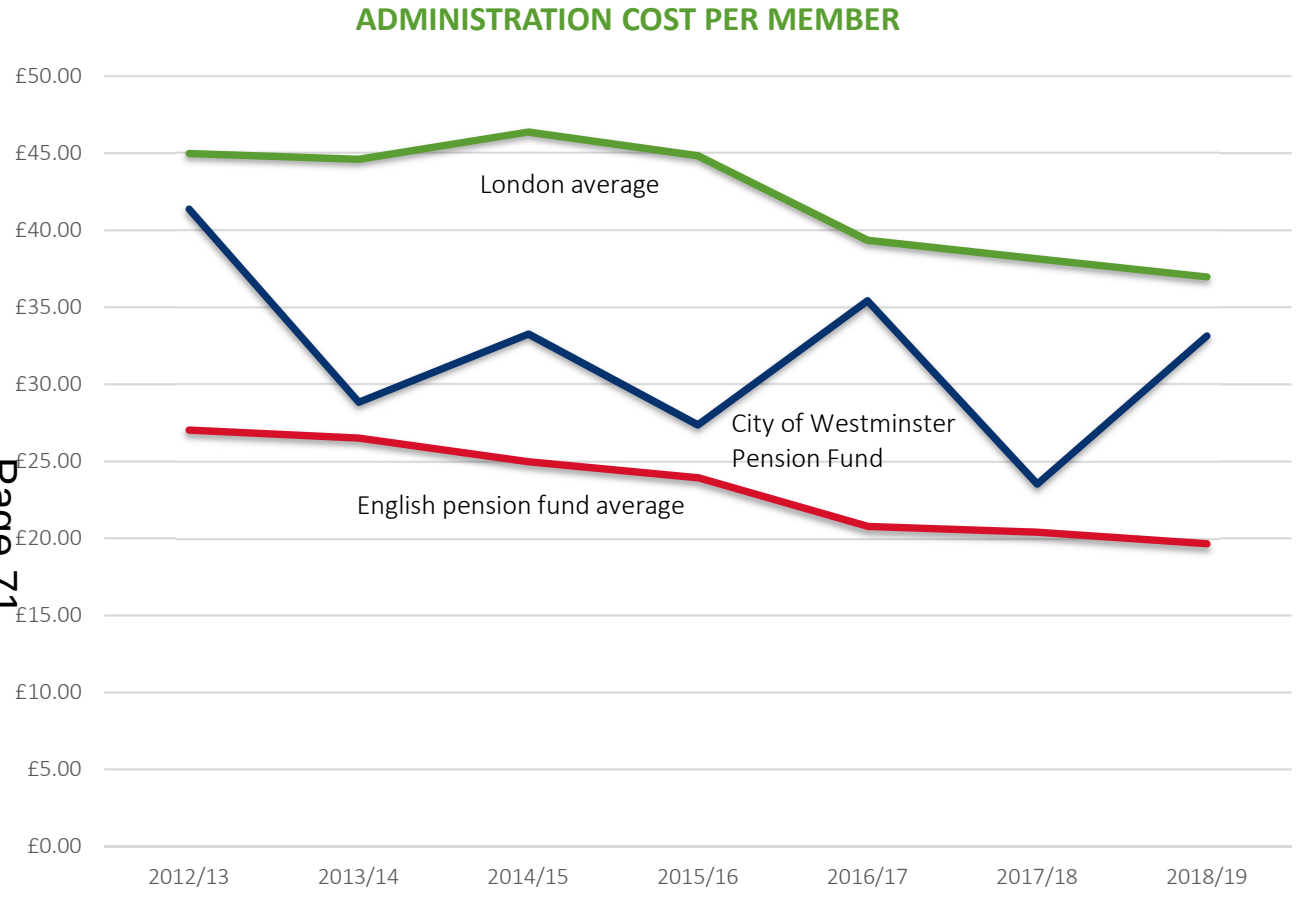
COMPLAINTS RECEIVED

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

There have been two IDRP cases during 2018/19.

No Ombudsman rulings against WCC effective 2018/19.

Administration Management Performance (continued)



STAFFING INDICATORS

The administration of the Fund comprises:

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

The contract for administering the Fund was tendered in 2014 resulting in Surrey County Council being appointed. Costs rose slightly in 2014/15 as a result of the changeover of administrator, and again in 2016/17 reflecting the implementation of the ORBIS online portal for pension scheme members and employees. Although this reduced in 2017/18, this has increased in 2018/19 due to ad hoc administration works.

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

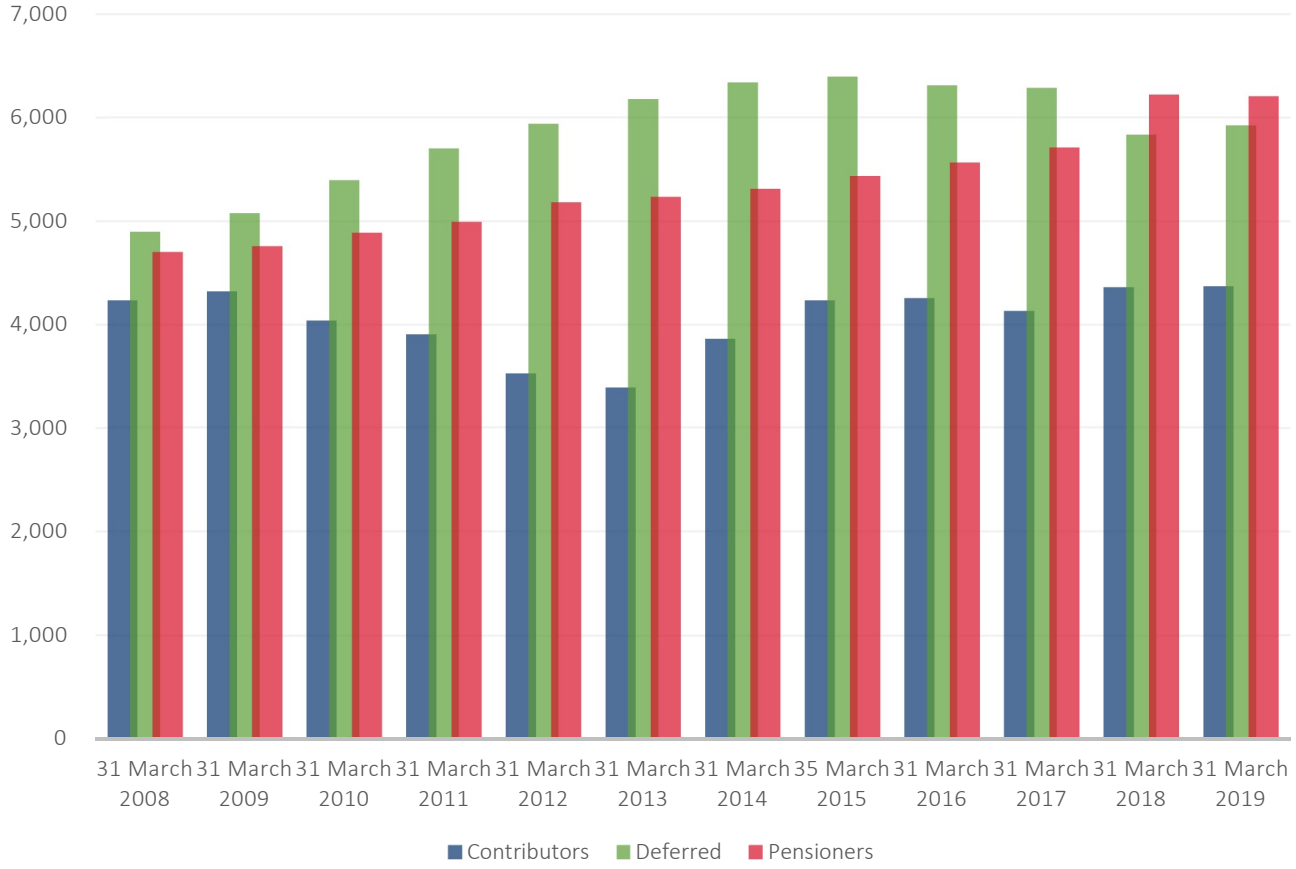
Administration Management Performance (continued)

MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased 19.3% over the past 12 years from 13,827 to 16,493

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

FUND MEMBERSHIP



Administration Management Performance (continued)

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

Reason for Leaving	2015/16	2016/17	2017/18	2018/19
Ill Health Retirement	6	5	5	1
Early Retirement	40	62	39	23
Total	**46**	**67**	**44**	**24**

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

Below is a list of the current active contributing employers and the contributions received for 2018/19 (Figures include early retirement and deficit funding contributions).

	Employees Contributions	Employers Contributions[2]	Total Contributions
	£'000	£'000	£'000
Administering Authority Employers			
Westminster City Council	(5,774)	(35,899)	(41,673)
All Souls	(7)	(29)	(37)
Barrow Hill Junior	(12)	(44)	(56)
Burdett Coutts	(14)	(79)	(92)
Christ Church Bentinck Primary	(13)	(53)	(65)
College Park	(36)	(140)	(176)
Dorothy Gardner Centre	(26)	(104)	(130)
Edward Wilson	(17)	(68)	(85)
Essendine Primary	(24)	(78)	(102)
George Eliot	(24)	(97)	(122)
Hallfield	(44)	(180)	(224)
Hampden Gurney Primary	(8)	(32)	(39)
Mary Paterson Nursery School	(17)	(67)	(84)
Our Lady of Dolours Primary School	(17)	(29)	(46)
Portman Early Childhood Centre	(38)	(147)	(185)
Queen Elizabeth 11	(31)	(132)	(163)
Queen's Park	(20)	(112)	(132)
Robinsfield	(8)	(30)	(39)
Soho Parish	(16)	(68)	(85)
St Augustines	(63)	(265)	(328)
St Barnabas	(6)	(22)	(28)
St Clement Danes	(17)	(69)	(86)
St Gabriel's	(12)	(49)	(61)
St George Hanover Square	(7)	(27)	(33)
St James & St Michaels	(9)	(75)	(84)
St Joseph's RC Primary School	(10)	(40)	(50)
St Lukes	(13)	(48)	(61)
St Mary Bryanston Square	(12)	(49)	(61)
St Mary Magdalene	(19)	(71)	(90)
St Mary of the Angels	(18)	(73)	(91)
St Matthew's	(13)	(47)	(60)
St Peters CE	(17)	(70)	(87)
St Peters Eaton Square	(10)	(42)	(52)
St. Edward`s RC Primary School	(21)	(102)	(123)
St. Saviours	(25)	(100)	(126)
St Vincent De Paul Primary School	(12)	(56)	(68)
St. Vincent`s RC Primary School	(9)	(40)	(49)
St Stephens CE primary School	(20)	(77)	(97)
Tachbrook Nursery	(6)	(24)	(30)
Westminster Cathedral	(13)	(53)	(66)
Total Contributions from Administering Authority	**(6,478)**	**(38,788)**	**(45,265)**

[2] Includes early retirement and deficit contributions

Administration Management Performance (continued)

SCHEDULED BODIES

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

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

	Employees Contribution	Employers' Contributions[3]	Total Contributions
Scheduled Bodies			
Ark Atwood Primary Academy	(33)	(57)	(90)
Ark Paddington Green Academy	(14)	(57)	(71)
Beachcroft Academy	(35)	(76)	(110)
City West Homes Ltd	(25)	(77)	(102)
Churchill Gardens Academy	(733)	(1,576)	(2,309)
Gateway Academy	(26)	(106)	(132)
Grey Coat Hospital Academy	(64)	(216)	(281)
Harris Westminster Free School	(15)	(33)	(48)
King Solomon Academy	(35)	(58)	(93)
Marylebone Boys School	(26)	(66)	(92)
Millbank Primary Academy	(26)	(102)	(127)
Minerva Academy	(4)	(35)	(39)
Paddington Academy	(72)	(157)	(230)
Pimlico Academy	(111)	(198)	(309)
Pimlico Free School	(11)	(27)	(38)

[3] Includes early retirement and deficit contributions

	Employees Contribution	Employers' Contributions[4]	Total Contributions
Scheduled Bodies			
Quintin Kynaston Academy	(51)	(135)	(186)
Sir Simon Milton University Technical College	(18)	(29)	(47)
St Georges Maida Vale Academy	(49)	(142)	(190)
St Marylebone Academy	(61)	(146)	(206)
St Marylebone Bridge School	(18)	(48)	(66)
Westminster Academy	(53)	(100)	(153)
Westminster City Academy	(42)	(116)	(158)
Wilberforce Academy	(10)	(58)	(69)
Total Contributions from Scheduled Bodies	**(1,532)**	**(3,614)**	**(5,146)**

[4] Includes early retirement and deficit contributions

Administration Management Performance (continued)

ADMITTED BODIES

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

	Employees Contribution	Employers Contributions[5]	Total Contributions
Admitted Bodies			
Amey	(4)	(15)	(19)
Creative Education Trust	(93)	(143)	(236)
Hatsgroup	(5)	(25)	(30)
Housing and Communities Agency	(441)	(1,201)	(1,642)
Independent Housing Ombudsman	(184)	(631)	(815)
JPL Catering	(1)	(5)	(6)
Regulator for Social Housing	(181)	(628)	(809)
RM Education Ltd	(11)	(45)	(56)
Sanctuary Housing	(52)	(267)	(319)
Total Contributions from Admitted Bodies	**(972)**	**(2,962)**	**(3,934)**
Grand Total	**(8,982)**	**(45,363)**	**(54,345)**

EMPLOYER ANALYSIS

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

	Active	Ceased	Total
Administering Authority	1	-	1
Scheduled Body	20	2	22
Admitted Body	8	14	22
Total	**29**	**16**	**45**

[5] Includes early retirement and deficit contributions

3.

Investment Policy and Performance

Investment Policy

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

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

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

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

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

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

For 2018/19, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an Investment Strategy Statement (ISS), which replaces the Statement of Investment Principles.

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

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

The ISS can be obtained from:

Pensions Fund Team, 16th Floor, 64 Victoria Street, London, SW1E 6QP

Email: *pensionfund@westminster.gov.uk*

Asset Allocation

The strategic asset allocation is agreed by the Pension Fund Committee and the Fund's advisers. The allocation effective during the year ended 31 March 2019 was as follows:

Asset Class	Target Allocation %
UK Equities	22.5
Global Equities (passive)	42.5
Global Equities (active)	
Fixed Income	20.0
Property	10.0
Infrastructure	5.0
TOTAL	**100**

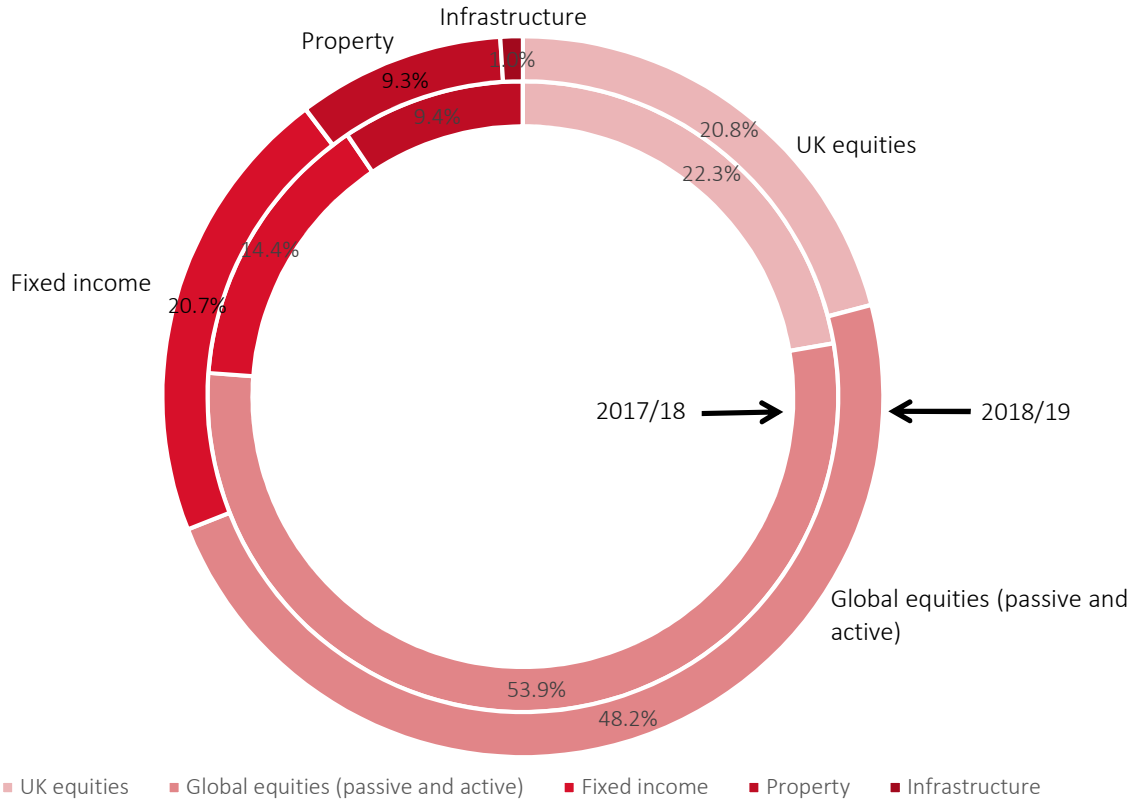
The Pension Fund Committee holds Fund Managers accountable for decisions on asset allocation within the Fund mandate under which they operate. In order to follow the Myners' Committee recommendation, Fund Managers are challenged formally about asset allocation Decisions.

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

Fund managers provide a rationale for asset allocation decisions based upon their research resource in an effort to ensure that they are not simply tracking the peer group or relevant benchmark index. The Fund's asset allocation strategy can be found in the ISS.

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

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



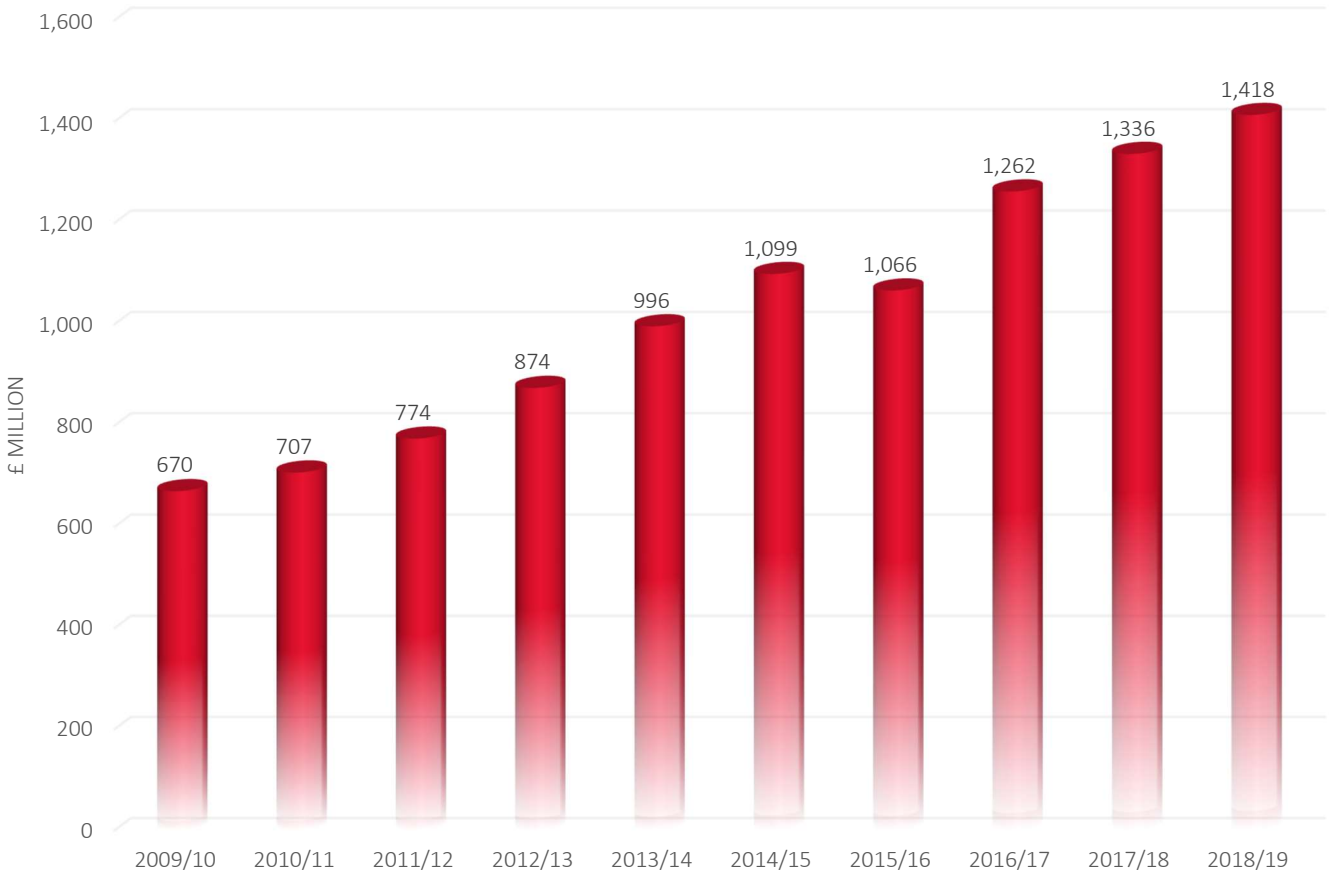
Asset Allocation (continued)

FUND VALUE

The value of the Fund has almost trebled over the past ten years. The slight fall in value in 2015/16 reflected uncertainty around the strength of the global economy and China in particular, but the Fund recovered well and continued to make gains in 2018/19 with a 6.1% increase.

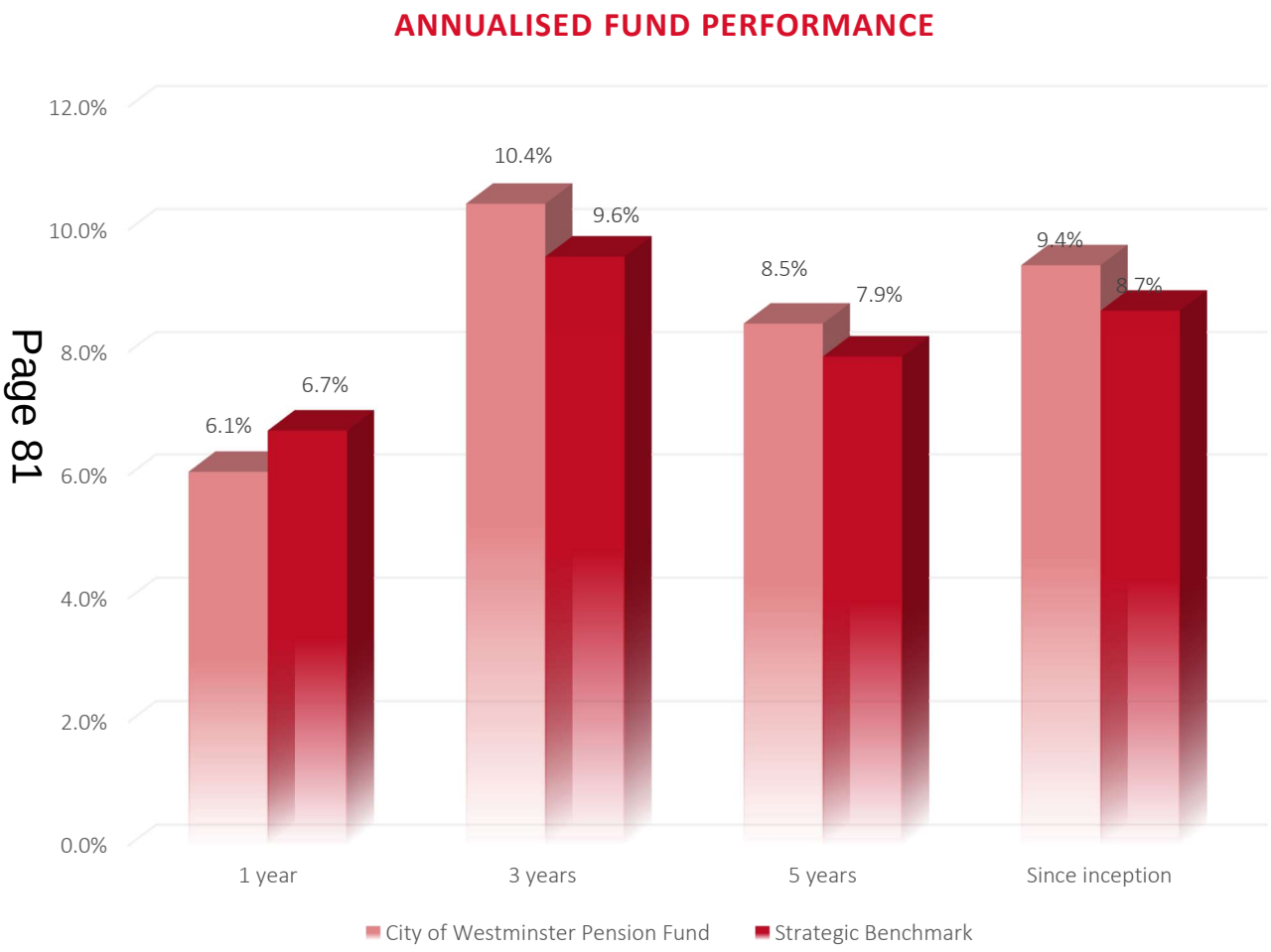
The Fund is invested to meet liabilities over the medium to long-term and therefore its performance should be judged over a corresponding period. Annual returns can be volatile and do not necessarily indicate the underlying health of the Fund.

FUND ASSETS



Investment Performance

The Fund's overall performance in 2018/19 slightly underperformed the benchmark for the year as shown below. However, annualised performance has exceeded the benchmark since inception, and over the past three and five years.



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

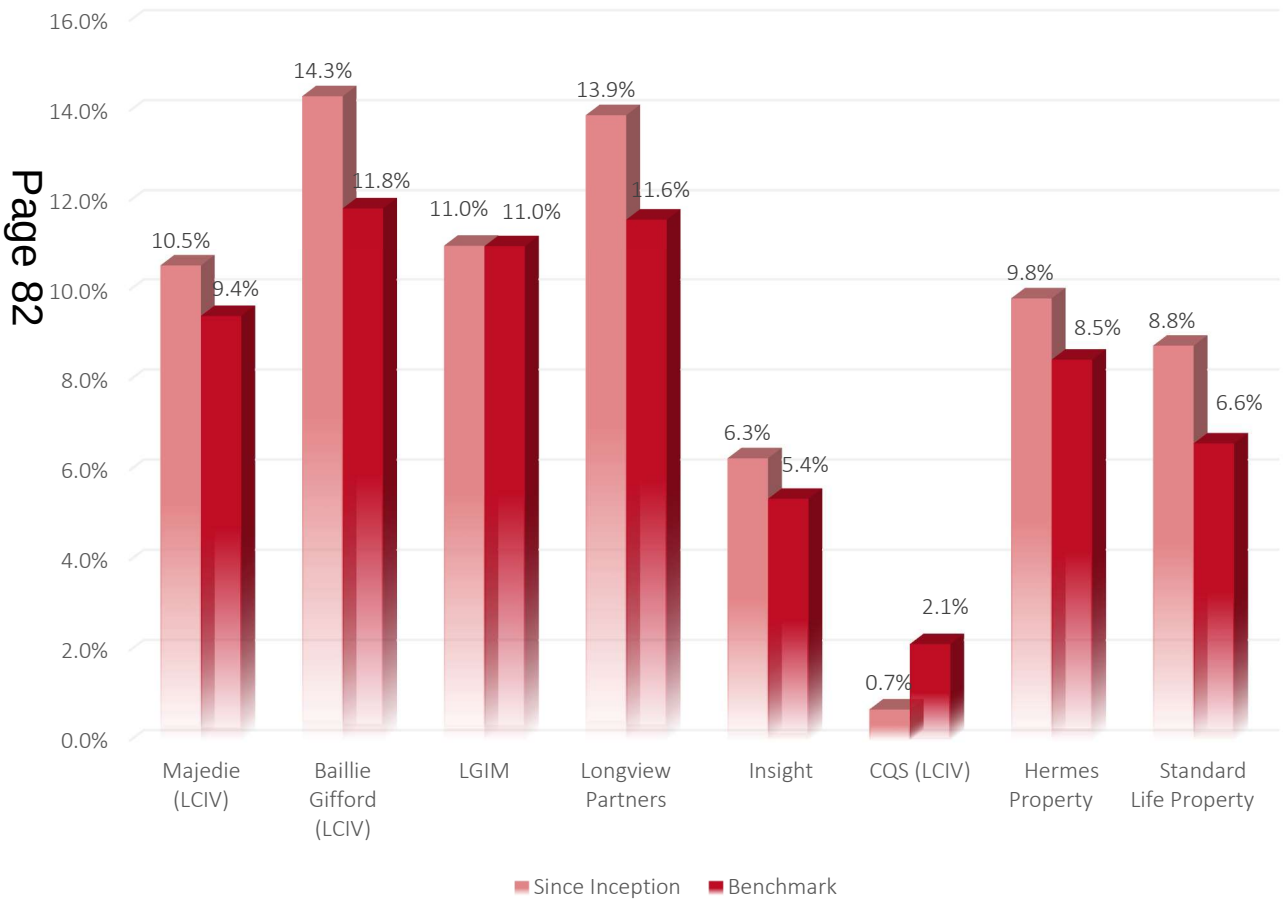
Performance of Fund Managers is reviewed quarterly by the Pension Fund Committee which is supported by the Fund's independent investment advisor, Deloitte.

Investment Performance (continued)

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

Overall each Fund Manager has achieved their target since inception with the exception of CQS which is a new Manager for 2018/19.

FUND MANAGER PERFORMANCE



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

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

Corporate Governance

RESPONSIBLE INVESTMENT POLICY

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

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

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

PROFESSIONAL BODIES

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

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

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

VOTING

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

COLLABORATIVE VENTURES

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

Following FCA approval in 2016, the CIV has continued to trade and the City of Westminster Pension Fund transferred the Baillie Gifford mandate (valued at £178m) into the CIV in April 2016. This followed by transferring the Majedie portfolio in May 2017 (valued at £308m) and the CQS multi asset credit fund in November 2018 (valued at £91m).

SEPARATION OF RESPONSIBILITIES

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

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

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

FUNDING STRATEGY STATEMENT

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

Its purpose is:

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

STEWARDSHIP CODE

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

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

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

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

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

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

4. Scheme Administration

Scheme Administration

SERVICE DELIVERY

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

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

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

COMMUNICATION POLICY STATEMENT

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

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

INTERNAL DISPUTE RESOLUTION PROCEDURE

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

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

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

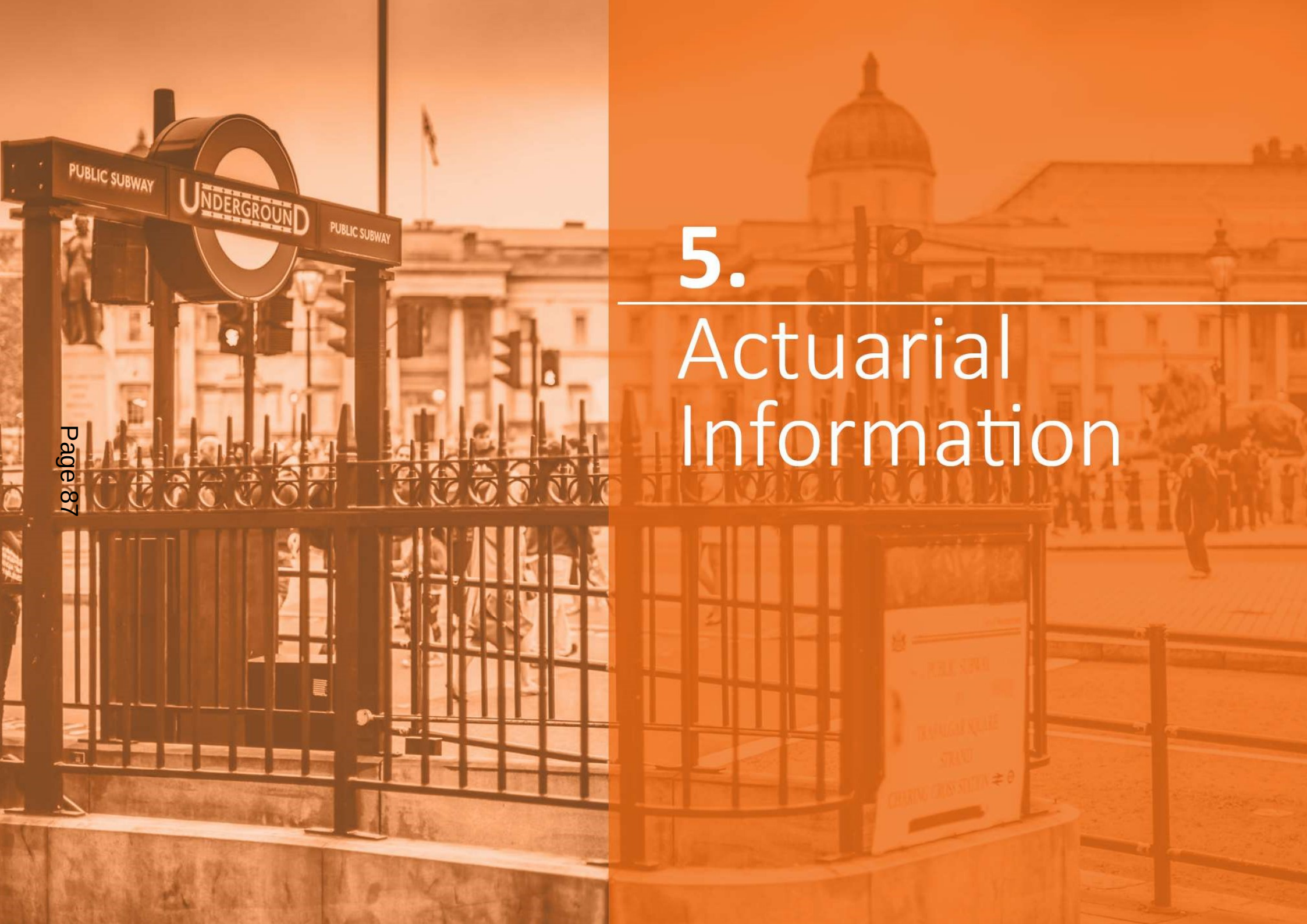
IDRP Stage 3 is a referral of the complaint to the Pension Ombudsman.

- two complaints have been received in 2018/19, with one potentially being referred to the Pensions Ombudsman

Currently no complaints received in 2018/19 have been referred to the Pensions Ombudsman.

Both TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road
Pimlico
London
SW1V 1RB



5. Actuarial Information

Report by Actuary

INTRODUCTION

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

This statement gives an update on the funding position as at 31 March 2019 and comments on the main factors that have led to a change since the full valuation.

2016 VALUATION

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

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

UPDATED POSITION

Using assumptions consistent with those adopted at the 2016 valuation, we estimate that the funding position at 31 March 2019 has improved compared with the position as at 31 March 2016, although the primary rate has also increased due to changes in market conditions.

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

Graeme Muir FFA

Partner, Barnett Waddingham LLP

6.

Pension Fund Accounts

Statement of Responsibilities

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

THE COUNCIL'S RESPONSIBILITIES

The Council is required to:

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

THE DIRECTOR OF FINANCE AND RESOURCES'S RESPONSIBILITIES

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

In preparing these Statements of Accounts, the Director of Finance and Resources has:

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

The Director of Finance and Resources has also:

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

Gerald Almeroth
Director of Finance and Resources, Section 151 Officer

Independent Auditors Report

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

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

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

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

RESPECTIVE RESPONSIBILITIES OF THE DIRECTOR OF FINANCE AND RESOURCES AND THE AUDITOR

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

Independent Auditors Report (continued)

SCOPE OF THE AUDIT OF THE PENSION FUND FINANCIAL STATEMENTS

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

OPINION ON THE PENSION FUND FINANCIAL STATEMENTS

In our opinion the pension fund financial statements:

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

OPINION ON OTHER MATTERS

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

Paul Dossett

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

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

15 June 2018

Pension Fund Accounts and Explanatory Notes

FUND ACCOUNT

2017/18		Notes	2018/19
£'000			£'000
	Dealings with members, employers and others directly involved in the fund		
	Contributions		
(44,982)	From Employers	6	(45,363)
(8,894)	From Members	6	(8,982)
(4,992)	Individual Transfers in from Other Pension Funds		(6,897)
(58,868)			(61,242)
	Benefits		
43,802	Pensions	7	45,610
8,674	Commutation, Lump Sum Retirement and Death Benefits	7	7,464
	Payments to and on Account of Leavers		
4,807	Individual Transfers Out to Other Pension Funds		4,919
67	Refunds to Members Leaving Service		196
57,350			58,189

Pension Fund Accounts and Explanatory Notes (continued)

2017/18		Notes	2018/19
£'000			£'000
(1,518)	Net (Additions)/Withdrawals from Dealings with Members		(3,053)
5,734	Management Expenses	8	5,823
4,216	Net (additions)/withdrawals including management expenses		2,770
	Returns on Investments		
(15,785)	Investment Income	9	(12,194)
-	Other Income	-	(48)
(15,785)			(12,242)
(56,708)	(Profit) and loss on disposal of investments and changes in the market value of investments	11	(72,884)
(72,493)	Net return on investments		(85,126)
(68,277)	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(82,356)
(1,267,699)	Opening Net Assets of the Scheme		(1,335,976)
(1,335,976)	Closing Net Assets of the Scheme		(1,418,332)

Net Assets Statement for the year ended 31 March 2019*

2017/18		Notes	2018/19
£'000			**£'000**
	Investment assets		
183,879	Bonds	16	-
150	Equities		150
1,129,276	Pooled Investment Vehicles		1,402,288
	Derivative Contracts:		-
282	Futures	13	-
55	Forward Foreign Exchange	13	-
	Other Investment Balances:		-
2,790	Income Due		120
13,218	Debtors		-
10,321	Cash Deposits		5,802
1,339,971			**1,408,360**
	Investment Liabilities		
	Derivative Contracts:		
(173)	Futures	13	-
(56)	Forward Foreign Exchange	13	-
(229)			**-**

Net Assets Statement for the year ended 31 March 2019* (continued)

2017/18		Notes	2018/19
£'000			**£'000**
(9,663)	Amounts payable for purchases of investments	12	-
1,330,079	Net Value of Investment Assets	11	1,408,360
6,728	Current Assets	20	11,293
(831)	Current Liabilities	21	(1,321)
1,335,976	**Net Assets of the Fund Available to Fund Benefits at the Period End**		**1,418,332**

* The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 18.

Note 1 Description of the City of Westminster Pension Fund

a) General

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by the City of Westminster Council. It is a contributory defined benefits scheme established in accordance with statute, which provides for the payment of benefits to employees and former employees of the City of Westminster and the admitted and scheduled bodies in the Fund. These benefits include retirement pensions and early payment of benefits on medical grounds and payment of death benefits where death occurs either in service or in retirement. The benefits payable in respect of service from 1st April 2014 are based on career average revalued earnings and the number of years of eligible service. Pensions are increased each year in line with the Consumer Price Index.

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

- The LGPS Regulations 2013 (as amended)
- The LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- The LGPS (Management and Investment of Funds) Regulations 2016.

b) Funding

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from interest and dividends on the Fund's investments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2018. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was as at 31 March 2016. Currently employer contribution rates range from 10.1% to 38.8% of pensionable pay.

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

c) Benefits

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

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

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

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

The City of Westminster Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from the pension fund. The Fund has used Aegon as its appointed AVC provider for the past 15 years and Equitable Life before. AVCs are paid to the AVC providers by employers and specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

d) Governance

The Council has delegated management of the fund to the Pension Fund Committee (the 'Committee') who decide on the investment policy most suitable to meet the liabilities of the Fund and have the ultimate responsibility for the investment policy. The Committee is made up of four Members of the Council each of whom has voting rights.

The Committee reports to the Full Council and has full delegated authority to make investment decisions. The Committee considers views from the Tri-Borough Director of Pensions and Treasury, and obtains, as necessary, advice from the Fund's appointed investment advisors, fund managers and actuary.

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

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

e) Investment Principles

In accordance with the LGPS (Management and Investment of Funds) Regulations 2016 the Committee approved an Investment Strategy Statement on 21 March 2017 (available on the Council's website). The Statement shows the Authority's compliance with the Myners principles of investment management.

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

f) Membership

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

Organisations participating in the City of Westminster Pension Fund include:

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

The following table summarises the membership numbers of the scheme:

31 March 2018		31 March 2019
31	Number of employers with active members	29
4,359	Active members	4,371
5,830	Pensioners receiving benefits	5,921
6,220	Deferred Pensioners	6,201
16,409		**16,493**

Note 2 Basis of preparation of financial statements

The Statement of Accounts summarise the Fund's transactions for 2018/19 and its position at year end as at 31st March 2019. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

The accounts summarise the transactions of the Fund and report on the net assets available to pay pension benefits.

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Authority has opted to disclose this information in an accompanying report to the accounts, which is disclosed in Note 18. The Pension Fund Accounts have been prepared on a going concern basis.

Note 3 Summary of significant accounting policies

FUND ACCOUNT – REVENUE RECOGNITION

a) Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the actuary in the payroll period to which they relate.

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

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

b) Transfers to and from other schemes

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

c) Investment Income

Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Investment income arising from the underlying investments of the Pooled Investment Vehicles is either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as a cash dividend to support the Fund's outgoing cash flow requirements.

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

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

Where the amount of an income distribution has not been received from an investment manager by the balance sheet date, an estimate based upon the market value of their mandate at the end of the year is used.

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

FUND ACCOUNT – EXPENSE ITEMS

d) Benefits Payable

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

e) Taxation

The Fund is an exempt approved fund under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. As the Council is the administering authority for the Fund, VAT input tax is recoverable on all Fund activities including expenditure on investment expenses. Where tax can be reclaimed, investment income in the accounts is shown gross of UK tax. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) VSP, MSP and life time allowance

Members are entitled to request the Pension Fund pays their tax liabilities due in respect of annual allowance and life time allowance in exchange for a reduction in pension.

Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

Note 3 Summary of significant accounting policies (continued)

g) Management Expenses

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

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

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

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

All investment management expenses are accounted for on an accruals basis. The Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee based on the market value of the investments they manage and/or a fee based on performance.

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the fund account.

NET ASSETS STATEMENT

h) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the value of the asset are recognised in the Fund account.

The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 14).

i) Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes (see Note 13).

j) Foreign Currency Transactions

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

k) Cash and Cash Equivalents

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

l) Financial Liabilities

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

m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS 19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the financial statements include a note disclosing the actuarial present value of retirement benefits (see Note 18).

n) Additional Voluntary Contributions

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 21).

o) Recharges from the General Fund

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have been charged to the Fund on the basis of actual time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the Fund are set out separately in Note 22.

Note 4 Critical judgements in applying accounting policies

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

PENSION FUND LIABILITY

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

PANTHEON INFRASTRUCTURE INVESTMENT

This investment has been valued at cost (£14.403m) on the basis that fair value as at 31 March 2019 cannot be reliably estimated. Management have made this judgement because:

- the Investment has only been drawn down on 20 March 2019
- no dividend to shareholders has as yet been declared
- no published trading results are as yet available which would allow fair value to be calculated on a net asset basis or enable the accuracy of profit and cash flow projections to be assessed with confidence.

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

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

VALUATION OF INVESTMENTS LEVEL 3

The Pension Fund contains investments in unitised pooled property funds that are classified within the financial statements as level 3 investments (as detailed in note 14). These funds are valued according to non-exchange based market valuations. As a result of this, the final realised value of those pooled units may differ slightly from the valuations resented in the accounts.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £37.85m. A 0.1% increase in assumed earnings would increase the value of liabilities by approximately £2.77m and a year increase in life expectancy would increase the liability by about £77.32m.

Note 6 Contributions receivable

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

BY AUTHORITY

2017/18		2018/19
£'000		£'000
(43,652)	Administering Authority	(45,265)
(5,763)	Scheduled bodies	(5,146)
(4,461)	Admitted bodies	(3,934)
(53,876)		**(54,345)**

BY TYPE

2017/18		2018/19
£'000		£'000
(8,894)	Employees' normal contributions	(8,982)
	Employer's contributions:	
(18,981)	Normal contributions	(20,025)
(24,863)	Deficit recovery contributions	(24,743)
(1,138)	Augmentation contributions	(595)
(53,876)		**(54,345)**

Note 7 Benefits payable

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

BY TYPE

2017/18		2018/19
£'000		£'000
43,802	Pensions	45,610
7,034	Commutation and lump sum retirement benefits	6,839
1,640	Lump sum death benefits	625
52,476		**53,074**

BY AUTHORITY

2017/18		2018/19
£'000		£'000
41,206	Administering Authority	41,837
2,020	Scheduled Bodies	2,172
9,250	Admitted Bodies	9,065
52,476		**53,074**

Note 8 Management Expenses

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

2017/18		2018/19
£'000		£'000
386	Administration Expenses	546
373	Oversight and Governance	437
4,975	Investment Management Expenses	4,840
5,734		**5,823**

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

2017/18*		2018/19
£'000		£'000
4,663	Management fees	4,572
63	Custody fees	38
249	Transaction costs	230
4,975		**4,840**

*£1.6m transaction costs transferred to management fees

Note 9 Investment Income

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

2017/18		2018/19
£'000		**£'000**
6,762	Bonds	210
6,713	Pooled investments - unit trust and other managed funds	9,653
2,265	Pooled property investments	2,240
45	Interest and cash deposits	91
15,785	Total before taxes	12,194
15,785	**Total**	**12,194**

Note 10 Investment Management Arrangements

As at 31 March 2019, the investment portfolio was managed by seven external managers:

- UK property portfolios are split between Hermes Investment Managers and Standard Life;
- Fixed income mandates are managed by CQS (Multi Asset Credit, via the London CIV), Insight (Bonds) and Pantheon (Infrastructure);
- Equity portfolios are split between Majedie Investment Managers (active UK, managed by the London CIV), Baillie Gifford (active global, managed by the London CIV), Legal and General Investment Management (passive global) and Longview Partners (active global).

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

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

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

The market value and proportion of investments managed by each fund manager at 31 March 2019 was as follows:

31 March 2018 Market Value	%	Fund Manager	Mandate	31 March 2019 Market Value	%
£'000				£'000	
Investments managed by the London CIV asset pool:					
297,503	22.4%	London LGPS CIV Ltd - Majedie	UK Equity (Active)	292,964	20.8%
150	-	London CIV	UK Equity (Passive)	150	0.0%
297,653	**22.4%**	**UK Equity**		**293,114**	**20.8%**
264,319	19.9%	London LGPS CIV Ltd - Baillie Gifford	Global Equity (Active)	283,978	20.2%
310,073	23.4%	LGIM	World Equity (Passive)	325,643	23.1%
574,392	**43.3%**	**Global Equity**		**609,621**	**43.3%**
-	-	London LGPS CIV Ltd - CQS	Multi Asset Credit	91,629	6.5%
-	**-**	**Fixed Income**		**91,629**	**6.5%**
872,045	**65.7%**	**Total pooled**	**Sub-Total**	**994,364**	**70.6%**
Investments managed outside of the London CIV asset pool:					
142,754	10.7%	Longview	Global Equity (Active)	70,003	5.0%
142,754	**10.7%**	**Global Equity**		**70,003**	**5.0%**
-	-	Insight Buy and Maintain Bond Fund	Bonds	198,690	14.1%
18,626	1.4%	Insight	Bonds	-	-
173,103	13.0%	Insight	Sterling non-Gilts	-	-
191,729	**14.4%**	**Bonds**		**198,690**	**14.1%**
62,983	4.7%	Hermes	Property	65,247	4.6%
60,474	4.5%	Standard Life	Property	64,709	4.6%
123,457	**9.2%**	**Property**		**129,956**	**9.2%**
-	**-**	Pantheon Global Infrastructure	Infrastructure	14,403	1.0%
-	**-**	**Fixed Income**		**14,403**	**1.0%**
457,940	**34.3%**	**Total outside pool**	**Sub-total**	**413,052**	**29.3%**
94	0.0%	Cash deposits		944	0.1%
1,330,079	**100%**	**Total investments at 31 March 2018**		**1,408,360**	**100%**

Note 11 Reconciliation in movement in investments

2017/18	Market value 1 April 2017	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Bonds	173,673	127,645	(112,775)	(4,664)	183,879
Equities	150	-	-	-	150
Pooled equity investments	974,609	393,201	(410,211)	51,010	1,008,609
Pooled property investments	110,739	-	(333)	10,261	120,667
Derivatives:					
Futures	243	1,205	(987)	(352)	109
Forward foreign exchange	(36)	816	(1,232)	451	(1)
Total	1,259,378	522,867	(525,538)	56,706	1,313,413
Cash deposits	1,726			47	10,321
Amounts receivable for sales of investments	-			-	13,218
Investment income due	2,499			-	2,785
Spot FX contracts	-			(1)	5
Amounts payable for purchases of investments	(1,710)			(44)	(9,663)
Net investment assets	**1,261,893**			**56,708**	**1,330,079**

Note 11 Reconciliation in Movement in Investments (continued)

2018/19	Market value 1 April 2018	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Bonds	183,879	-	(183,658)	(221)	-
Equities	150	-	-	-	150
Pooled equity investments	1,008,609	287,433	(101,278)	66,098	1,260,862
Pooled property investments	120,667	50	(309)	6,615	127,023
Infrastructure	-	14,403	-	-	14,403
Derivatives:					
Futures	109	129	(216)	(22)	-
Forward foreign exchange	(1)	272	(443)	172	-
Total	1,313,413	302,287	(285,904)	72,642	1,402,438
Cash deposits	10,321			190	5,802
Amounts receivable for sales of investments	13,218			-	-
Investment income due	2,785			-	120
Spot FX contracts	5			7	-
Amounts payable for purchases of investments	(9,663)			45	-
Net investment assets	**1,330,079**			**72,884**	**1,408,360**

Purchases and sales of derivatives are recognised in Note 11 above as follows:

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

Note 12 Investments exceeding 5% of net assets

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

31 March 2018 Market Value		Holding	31 March 2019 Market Value	
£'000	% Holding		£'000	% Holding
292,703	22.0%	London LGPS CIV Ltd - Majedie	292,609	20.8%
310,073	23.3%	LGIM	325,643	23.1%
261,977	19.7%	London LGPS CIV Ltd - Baillie Gifford	282,477	20.1%
142,754	10.7%	Longview	70,003	5.0%
-	-	Insight Buy and Maintain Bond Fund	198,500	14.1%
-	-	London LGPS CIV Ltd - CQS	91,629	6.5%
1,007,507	75.7%	Total Top Holdings	1,260,861	89.6%
1,330,079		Total Value of Investments	1,408,360	

Note 13 Analysis of Derivatives

OBJECTIVES AND POLICIES FOR HOLDING DERIVATIVES

The Committee has authorised the use of derivatives for efficient portfolio management purposes and to reduce certain investment risks, in particular foreign exchange risk. All uses of derivatives are outsourced to the Fund's external asset managers which must adhere to the detailed requirements set out in their investment management agreements.

a) Liquidity

The Fund uses interest rate futures to hedge some of the non-Sterling interest rate risk.

b) Forward foreign currency

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

FUTURES

Outstanding exchange traded futures contracts are as follows.

Economic Exposure	Market Value 31 March 2018	Type	Expires	Economic Exposure	Market Value 31 March 2019
£'000	£'000			£'000	£'000
		Assets			
14,861	278	UK Fixed Income	less than 1 year	-	-
547	4	Overseas fixed income	less than 1 year	-	-
	282	Total Assets			
		Liabilities			
(5,927)	(173)	Overseas Fixed Income	less than 1 year	-	-
	(173)	Total Liabilities			
	109	Net futures		-	-

Note 14a Fair Value – Basis of Valuation

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

Description of asset	Valuation hierarchy 17/18	Valuation hierarchy 18/19	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments - Equity Funds UK and Overseas Managed Funds	Level 2	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets.	Evaluated price feeds	Not required
Quoted UK and Overseas Bonds	Level 2	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	Evaluated price feeds	Not required
Futures	Level 2	N/A	Published exchange prices at the year-end.	Evaluated price feeds	Not required
Forward Foreign Exchange Derivatives	Level 2	N/A	Market forward exchange rates at the year-end.	Exchange rate risk	Not required
Pooled Long Lease Property Fund	Level 2	Level 2	The Standard Life Long Lease Property Fund is priced on a Single Swinging Price.	In house evaluation of market data	Not required
Pooled Investments – Property Funds	Level 3	Level 3	Closing bid price where bid and offer prices are published.	Adjusted for net capital current assets	Estimated acquisition and disposal costs
Pooled Investments – Multi Asset Credit	N/A	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	Evaluated price feeds	Not required
Pooled Investments - Infrastructure	N/A	Level 3	Valued at cost at year end.	Manager valuation statements are prepared in accordance with ECVA guidelines	Upward valuations are only considered when there is validation of the investment objectives and such progress can be demonstrated

SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

Description of asset	Assessed Valuation Range (+/-)	Value at 31 March 2019	Value on increase	Value on decrease
		£000	£000	£000
Pooled investments - Property funds	3%	62,315	64,184	60,445
Total		**62,315**	**64,184**	**60,445**

As at 31 March 2018:

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

Note 14b Valuation of Financial Instruments carried at Fair Value

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

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

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

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

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

31 March 2018				31 March 2019		
Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3		Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
282	1,251,920	60,343	Financial assets at fair value through profit and loss	-	1,325,571	76,868
(173)	(9,719)	-	Financial liabilities at fair value through profit and loss	-	-	-
109	1,242,201	60,343		-	1,325,571	76,868
	1,302,653				**1,402,438**	

Note 14c Reconciliation of Fair Value Measurements within Level 3

2018/19	Opening balance	Transfers into Level 3	Transfers out of Level 3	Purchases	Sales	Unrealised gains/losses	Realised gains/losses	Closing balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equity	150	-	-	-	-	-	-	150
Pooled investments - property funds	60,193	-	-	-	-	2,122	-	62,315
Pooled investments - Infrastructure	-	-	-	14,403	-	-	-	14,403
Total	**60,343**	**-**	**-**	**14,403**	**-**	**2,122**	**-**	**76,868**

s at 31 March 2018:

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

Note 15a Classification of Financial Instruments

The following table shows the classification of the Fund's financial instruments and also shows the split by UK and overseas.

31-Mar-18				31-Mar-19		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
98,537			UK Corporate Bonds			
85,342			Overseas Corporate Bonds			
			Pooled funds - investment vehicles			
864,903			UK Managed Funds Other	992,509		
120,667			UK Unit Trusts Property	127,023		
143,856			Overseas Managed	268,503		
-			Infrastructure	14,403		
			Derivative Contracts			
282			Futures			
55			Forward Foreign Exchange			
	4,668		**Cash Balances (held directly by Fund)**		**7,397**	
	2,790		**Other Investment Balances**		**120**	
	10,321		**Cash Deposits**		**5,802**	
	14,611		**Debtors**		**3,875**	
1,313,642	32,390	-		1,402,438	17,194	-

Note 15a Classification of Financial Instruments (continued)

31 March 2018				31 March 2019		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Liabilities			
			Derivative Contracts			
(173)	-	-	Futures	-	-	-
(56)	-	-	Forward Foreign Exchange	-	-	-
-	-	-	Other Investment Balances	-	-	-
-	-	(9,904)	Creditors	-	-	(745)
(229)	-	(9,904)		-	-	(745)
1,313,413	32,390	(9,904)	Total	1,402,438	17,194	(745)
	1,335,899				**1,418,887**	

Note 15b Net Gains and Losses on Financial Instruments

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

31 March 2018		31 March 2019
£'000		£'000
	Financial Assets	
56,706	Designated at fair value through profit and loss	72,642
2	Loans and receivables	192
56,708		72,834
	Financial Liabilities	
-	Financial liabilities at amortised cost	51
-		51
56,708	**Total**	**72,883**

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

Note 16 Nature and extent of risks arising from Financial Instruments

RISK AND RISK MANAGEMENT

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

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

a) Market Risk

Market risk is the risk of loss emanating from general market fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk across all its investment activities. In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of asset class, geographical and industry sectors and individual securities. To mitigate market risk, the Committee and its investment advisors undertake regular monitoring of market conditions and benchmark analysis.

Price risk

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

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

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

Price Risk Assets exposed to price risk	Value	Value on 10% price increase	Value on 10% price decrease
	£'000	£'000	£'000
As at 31 March 2018	1,330,079	1,463,088	1,197,072
As at 31 March 2019	**1,408,360**	**1,549,196**	**1,267,524**

Note 16 Nature and extent of risks arising from Financial Instruments (continued)

Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Committee and its investment advisors regularly monitor the Fund's interest rate risk exposure during the year. The Fund manages its interest risk exposure through the use of futures derivatives (see Note 13).

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

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

Assets exposed to interest rate risk	Average Duration	Value	Value on 1% increase	Value on 1% decrease
	Yrs	£'000	£'000	£'000
Fixed Income - Global Bonds	8.16	198,690	182,477	214,903
Fixed Income - Global Multi Asset Credit	1.27	91,629	90,465	92,793
As at 31 March 2019		**290,319**	**272,942**	**307,696**

Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than Sterling. The Fund aims to mitigate this risk through the use of derivatives (see Note 13). The Committee recognises that a strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

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

Note 16 Nature and extent of risks arising from Financial Instruments (continued)

Assets exposed to currency risk	Value	Value on 10% foreign exchange rate increase	Value on 10% foreign exchange rate decrease
	£'000	£'000	£'000
As at 31 March 2018	750,881	825,969	675,793
As at 31 March 2019	**670,022**	**737,024**	**603,020**

b) Credit Risk

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

The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The selection of high quality fund managers, counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

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

c) Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Committee monitors cash flows and takes steps to ensure that there are adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions. As at 31 March 2019, liquid assets were £1,264m representing 90% of total fund assets (£1,209m at 31 March 2018 representing 91% of the Fund at that date). The majority of these investments can in fact be liquidated within a matter of days.

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

Note 17 Funding Arrangements

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

The latest full triennial valuation of the Fund was carried out by Barnett Waddingham, the Fund's actuary, as at 31 March 2016 in accordance with the Funding Strategy Statement of the Fund and Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. The results were published in the triennial valuation report dated 31 March 2017. The report and Funding Strategy Statement are both available on the Council's website.

The actuary's smoothed market value of the scheme's assets at 31 March 2016 was £1,056.7m and the Actuary assessed the present value of the funded obligation at £1,320.8m. This indicates a net liability of £264.1m, which equates to a funding position of 80% (2013: £297.3m and 74%).

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

Future assumed returns at 2013	Assumed returns %	Risk adjusted assumed returns %
Bonds	3.3	20
Equities	7.4	65
Property	5.9	15

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

The 2016 valuation certified an aggregate employer contribution rate of 33.9% of pensionable pay (2013: 29.8%). The contribution rate is set on the basis of the cost of future benefit accrual, increased to bring the funding level back to 100% over a period of 22 years, as set out in the Funding Strategy Statement (2013: 25 years). The common future service contribution rate for the Fund was set at 16.9% of pensionable pay (2013: 13.3%).

The triennial valuation also sets out the individual contribution rate to be paid by each employer from 1 April 2017 depending on the demographic and actuarial factors particular to each employer. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

Note 18 Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2019. The figures have been prepared by Barnett Waddingham, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation.

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

31 March 2018		31 March 2019
£'000		£'000
(2,014,651)	Present Value of Promised Retirement Benefits	(2,046,789)
1,335,977	Fair Value of Scheme Assets (bid value)	1,402,762
(678,674)	**Net Liability**	**(644,027)**

Present Value of Promised Retirement Benefits comprise of £2,003m (2017/18: £1,967.2m) and £43.8m (2017/18: £47.5m) in respect of vested benefits and non-vested benefits respectively as at 31 March 2019.

ASSUMPTIONS

To assess the value of the Fund's liabilities at 31 March 2019, the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2016 have been rolled forward, using financial assumptions that comply with IAS19.

DEMOGRAPHIC ASSUMPTIONS

The demographic assumptions used are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2016, hence they are different from those used for the 2018/19 statement of accounts. The post retirement mortality tables adopted are the S1PA tables with a multiplier of 80%, for males and 85% for females. These base tables are then projected using the CMI 2015 Model, allowing for a long-term rate of improvement of 1.5% p.a.

Assumed life expectancy from age 65 is:

Life expectancy from age 65 years		31 March 2018	31 March 2019
Retiring today	Males	24.5	23.4
	Females	26.1	24.8
Retiring in 20 years	Males	26.8	25.0
	Females	28.4	26.6

FINANCIAL ASSUMPTIONS

The main financial assumptions are:

	31 March 2018 %	31 March 2019 %
RPI increases	3.30	3.40
CPI increases	2.30	2.40
Salary increases	3.80	3.90
Pension increases	2.30	2.40
Discount rate	2.55	2.40

Note 19 Current Assets

31 March 2018		31 March 2019
£'000		£'000
	Debtors:	
1,228	Contributions due - employers	1,893
165	Contributions due - employees	578
667	Sundry debtors	1,425
4,668	Cash balances	7,397
6,728		**11,293**

ANALYSIS OF DEBTORS

31 March 2018		31 March 2019
£'000		£'000
667	Central Government Bodies	28
706	Other entities and individuals	718
687	Administering Authority	3,150
2,060		**3,896**

Note 20 Current Liabilities

31 March 2018		31 March 2019
£'000		£'000
(831)	Sundry creditors	(1,321)
(831)	**Total**	**(1,321)**

31 March 2018		31 March 2019
£'000		£'000
(589)	Central Government Bodies	(576)
(242)	Other entities and individuals	(140)
-	Administering Authority	(605)
(831)		**(1,321)**

Note 21 Additional Voluntary Contributions

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

31 March 2018 Market Value		31 March 2019 Market Value
£'000		£'000
956	Aegon	895
438	Equitable Life	312
1,394	**Total**	**1,207**

Additional voluntary contributions of £0.1m were paid directly to Aegon during the year (2017/18: £0.1m).

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

The AVC providers secure benefits on a money purchase basis for those members electing to pay AVCs. Members of the AVC schemes each receive an annual statement confirming the amounts held in their account and the movements in the year. The Fund relies on individual contributors to check that deductions are accurately reflected in the statements provided by the AVC provider.

Note 22 Related Party Transactions

The Fund is administered by Westminster City Council. The Council incurred costs of £0.424m in the period 2018/19 (2017/18: £0.43m) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses. The Fund uses the same Banking and Control Service provider as WCC and no charge is made in respect of this.

KEY MANAGEMENT PERSONNEL REMUNERATION

The key management personnel of the Fund are the Members of the Pension Fund Committee, the Director of Finance and Resources, the Tri-Borough Director of Pensions and Treasury Management and the Director of People Services. There were no costs apportioned to the Pension Fund in respect of the Director of Finance and Resources post for 2018/19. Total remuneration payable to key management personnel from the Pension Fund is set out below:

31 March 2018		31 March 2019
£'000		£'000
42	Short-term benefits	58
83	Post-employment benefits	22
125	**Total**	**80**

Note 23 External audit costs

The external fee payable to the Fund's external auditors Grant Thornton UK LLP was £16,000 (£21,000 in 2017/18).

31 March 18		31 March 2019
£'000		£'000
21	External audit fees	16
(3)	PSAA refund	-
18	**Total**	**16**

Note 24 Related Party Transactions

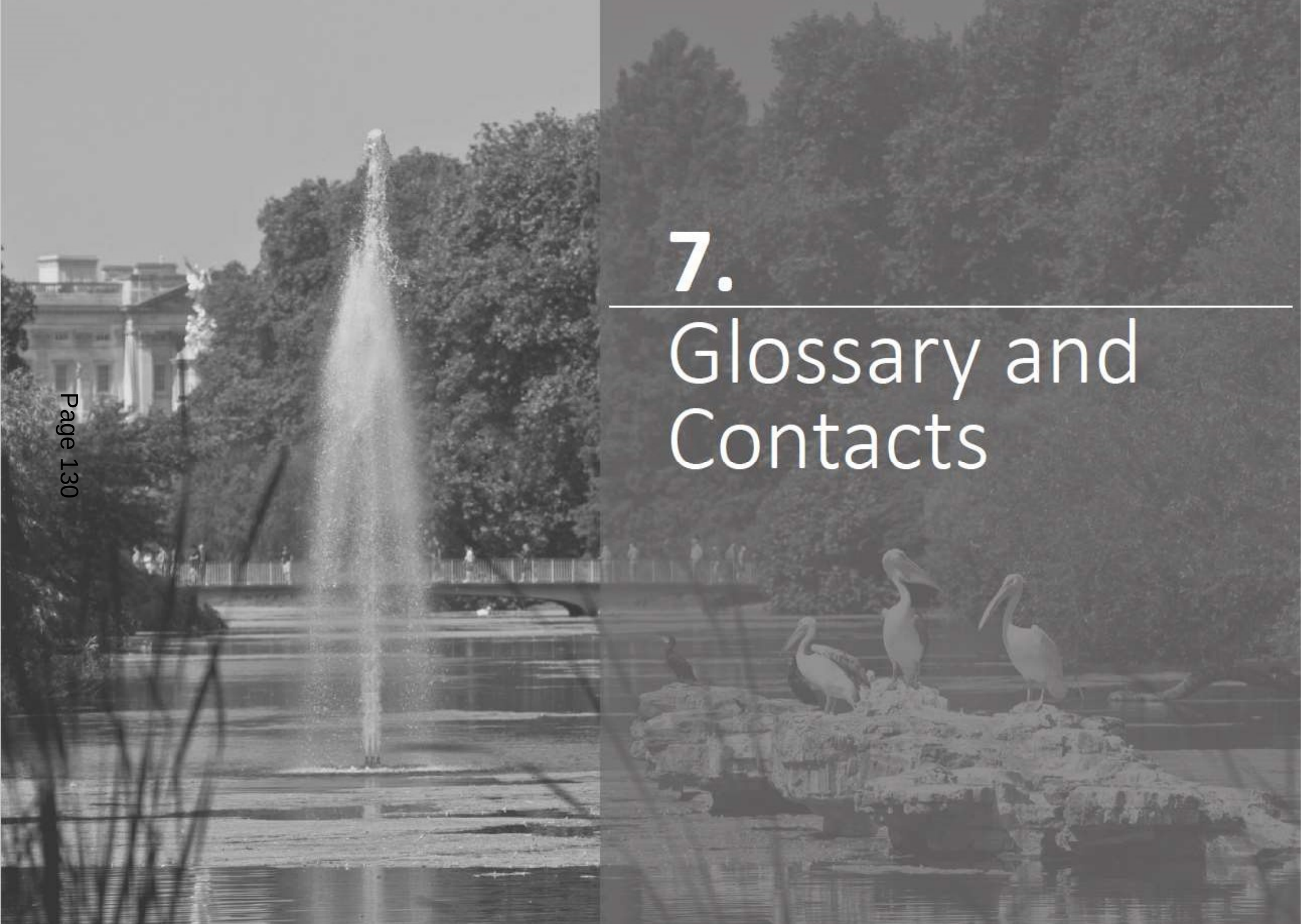
Management have reviewed and can confirm that there are no significant events occurring after the reporting period.

Note 25 Contractual Commitments

The Fund has committed $91.5m to the Pantheon Global Infrastructure Fund III. Of this commitment $72.8m was still outstanding at 31 March 2019.

Note 26 Contingent Liabilities

During 2018/19 the Court of Appeal upheld two claims concerning age discrimination within the transitional arrangements of the judges and firefighters pension schemes. The impact of the Court of Appeal rulings would be to increase the pension liabilities of both schemes. The Government is considering whether to seek leave to appeal the judgements to the Supreme Court and it is uncertain as to the outcome of any such appeal. The Local Government Pension Scheme has similar transitional arrangements to the judges and firefighters schemes. The gross pension liability of £2.047m reported at Note 18 does not take account of the two rulings because the Local Government Pension Scheme is outside the scope of the rulings and Scheme has not been amended. If the LGPS was amended to reflect the age discrimination issues raised by the Court of Appeal rulings, this would increase the gross liabilities of the City of Westminster Pension Fund by between 0.5 and 1.0% i.e. between £10m and £20m.



7. Glossary and Contacts

Glossary of Terms

ACCOUNTING POLICIES

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

ACCRUALS

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

ACTIVE MANAGEMENT

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

ACTIVE MEMBER

Current employee who is contributing to a pension scheme.

ACTUARIAL GAINS AND LOSSES

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

ACTUARY

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

ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

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

ADMITTED BODY

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

ASSET ALLOCATION

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

BENCHMARK

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

BONDS

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

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTING)

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

CREDITORS

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

DEBTORS

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

DEFERRED MEMBERS

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

DEFINED BENEFIT SCHEME

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

DERIVATIVE

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

EMPLOYER CONTRIBUTION RATES

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

EQUITIES

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

EXCHANGE TRADED

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

FINANCIAL ASSETS

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

FINANCIAL INSTRUMENT

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

FINANCIAL LIABILITIES

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

FORWARD FOREIGN EXCHANGE DERIVATIVE

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

INDEX

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

OVER THE COUNTER

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

PASSIVE MANAGEMENT

Passive management is where the investments mirror a market index.

POOLED INVESTMENT VEHICLES

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

PROJECTED UNIT METHOD – PENSION FUND VALUATION

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

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

RELATED PARTIES

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

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

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

RELATED PARTY TRANSACTION

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

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

RETURN

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

SCHEDULED BODY

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

THE CODE

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

UNREALISED GAINS/LOSSES

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

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

Contact Information

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

FOR FURTHER DETAILS PLEASE CONTACT:

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SW1E 6QP

pensionfund@westminster.gov.uk

8.

Appendices

Governance Compliance Statement

BACKGROUND

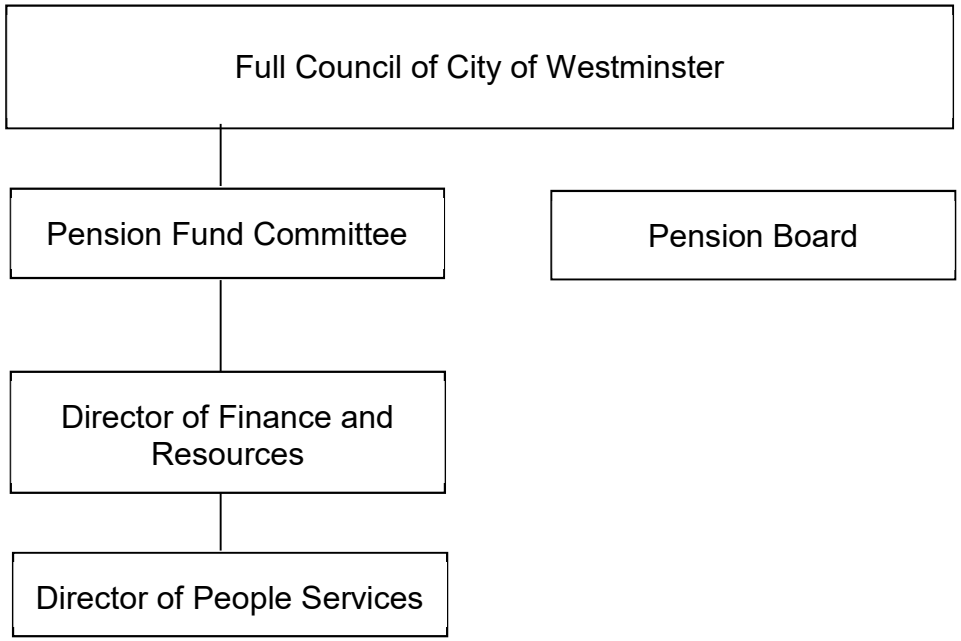
The City of Westminster is the administering authority for the City of Westminster Pension Fund ("the Fund") and it administers the Local Government Pension Scheme on behalf of the participating employers.

Regulation 55 of the Local Government Pension Scheme Regulations 2013 requires all administering authorities for local government pension schemes to publish a Governance Compliance Statement setting out the Fund's governance arrangements. Information on the extent of the Fund's compliance with guidance issued by the Secretary of State for Communities and Local Government is also a requirement of this regulation.

GOVERNANCE STRUCTURE

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

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



PENSION FUND COMMITTEE

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

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

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

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

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

The terms of reference for the Pension Fund Committee are:

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

Governance Compliance Statement (continued)

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

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

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

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

PENSION BOARD

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

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

The membership of the Board is as follows:

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

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

COMPLIANCE WITH STATUTORY GUIDANCE

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

REVIEW OF STATEMENT

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

Governance Compliance Statement (continued)

Compliance Requirement	Compliance	Notes
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	As set out in terms of reference of the Pension Fund Committee.
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Pension Fund Committee.
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Not applicable	All Pension Fund matters are considered by the Pension Fund Committee
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel	Not applicable	All Pension Fund matters are considered by the Pension Fund Committee
Committee membership and representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an *ad hoc* basis).	Compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Pension Fund Committee. Expert advisers attend the Committee as required
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights	Not applicable	All Pension Fund matters are considered by the Pension Fund Committee
Selection and role		
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	Compliant	As set out in terms of reference of the Pension Fund Committee
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Compliant	This is a standing item on the Pension Fund Committee agendas
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	As set out in terms of reference of the Pension Fund Committee

Governance Compliance Statement (continued)

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

Communication Policy

BACKGROUND

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

- Scheme Members
- Members' Representatives
- Prospective members
- Employers participating in the Fund

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

GENERAL COMMUNICATIONS

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

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

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

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

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

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

It also contains:

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

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

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

We consider this website to be one of our key methods of communication.
http://www.wccpensionfund.co.uk/

Communication Policy (continued)

PROSPECTIVE SCHEME MEMBERS

Scheme Guides

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

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

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

OTHER EMPLOYERS

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

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

OTHER BODIES

London Pensions Officer's Group:

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

National Association of Pension Funds (NAPF):

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

Seminars

Representatives of the Council regularly participate at seminars and conferences.

Communication Policy (continued)

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

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

Communication Policy (continued)

FURTHER INFORMATION

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

SURREY COUNTY COUNCIL

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

General enquiries and complaints:
Phone: 0300 200 1031

Funding Strategy Statement

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

1. PURPOSE OF THE FUNDING STRATEGY STATEMENT

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

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

2. AIMS AND PURPOSE OF THE FUND

2.1 The aims of the Fund are to:

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

2.2 The purpose of the Fund is to:

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

3. RESPONSIBILITIES OF KEY PARTIES

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

The Administering Authority

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

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

Funding Strategy Statement (continued)

Individual Employers

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

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority within statutory timescales;
- Notify the Administering Authority of any new scheme members and any other membership changes promptly;

Exercise the discretions permitted under the regulations as appropriate;

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

The Fund Actuary

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

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

4. FUNDING TARGET, SOLVENCY AND METHODS

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

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

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

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

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

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

5. VALUATION ASSUMPTIONS

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

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

Financial Assumptions: Future Price Inflation

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

Financial Assumptions: Future Pay Inflation

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

Financial Assumptions: Pension Increases

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

Financial Assumptions: Future Investment Returns/Discount Rate

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

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

Financial Assumptions: Value of Assets

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

Statistical Assumptions

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

6. DEFICIT RECOVERY OR SURPLUS AMORTISATION PERIODS

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

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

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

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

7. POOLING OF EMPLOYERS

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

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

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

8. ADMISSION OF NEW EMPLOYERS

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

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

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

9. CESSATION VALUATIONS

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

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

10. LINKS TO THE STATEMENT OF INVESTMENT PRINCIPLES

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

11. KEY RISKS AND CONTROLS

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

Financial Risks

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

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

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

Demographic Risks

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

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

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

Regulatory Risks

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

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

Governance Risks

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

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

11.11 To mitigate this risk, the Administering Authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

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

12. MONITORING

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

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

City of Westminster Pension Fund Investment Strategy Statement 2017/18

1. Introduction

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

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

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

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

We deal with each of these in turn below.

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

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

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

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

with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

- To determine policy on the award of additional pension and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub- Committee).
- To determine policy on retirement before the age of 60 and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub- Committee).
- To determine a policy on flexible retirement and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine questions and disputes pursuant to the Internal Disputes Resolution Procedures.
- To determine any other investment or pension policies that may be required from time to time so as to comply with Government regulations and to make any decisions in accordance with those policies other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

The Committee has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes
- Appointing the investment managers, an independent custodian, the actuary, the investment advisor(s) and any other external consultants considered necessary
- Reviewing on a regular basis the investment managers' performance against benchmarks, portfolio risk and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls
- Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents
- Reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights

The City Treasurer and the appointed consultants and actuaries support the Committee. The day-to-day management of the Fund's assets is delegated to investment managers.
1.5 This ISS will be reviewed at least once a year, or more frequently as required - in particular following valuations, future asset/liability studies and performance reviews, which may indicate a need to change investment policy, or significant changes to the FSS.

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

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

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

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

- Exposure to a diverse range of sources of return, such as market, manager skill and through the use of less liquid holdings.
- Diversity in the asset classes used
- Diversity in the approaches to the management of the underlying assets.

2.3 This approach to diversification has seen the fund dividing its assets into 4 broad categories: UK equities, global equities, Fixed Income and Property. The size of the assets invested in each category will vary depending on investment conditions. However, it is important to note that each category is itself diversified.

A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

2.4 The main risk the Committee are concerned with is to ensure the long-term ability of the fund to meet pension, and other benefit obligations, as they fall due is met. As a result the Committee place a high degree of importance on ensuring the expected return on the assets is sufficient to do so, and does not have to rely on a level of risk which the Committee considers excessive.

The Fund currently has a negative cash flow position. The Committee is mindful that this position may

change in future and keeps the liquidity within the Fund monitored.

At all times the Committee seeks to ensure that their investment decisions, including those involving diversification, are the best long term interest of Fund beneficiaries.

2.5 To mitigate these risks the Committee regularly reviews both the performance and expected returns from the Fund's investments to measure whether it has met and is likely to meet in future its return objective. In addition to keeping their investment strategy and policy under regular review the Committee will keep this ISS under review to ensure that it reflects the approaches being taken.

3. Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment

3.1 When assessing the suitability of investments the Committee takes into account a number of factors:

- Prospective return
- Risk
- Concentration
- Risk management qualities the asset has, when the portfolio as a whole is considered
- Geographic and currency exposures
- Whether the management of the asset meets the Fund's ESG criteria.

3.2 Suitability is a critical test for whether or not a particular investment should be made.

3.3 Each of the Fund's investments has an individual performance benchmark which their reported performance is measured against.

3.3 The Committee monitors the suitability of the Fund's assets on a quarterly basis. To that end they monitor the investment returns and the volatility of the individual investments together with the Fund level returns and risk. This latter point being to ensure the risks caused by interactions between investments within the portfolio is properly understood. Where comparative statistics are available the Committee will also compare the Fund asset performance with those of similar funds.
3.4 The Committee relies on external advice in relation to the collation of the statistics for review.

4. Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed

4.1 The Committee recognises that there are a number of risks involved in the investment of the assets of the Fund amongst which are the following:

4.2 Geopolitical and currency risks:

- are measured by the value of assets (the concentration risk), in any one market leading to the risk of an adverse influence on investment values arising from political intervention; and
- are managed by regular reviews of the actual investments relative to policy and through regular assessment of the levels of diversification within the existing policy.

4.3 Manager risk:

- is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and
- is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager(s) investment process.

4.4 Solvency and mismatching risk:

- are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies; and
- are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

4.5 Liquidity risk:

- is measured by the level of cash flow required over a specified period; and
- managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy

4.6 Custodial risk:

- is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

4.7 Employer contributions are based upon financial and demographic assumptions determined by the actuary. The main risks to the Fund are highlighted within sections 12 to 15 of the Funding Strategy Statement (FSS). The risks to the Fund are controlled in the following ways:

- The adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the investment managers from deviating significantly from the intended approach while permitting the flexibility for managers to enhance returns
- The appointment of more than one manager with different mandates and approaches provides for the diversification of manager risk

4.8 The investment management agreements constrain the manager's actions in areas of particular risk and set out the respective responsibilities of both the manager and the Fund.

4.9 The Committee are aware investment risk is only one aspect of the risks facing the Fund. The other key risk they are aware of is the ability of the Fund to meet the future liabilities, support the investment risk (i.e. the level of volatility of investment returns) and underwrite actuarial risk, namely the volatility in the actuarial funding position and the impact this has on contributions.

4.10 The Committee are of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy the Committee carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate.

Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and also the correlation between them. These can be based on historic asset class information for some of the listed asset classes the Fund uses. However, for other private market and less liquid assets it is much more difficult.

The Committee is also mindful that correlations change over time and at times of stress can be significantly different from they are in more benign market conditions.

To help manage risk the Committee uses an external investment adviser to monitor the risk. In addition when carrying out their investment strategy review the Committee also had different investment advisers asses the level of risk involved.

4.11 The Fund targets a long-term return 5.1% as aligned with the latest triennial valuation from the Actuary. The investment strategy is considered to have a low degree of volatility.

4.12 When reviewing the investment strategy on a quarterly basis the Committee considers advice from their advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable.

4.13 At each review of the Investment Strategy Statement the assumptions on risk and return and their impact on asset allocation will be reviewed.

5 Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles

5.1 The Fund recognises the Government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost.

5.2 The Fund has joined the London Collective Investment Vehicle (CIV) as part of the Government's pooling agenda. The London CIV has been operational for some time and is in the process of opening a range of sub-funds covering liquid asset classes, with less liquid asset classes to follow.

5.3 The Fund has already transitioned assets into the London CIV with a value of £178m as at the 28th February 2017 and will look to transition further liquid assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

5.4 The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning liquid assets across to the London CIV as soon as there are suitable sub-funds to meet the Fund's investment strategy requirements.

5.5 The Fund holds 22.3% £280m of its assets in life funds and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

5.6 The Fund holds £110m or 8.8% of the Fund held in illiquid assets and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

City of Westminster Total Fund	Available on the CIV	Transferred
UKEquities Majedie	May-17 (£301m)	
Global Equities Baillie Gifford LGIM Longview Partners	Yes Jun-17 (£140m)	£178m
Fixed Income Insight IM (Core) Insight IM (Gilts)		
Real Estate Hermes Property Standard Life Property		
Cash In-House Cash		

5.7 The Committee are aware that certain of the assets held within the Fund have limited liquidity and moving them would come at a cost. Whilst it is the expectation to make use of the London CIV for the management of the majority of the Fund assets in the longer term, the Committee recognises that transitioning from the current structure to the London CIV will be a protracted exercise spread over a number of years to ensure unnecessary costs are not incurred.

5.8 At each review of the investment strategy, which will happen at least every three years, the investment of the above assets will be actively considered by the City of Westminster Pension Fund, and in particular whether a collective investment option is appropriate.

5.9 More information on the London CIV and its operation is included in Appendix D of this statement.

Objective 7.2(e): How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

6.1 A review of the Fund's approach to Socially Responsible Investments (SRI) was completed in March 2015 and is contained in the existing SIP. The Fund adopted an SRI Policy which outlines its approach to the management of Environmental, Social and Governance (ESG) issues within its investment portfolio. The existing SRI Policy now needs reviewing as the last update was undertaken 2 years ago, although as funds are moved across to the London CIV, the Council will need to understand and apply the London CIV's principles.

The Present ESG Policy

6.2 The Fund recognises that the neglect of corporate governance and corporate social responsibility may lead to poor or reduced shareholder returns. The Committee has considered how the Fund may best implement a corporate social responsibility policy, given the current resources available to the Fund. Accordingly, the Committee has delegated social, environmental and ethical policy to the investment managers, but also approved a Governance Strategy. The Committee believes this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and there is appropriate disclosure and reporting of actions taken. To that extent, the Committee maintains a policy of non-interference with the day-to-day decision making of the investment managers.

The London Collective investment vehicle (LCIV) ESG Policy (Wording)

6.3 The Fund is committed to being a long term steward of the assets in which it invests and expects this approach to protect and enhance the value of the Fund in the long term. In making investment decisions, the Fund seeks and receives proper advice from internal and external advisers with the requisite knowledge and skills.

6.4 The Fund requires its investment managers to integrate all material financial factors, including corporate governance, environmental, social, and ethical considerations, into the decision-making process for all fund investments. It expects its managers to follow good practice and use their influence as major institutional investors and long-term stewards of capital to promote good practice in the investee companies and markets to which the Fund is exposed

6.5 The Fund expects its external investment managers (and specifically the London Collective Investment Vehicle through which the Fund will increasingly invest) to undertake appropriate monitoring of current investments with regard to their policies and practices on all issues which could present a material financial risk to the long-term performance of the fund such as corporate governance and environmental factors. The Fund expects its fund managers to integrate material ESG factors within its investment analysis and decision making

6.6 Effective monitoring and identification of these issues can enable engagement with boards and management of investee companies to seek resolution of potential problems at an early stage. Where collaboration is likely to be the most effective mechanism for encouraging issues to be addressed, the Fund expects its investment managers to participate in joint action with other institutional investors as permitted by relevant legal and regulatory codes

6.7 The Fund monitors this activity on an ongoing basis with the aim of maximising its impact and effectiveness.

6.8 The Fund will invest on the basis of financial risk and return having considered a full range of factors contributing to the financial risk including social, environment and governance factors to the extent these directly or indirectly impact on financial risk and return.

The Fund in preparing and reviewing its Investment Strategy Statement will inform stakeholders, including but not limited to Fund employers, investment managers, Local Pension Board, advisers to the Fund and other parties that it deems appropriate.

7 Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments

The Present Policy

7.1 .The Committee has delegated the Fund's voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Committee expects the investment managers to vote in the best interests of the Fund

The London Collective Investment Vehicle (CIV) ESG Policy (Wording)

7.2 The Fund recognises the importance of its role as stewards of capital and the need to ensure the highest standards of governance and promoting corporate responsibility in the underlying companies in which its investments reside. The Fund recognises that ultimately this protects the financial interests of the Fund and its ultimate beneficiaries. The Fund has a commitment to actively exercising the ownership rights attached to its investments reflecting the Fund's conviction that responsible asset owners should maintain oversight of the companies in which it ultimately invests recognising that the companies' activities impact upon not only their customers and clients, but more widely upon their employees and other stakeholders and also wider society.

7.3 The Fund has delegated responsibility for voting rights to the Fund's external investment managers and expects them to vote in accordance with the Fund's voting policy as set out in Sections 6.2 and 7.1.

7.4 The Fund will incorporate a report of voting activity as part of its Pension Fund Annual report which is published on the Pension Fund website: (we do not do this at the moment)

7.5 The Fund has reviewed the London CIV Statement of Compliance with the Stewardship Code and has agreed to adopt this Statement.

7.6 In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

7.7 The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests

In addition the Fund:
7.8 Is a member of the Pension and Lifetime Savings Association (PLSA) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners

7.9 Joins wider lobbying activities where appropriate opportunities arise.

8 Feedback on this statement

Any feedback on this investment Strategy Statement is welcomed. If you have any comments or wish to discuss any issues then please contact:

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020 7641 4126

Investment Strategy Statement: Appendix A

Compliance with CIPFA Pensions Panel Principles for investment decision making in the local government pension scheme in United Kingdom

Decision Making

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners' Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012',

The Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is also recognised as important to demonstrate how the Fund meets such principles and best practice.

The Secretary of State has previously highlighted the principle contained in Roberts v. Hapwood whose administering bodies exercise their duties and powers under regulations governing the investment and management of Funds:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others".

The Myners' Principles are seen as supporting this approach. The principles, together with the Fund's position on compliance, are set out below:

Principle 1 - Effective decision-making

Administrating authorities should ensure that:

- **Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation; and**
- **Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

Full Compliance

The Council has delegated the management and administration of the Fund to the Committee, which meets at least quarterly. The responsibilities of the Committee are described in paragraph 1.4 of the ISS. The Committee is made up of elected members of the Council who each have voting rights.

The Committee obtains and considers advice from and is supported by the City Treasurer, Tri-Borough Director of Treasury & Pensions, and as necessary from the Fund's appointed actuary, investment managers and advisors.

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

Business plans are presented to the Committee annually.

Several of the Committee members have extensive experience of dealing with Investment matters and training is made available to new Committee members.

Principle 2 - Clear objectives

An overall investment objective(s) should be set for the Fund that takes account of the pension liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisors and investment managers.

Full Compliance

The aims and objectives of the Fund are set out within the FSS and within the ISS. The main fund objective is to meet the cost of pension liabilities and to enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the taxpayers and admitted bodies.

The investment strategy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Fund while achieving a good return on investment (see paragraphs 4 and 5 above). The approach taken reflects the Fund's liabilities and was decided upon without reference to any other funds. The Fund's performance is measured against the investment objective on a quarterly basis.
The Fund's strategy is regularly reviewed.

Principle 3 – Risk and liabilities

In setting and reviewing their investment strategy, administrating authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

Full Compliance

The Committee has, in conjunction with its advisers, agreed an investment strategy that is related to the Fund's liabilities. An actuarial valuation of the Fund takes place every three years, with the most recent triennial valuation taking place in 2016. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

The asset allocation of the Fund is set to maximise the potential to close the funding deficit over future years. The current allocation is outlined in paragraph 4.3 of the SIP.

Principle 4 – Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members

Full Compliance

The IAC has appointed investment managers with clear index strategic benchmarks (see paragraph 4.2 above) within an overall Investment objective which place maximum accountability for performance against that benchmark on the manager.

The managers are monitored at quarterly intervals against their agreed benchmarks, and independent detailed monitoring of the Fund's performance is carried out by Deloittes, the Fund's advisor and by Northern Trust, the Fund's custodian who provide the performance figures. Moreover portfolio risk is measured on quarterly basis and the risk/return implications of different strategic options are fully evaluated.

The advisor is assessed on the appropriateness of asset allocation recommendations and the quality of advice given.

The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the OJEU procedures. The Committee monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition the Committee receives quarterly reports as to how the Fund has performed against their investment objective.

Principle 5 – Responsible Ownership

Administering authorities should:

- **Adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents.**
- **Include a statement of their policy on responsible ownership in the statement of investment principles.**
- **Report periodically to scheme members on the discharge of such responsibilities.**

Full Compliance

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in paragraph 8 of the ISS and in the Fund's SRI Policy. Authority has been delegated to the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports.

The Fund believes in using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests – the Fund's approach to this is outlined in paragraph 7 of the ISS and in the Fund's SRI Policy.

Principle 6 – Transparency and reporting

Administering authorities should:

- **Act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.**
- **Provide regular communications to scheme members in the form they consider most appropriate.**

Full Compliance

Links to the Governance Compliance Statement, the ISS, the FSS, and the Communications Statement are all included in the Pensions Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council's web site, and a website developed specifically for the Fund.

All Committee meetings are open to members of the public and agendas and minutes are published on the Council's website and internal intranet.

Investment Strategy Statement: Appendix B

Compliance with the Stewardship Code
The **Stewardship Code** is a set of principles or guidelines released in 2010 and updated in 2012 by the Financial Reporting Council directed at institutional investors who hold voting rights in United Kingdom companies. Its principal aim is to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries.
The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means that it does not require compliance with principles but if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so.
The seven principles, together with the council's position on compliance, are set out below:

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Stewardship responsibilities are outlined in section 1.4 of the ISS, which outlines the terms of reference of the Committee.
Investment Managers, authorised under the regulations, are appointed to manage virtually all the assets of the Fund. The Committee actively monitor the Fund Managers through quarterly performance analysis, annual and periodic meetings with the Fund Managers and through direct monitoring by the Fund's investment advisor, which includes monitoring and reporting on:

- Fund manager performance
- Investment Process compliance and changes
- Changes in personnel (joiners and leavers)
- Significant portfolio developments
- Breaches of the IMA
- Business wins and losses; and
- Corporate and other issues.

Voting is delegated to Fund Managers through the Investment Management Agreement (IMA).
The fund will ensure that all its equity, fixed income and diversified managers sign up to the FRC Stewardship Code including: Majedie, Baillie Gifford, LGIM, Longview Partners, Insight, Hermes and Standard Life.

2. Have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed

The Committee encourages its fund managers to have effective policies addressing potential conflicts of interest.
Committee members are also required to make declarations of interest prior to all Committee meetings.

3. Monitor their investee companies.

Day-to-day responsibility for managing the Fund's investments are delegated to the relevant fund managers, who are expected to monitor companies, intervene where necessary, and report back regularly on activity undertaken.
The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy.
Fund Manager Internal Control reports are monitored, with breaches reported back to the Committee.

4. Establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

Day-to-day interaction with companies is delegated to the Fund's asset managers, including the escalation of engagement when necessary. The Fund's expectations with regards to voting and engagement activities are outlined in its SRI Policy.

The Fund Managers are expected to have their own SRI/ESG policy and to disclose their guidelines for such activities in their own statement of adherence to the Stewardship Code.

5. Willing to act collectively with other investors where appropriate.

The Fund seeks to work collaboratively with other institutional shareholders in order to maximize the influence that it can have on individual companies.

6. Have a clear policy on voting and disclosure of voting activity.

The Fund currently votes on all decisions and this is reported via Northern Trust. The Fund's approach to voting is clearly outlined in the ISS and SRI Policy,

7. Report periodically on their stewardship and voting activities.

A section on voting is included in each quarterly Business Plan Update, with a yearly review of the policy.
The Fund's annual report includes information about the Fund's voting and engagement work

Investment Strategy Statement: Appendix C – Investment & Administration Risk Register

Pension Fund Risk Register - Investment Risk							
Risk Group	Risk Description	Impact Total	Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score
Governance	That the London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious	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.	3	36
Funding	Scheme members live longer than expected leading to higher than expected liabilities.	11	3	33	Review at each triennial valuation and challenge actuary as required	3	33
Investment	Significant volatility and negative sentiment in global investment markets following disruptive politically inspired events in US.	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
Funding	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%	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
Funding	Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	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
Funding	Employee pay increases are significantly more than anticipated for employers within the Fund.	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

Funding	Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	10	2	20	TOLERATE - 1) Political power required to effect the change.	2	20
Investment	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.	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
Investment	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.	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
Investment	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.	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
Governance	London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	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

Funding	Impact of economic and political decisions on the Pension Fund's employer workforce.	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
Operational	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	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
Funding	Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	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
Funding	Impact of increases to employer contributions following the actuarial valuation	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
Governance	Failure to take difficult decisions inhibits effective Fund management	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
Governance	Changes to LGPS Regulations	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
Funding	There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	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

Funding	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy	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
Financial	Financial loss of cash investments from fraudulent activity	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
Operational	Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	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
Governance	Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	11	2	22	Officers maintain knowledge of legal framework for routine decisions. Eversheds retained for consultation on non-routine matters.	1	11
Funding	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	11	2	22	Transferee admission bodies required to have bonds or guarantees in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds.	1	11
Governance	Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	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
Operational	Financial failure of third party supplier results in service impairment and financial loss	10	2	20	TREAT - 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

Governance	Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	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
Investment	Failure of global custodian or counterparty.	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
Operational	Financial failure of a fund manager leads to value reduction, increased costs and impairment.	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
Investment	Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	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 take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.	1	10
Governance	Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	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
Governance	Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests	10	2	20	TREAT - 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

Operational	Inaccurate information in public domain leads to damage to reputation and loss of confidence	5	3	15	TREAT - 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
Funding	Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	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
Governance	Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	9	2	18	External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval)	1	9
Operational	Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage.	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
Financial	Inaccurate cash flow forecasts or drawdown payments lead to shortfalls on cash levels and borrowing becomes necessary to ensure that funds are available	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
Regulation	Loss of flexibility to engage with Fund Managers that the fund has not 'opted up' with regard to new products, resulting in reduced knowledge about investment opportunities that may benefit the fund. (The Fund is a retail client to counterparties unless opted up)	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

Governance	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	9	2	18	TREAT - 1) Ensure that an cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	9
Regulation	Loss of 'Elective Professional Status' with any or all of existing Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund's investment options.	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
Funding	The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	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
Regulation	Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	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
Governance	Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales	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

Pension Fund Risk Register - Administration Risk							
Risk Group	Risk Description	Impact Total	Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score
Admin	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.	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
Admin	Concentration of knowledge in a small number of officers and risk of departure of key staff.	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
Admin	Bank reconciliations 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.	6	3	18	TREAT 1) Staff working with HCC and the Tri-Borough Pensions to come up with a solution to ensure bank reconciliations and income is posted promptly and accurately.	2	12
Admin	Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	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.	2	12

Admin	Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	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. TREAT 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
Admin	Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	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
Admin	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.	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
Admin	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.	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
Admin	Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	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

Admin	Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	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
Admin	Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	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
Admin	Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	7	2	14	TREAT 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
Admin	Failure to pay pension benefits accurately leading to under or over payments.	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
Admin	Unstructured training leads to under developed workforce resulting in inefficiency.	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
Admin	Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	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

Admin	Failure to identify GMP liability leads to ongoing costs for the pension fund.	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
Admin	Lack of guidance and process notes leads to inefficiency and errors.	5	2	10	TREAT 1) Ensure process notes are compiled and circulated in Pension Fund and Administration teams.	1	5
Admin	Lack of productivity leads to impaired performance.	5	2	10	TREAT 1) Regular appraisals with focused objectives for pension fund and admin staff.	1	5
Admin	Rise in ill health retirements impact employer organisations.	5	1	5	TREAT 1) Engage with actuary re assumptions in contribution rates.	1	5
Admin	Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	5	1	5	TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	5
Admin	Poor reconciliation process leads to incorrect contributions.	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

Investment Strategy Statement: Appendix D

Information on London CIV
Stewardship Statement is attached – Other London CIV details are included in ISS main Statement

The London Collective Investment Vehicle (CIV) was formed as a voluntary collaborative venture by the London Local Authorities in 2014 to invest the assets of London Local Government Pension Scheme (LGPS). The London CIV and its London Local Authority investors recognise the importance of being long term stewards of capital and in so doing supports the UK Stewardship Code, which it recognises as best practice.
The London LGPS CIV Limited ("London CIV") is fully authorised by the FCA as an Alternative Investment Fund Manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund (ACS fund). The London CIV in the management of its investments has appointed a number of external investment managers. We therefore see our role as setting the tone for the effective delivery of stewardship managers on our behalf and on behalf of our investing Funds. We are clear that we retain responsibility for this being done properly and fully in the interests of our own shareholders.
This Statement sets out how the London CIV implements the seven principles of the Code.

Principle 1
Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The London CIV on behalf of its London Local Authority Shareholders recognises its position as an investor on their behalf with ultimate responsibility to members and beneficiaries and recognises that effective stewardship can help protect and enhance the long-term value of its investments to the ultimate benefit of all stakeholders in the LGPS.
As we do not invest directly in companies, we hold our fund managers accountable for the delivery of stewardship on our behalf in terms of day-to-day implementation of its stewardship activity. We require the appointed fund management teams to be responsible for holding to account the management and boards of companies in which they invest. The London CIV believes that this approach is compatible with its stewardship responsibilities as it is the most effective and efficient manner in which it can promote and carry out stewardship activities in respect of its investments, and ensure the widest reach of these activities given the CIV's investment arrangements.

A key related area where stewardship is integrated into the wider process is in the selection and monitoring of external investment managers. When considering the appointment of external investment managers the consideration of Environmental Social and Governance (ESG) integration and stewardship activity of each investment manager is part of the selection process.

The London CIV expects its equity investment managers to adhere to the principles within the UK Stewardship Code. This position is communicated to the Fund's investment managers and forms the basis of the approach to monitoring the investment managers as outlined in this document. Whilst the Stewardship Code is primarily directed at UK equity investments, the CIV encourages its investment managers to apply the principles of the Code to overseas equity holdings where possible.
The primary mechanisms for the application of effective stewardship for the CIV are exercise of voting rights and engagement with investee companies. The CIV expects its external equity investment managers that invest directly in companies, to pursue both these mechanisms. We receive quarterly reporting from managers which includes their stewardship and voting activities where appropriate. We seek consistently to ensure that these stewardship activities are carried out actively and effectively in the furtherance of good long-term investment returns

We expect all of the CIV's equity managers to be signatories to the Code and have publicly disclosed their policy via their Statements on how they will discharge their stewardship responsibilities. We expect managers that invest in companies directly to discharge their responsibilities by:

• having extensive dialogue with the company's management throughout the year on a range of topics such as governance, financial performance and strategy; and
• voting, either directly or via the services of voting agencies.

Principle 2
Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

Day-to-day implementation of the Fund's stewardship activity has been delegated to external investment managers. The CIV expects its investment managers to document their approach to stewardship, which should include how they manage any conflicts of interest that arise to ensure that the interests of the CIV's Investors are prioritised. The CIV will review annually the conflicts of interest policy of its managers and how any conflicts have been managed during the year.
The London CIV has policies in place to manage conflicts of interest that may arise for the Board and its officers when making decisions on its behalf. The Conflicts of Interest policy is reviewed by the CIV

board on a regular basis. A Conflicts of Interest Register is maintained.
Shareholders of the CIV attending the Pensions Sectoral Joint Committee are required to declare any conflicts of interest at the start of any meeting.

Principle 3
Institutional investors should monitor their investee companies.

We recognise that active and ongoing monitoring of companies is the foundation of good stewardship, reminding companies in which we invest that they have obligations to their shareholders to deliver returns over the appropriate long-term investment timeframe and, consistent with this, to manage any related environmental and social risks responsibly.

The CIV requires its external investment managers to monitor investee companies. Issues to be monitored are likely to vary, however typically these might include a company's corporate strategy, financial performance, risk (including those from environmental and social factors), capital structure, leadership team and corporate governance. The CIV encourages its investment managers to satisfy themselves that investee companies adhere to the spirit of the UK Corporate Governance Code.
The CIV reviews investment managers in this area as part of their regular meetings. For equity investment managers this includes consideration of:

• who has overall responsibility for ESG risk analysis and integration;
• resources and experience of the team;
• at what stages of the process ESG risks are considered;
• exposures to environmental, social or governance risk within the portfolio; and
• the investment manager's willingness to become an insider and, if so, whether the manager has a policy setting out the mechanisms through which this is done.

Principle 4
Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

The CIV recognises that constructive engagement with company management can help protect and enhance shareholder value. Typically, the CIV expects its investment managers to intervene with investee companies when they view that there are material risks or issues that are not currently being adequately addressed.
The CIV reviews investment managers in this area as part of their regular meeting. For equity investment managers that invest directly in Companies, this includes consideration of:

• whether voting activity has led to any changes in company practice;
• whether the investment manager's policy specifies when and how they will escalate engagement activities;
• overall engagement statistics (volume and areas of focus);
• example of most intensive engagement activity discussed as part of the manager's annual review meeting; and
• the estimated performance impact of engagement on the strategy in question.
Given the range of fund managers and Fund investments, the CIV carries out its monitoring at the manager level to identify:
• trends to ensure progress is being made in stewardship activities;
• specific managers where progress or the rate of progress is not adequate; and
• appropriate specific actions necessary.

Principle 5
Institutional investors should be willing to act collectively with other investors where appropriate.

As day-to-day management of the Fund's assets has been delegated to external investment managers, the CIV expects its investment managers to get involved in collective engagement where this is an efficient means to protect and enhance long-term shareholder value.

In addition the London CIV will work collectively with other investors including other LGPS Asset pools and the Local Authority Pension Fund Forum (LAPFF) to enhance the impact of their engagement activities

Principle 6
Institutional investors should have a clear policy on voting and disclosure of voting activity.

The CIV has delegated its voting rights to the Fund's investment managers and requires them to vote, except where it is impractical to do so. The CIV also monitors the voting alerts of the LAPFF and where these are issued, requires the investment managers to take account of these alerts as far as practical to do so. Where the investment manager does not vote in line with the LAPFF voting alerts, the CIV will require detailed justification for non compliance.

The CIV reviews and monitors the voting policies and activities of its investment managers, this includes consideration of:

• the manager's voting policy and, what areas are covered;
• the level of voting activity
• whether the investment manager typically informs companies of their rationale when voting against or abstaining (and whether this is typically in advance of the vote or not);

• if securities lending takes place within a pooled fund for the strategy, whether the stock is recalled for all key votes for all stocks held in the portfolio; and
• whether a third party proxy voting service provider is used and, if so, how.

Principle 7
Institutional investors should report periodically on their stewardship and voting activities.

The London CIV encourages transparency from its investment managers and expects its managers to report publicly on their voting in an appropriate manner. In addition the London CIV receives reviews and monitors quarterly the voting and stewardship engagement activities of its investment managers. The CIV reports quarterly to its investors and will include information on voting and engagement activities from investment managers where appropriate including updates as required on updated stewardship and voting policies of managers. The CIV also requires its managers to provide it with annual assurances on internal controls and compliance through recognised framework such as the AAF01/06 or equivalent.

This statement will be reviewed regularly and updated as necessary.

Pension administration Strategy

Contents

1. Introduction

The delivery of a high quality, cost effective pensions administration service is not just the responsibility of the Administering Authority (Westminster City Council), it also depends upon collaborative working with all stakeholders to ensure that Scheme members, and other interested parties, receive the appropriate level of service and ensure that statutory requirements are met.

The aim of this Pension Administration Strategy (PAS) is to ensure that the Administering Authority along with their Admitted and Scheduled body employers are aware of their responsibilities under the Local Government Pension Scheme (LGPS).

This document also shows the relationship and details the split of responsibilities between the Administering Authority and the Admitted and Scheduled body employers (Employers).

For clarity Westminster acting as Administering Authority (WAA) for the pension fund will treat Westminster the main fund employer (WFE) exactly the same as all the other fund employers.

It should be noted that the Administering Authority is working with Surrey County Council (SCC) to provide the main pension administration service to all fund employers under a 101 shared service arrangement.

Throughout this document contractual and best practice levels of performance are referenced with the aim of incrementally improving the provision of timely accurate data and levels of pension administrative services.

Failure to comply with the standards shown in this document could result in charges being levied by the Administering Authority to Employers in accordance with the terms set out in the schedule of charging in Section 6.

2. Pension Administration Strategy Statement

This statement sets out the aims and objectives of the PAS and references other documents which together make up the overall pensions administration management system.

Statutory background

Regulation 59 of the Local Government Pension Scheme Regulations 2013 (LGPS 2013) enables an Administering Authority to prepare a document detailing administrative standards, performance measurement, data flows and communication vehicles with Employers.

Regulation 70 of the LGPS 2013 allows an Administering Authority to recover costs from an Employer where costs have been incurred because of an Employer's non-compliant level of performance in carrying out its functions under the Regulations.

Aims & Objectives

In creating this strategy, the aim of the Administrating Authority is to have in place a pension management system that meets the needs of the stakeholders by:

- clarifying the roles and responsibilities of all the major stakeholders
- ensuring the services provided by all the major stakeholders are accessible, equitable and transparent
- assisting Employers to provide the effective provision of timely and accurate data

To support these aims this PAS document introduces:

- the standard of expected service between the Administrating Authority and Employers
- a schedule of charges that apply when standards of service fall below expectations
- a strategy in place to develop web enabled services for Employers and employees.

Other documents which make up the overall strategy

- Local Government Pension Scheme Communications Policy

3. Roles and responsibilities

Administering Authority

The responsibilities of the Administering Authority are:

1. To decide how any previous service or employment of an employee is to count for pension purposes, and whether such service is classed as a 'period of membership'.

2. To notify each member regarding the counting of membership in the scheme following notification from the member's employer of the relevant service details.

3. To set up and maintain a record for each member of the scheme which contains all the information necessary to produce an accurate benefit calculation following the employer providing useable and accurate financial data.

4. To calculate and pay the appropriate benefits at the correct time, based on membership details held the termination date and the final pay details provided by the employer when an employee ceases employment, or ceases membership of the Scheme.

5. To supply beneficiaries with details of their entitlements including the method of calculation.

6. To set up and maintain a record for each pensioner member.

7. To increase pensions periodically in accordance with the provisions of Pensions Increase Acts and Orders.

8. To pay benefits to the correct beneficiaries only and to take steps to reduce the possibility of fraud taking place.

9. To ensure that sufficient information is issued to satisfy the requirements of Regulation 61 of the LGPS 2013. This relates to fund communication more details are contained within section 4 of this document or alternatively see the communications policy which is also available on the Westminster Pension fund website.

10. To maintain an appointed person for the purposes of the scheme internal dispute resolution procedure (IDRP). The appointed person will in general be the Director of People Services or where the Director had previously been involved in the case an officer of equivalent level will be asked to make a determination. The appointed person will be able to access advice from the funds appointed legal advisors where necessary.

11. To appoint all necessary advisors to enable the appointed person to perform the duties required by the IDRP.

12. To appoint an actuary for the purposes of the triennial valuation of the Pension Fund and provide periodical actuarial advice when required.

13. To arrange and manage the triennial valuation of the pension fund.

14. To ensure compliance with the Data Protection Act 1998.

15. The Administering Authority and it's agents will respond to queries from employers external or internal auditors within 5 working days or advise when a full response can be sent if not possible within that time frame.

16. The Administering Authority and it's agents will respond to relevant Freedom of Information requests within 14 working days if possible or advise when a full response can be sent if not possible within that time frame.

17. The Administering Authority will reply to any Pension Ombudsman query within 30 days of receipt or advise of reason for further delay.

Employers

The main duties of the Employer are:

1. To decide who is eligible to become a member of the Scheme. The employer must abide by any admission agreement entered into with the administering authority if applicable. If there is a closed admission agreement only the named employees can be entered into the LGPS.

2. To decide whether that person is employed in a full time, part time, variable time or casual capacity. If the employee is part time the employer must determine the proportion which the employees' contractual hours relate to the hours of a comparable full time, employee.

3. To determine the pay of employees for the purposes of calculating the pension contributions.

4. To determine final pay for the purposes of calculating benefits due from the Scheme.

5. To issue a notification to any employees who cannot become members of the Scheme explaining the reason(s) why.

6. Where, after reasonable efforts, an employee fails to provide information relating to previous service, provide basic information to the Administrating Authority.

7. At cessation of membership of the Scheme, to determine the reason for leaving and entitlement to benefit and notify the Administrating Authority and the Scheme member of the decision.

8. To supply timely and accurate information to the Administrating Authority to ensure the correct calculation of benefits payable from the Scheme.

9. To deduct Additional Voluntary Contributions (AVCs) from a member's pay and pay over to the provider within the statutory deadlines.

10. To be responsible for exercising the discretionary powers given to Employers by the regulations. These regulations also require the Employer to publish its policy in respect of these key discretions.

11. To provide a notice, drawing the employee's attention to their right of appeal under the LGPS, with any statement issued to an employee relating to any decision made about the Scheme.

12. To use an Independent Registered Medical Practitioner qualified in Occupational Health medicine that has been approved by the Administrating Authority in determining ill health retirement.

13. To repay to the Scheme member any incorrectly deducted employee's contributions.

14. To provide the Administrating Authority with Monthly and Year-end information as at 31 March each year in an approved format.

15. To provide the Administrating Authority with an audited copy of the final statement which shall also contain the name and pensionable pay of each employee who is an active member, the amounts which represent pension deductions from pay for each of those employees and the periods covered by the deductions and any other information requested. The information should also distinguish those amounts representing deductions for voluntary contributions and the employees paying those voluntary contributions.

16. To be responsible for complying with the requirements for funding early retirement for whatever reason as required by the Administering Authority using actuary factors.

17. To cover any professional costs for legal or actuarial services that are incurred by the administering authority on behalf of any employer investigating any amendment in relation to its members of the scheme. An example of this would be where an (transferee) employer wishes to tupe eligible staff to another employer (transferor) and the transferor wishes to become an admitted body within our fund. The transferee employer would be expected to meet the actuarial and legal costs associated with the process and will be invoiced for this. Costs may occur in other circumstances where employers require an individual response on either a legal or actuarial matter.

18. Pay the Administrating Authority interest on payments due from the Employer which are overdue by more than one month.

19. Where a member leaves the Scheme and full contributions have not been deducted for whatever reason, immediately make payment of outstanding member's and Employer's contributions to the Administrating Authority.

20. To ensure compliance with Data Protection Act 1998.

21. The employer and it's agents will respond to queries from the Administering Authorities external or internal auditors within 5 working days or advise when a full response can be sent if not possible within that time frame.

22. The employer will reply to the Administering Authority on any query relating to a Pension Ombudsman issue with 14 days of request to allow the Administering Authority to respond to the Pension Ombudsman.

23. The employer must advise the Administering Authority of any change of contact details for the payroll or finance functions for communication purposes.

24. The employer is responsible for all Auto enrolment functions and must advise the Administering Authority of anyone auto enrolled as per the normal new starter process. Employers are advised to contact the pension regulator directly if they have any queries see link to website. http://www.thepensionsregulator.gov.uk/

4. Liaison, engagement and communication strategy

The Administrating Authority will issue and annually review their Local Government Pension Scheme Communications Policy

The policy will include a strategy for communicating with:

- Scheme Members
- Members' Representatives
- Prospective members
- Employers participating in the Fund

This policy document will set out the mechanisms that the Administrating Authority will use to meet their communication responsibilities it will also include details of what is communicated and the frequency.

Annually the Administrating Authority will issue an engagement plan that will include events for employers, members of the scheme and perspective members of the scheme.

The Communications policy will be updated on the Westminster Pension Fund where it can be found

under the Forms and Publications sub heading under the About us main tab.

See link to the pension fund website below.

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

5. Standard of expected service between the Administrating Authority and the employers

Who *	Administration Description	Performance Targets
	New Starters and Transfers In	
E	**New starter:** The Employer must advise all eligible employees of their membership of the scheme. Members should be given the details of the Pension Fund website http://www.wccpensionfund.co.uk/ Members must be advised that transfers into the scheme must be requested in the first year of joining or thereafter at their employer's discretion. Members must be advised that all necessary forms and contact details are available on the Pension Fund website.	On the first day of the members employment if not provided prior to the start.
E	**New scheme member:** Employer to send to the Administrating Authority the details of the new member. Completing the new starter form available on the website or by sending a file in an approved format by WAA to SCC.	Details to be provided to SCC by the last working day of the month following the first payroll deduction of pension.
AA	**New scheme member** Administrating Authority to create a new pensions record from the completed notification from the Employer.	By the last working day of the month following the data submission by the employer.
AA	**New scheme member:** Administrating Authority to request a transfer quote from the new member's previous scheme.	Within 30 days of receipt of authorisation from the employee. If transfer factors are currently available. If not the member is to be advised of the delay within the same timescale.
AA	**New scheme member:** Administrating Authority to credit member record with membership due from transfer of previous pension benefits.	Within 30 days of receipt of payment from previous scheme.
AA	**New Scheme member:**	
	Notification of service purchased by an incoming transfer to be provided to the scheme new member.	Within 30 days of receipt of the all the information
	Existing members and schemes	
AA	Changes to data which materially affect actual or potential benefit calculations to be processed and provided to the member concerned.	Within 30 days of occurrence or receipt of all necessary information, whichever is later.
AA	Admissions and Inter Fund Adjustment (IFA) in to be notified to the members concerned.	Within 30 days of receipt of all necessary information.
AA	Transfers and Inter Fund Adjustment IFA out to be notified to the receiving scheme.	Within 30 days of receipt of all necessary information
AA	The terms of purchasing additional pension to be notified to the member concerned.	Within 15 days of receipt of all necessary information.
AA	Refund of contributions, where due under the Regulations, to be calculated and paid.	Within 14 days of receipt of all necessary information
AA	Upon notification of a death notification of a pensioner; arrangements put in place for pension payments to cease immediately.	Within 1 working day of receipt of all necessary information
AA	Letters will be sent to next of kin or other relevant party. Setting up of any dependents pension.	Within 5 days of receipt of notification of a death or within 5 days of receipt of all relevant information. Within 14 days of receipt of all necessary information.

	Leavers and Transfers out	
E	**Leaver:** Employer to send the Administrating Authority a completed leaver notification.	By the Last working day of the month following the month in which the members final pensionable pay was processed.
AA	**Leaver:** Administrating Authority to issue a statement of deferred benefits as appropriate.	Within 30 days of receipt of all necessary information.
AA	**Leaver:** Administrating Authority to issue quote for Cash Equivalent Transfer Value (CETV).	Within 30 days days of receipt of all necessary information.
E	**Retirements:** Employer to send the Administrating Authority a completed notification.	By the final working day of the month in which the members final pay is processed but employers should be looking to provide leavers final details to SCC before the member leaves if possible to do so.
AA	**Retirements:** Administrating Authority to send benefit options to member together with relevant forms required for payment of retirement benefits.	Within 5 working days of receiving notification from the Employer.
AA	**Retirements:** Administrating Authority to arrange the payment of Lump Sum.	Within 5 working days of receiving all required information from the Employer and the Member.
AA	**Retirements:** Administrating Authority to arrange payment of Annual Pension (paid monthly).	The pension to be processed on the next available pay period following the release of any lump sum and the member notified in writing.
AA	**Deferred Benefits Into Payment:** Administrating Authority to send a letter to the leaver that includes the benefits that are payable and/or the options for early payment (together with relevant forms to enable payment).	Within one month of the potential due date of any benefit into payment SCC will write to the member.
	Deductions	
E	**Monthly deductions:** Employer to send funds and schedule of deductions from salary to the Administering Authority.	By the 19th day of the month following the month in which contributions were deducted.

	Pensioners	
AA	**Payslips:** Every pensioner to receive a monthly pension advice payslip in the months of April and May. Thereafter, a hard copy payslip will be generated only where the net pension alters by ten pounds (£5) or more from the previous month.	Pensioners can access all their payslips via the member self-service option on the website. http://www.wccpensionfund.co.uk/ 3 Working days prior to pay day.
AA	**Increases:** Notify the pensioners of the increase and its effect on their pension by standard letter.	In the month of the payment increase.
	Advisory & Communications	
AA	**Contact centre** Answer phone calls and deal with queries from members and employers.	On working days between the hours of 9.00 am and 5.00 pm.
	Complaints	
AA	All complaints to be acknowledged. A full written response to a complaint must be sent to the complainant.	Within 5 working days. Within 20 working days of its receipt by Surrey, subject to all necessary information being available to Surrey to enable a full response to be given.

6. Pensions Administration Strategy - Schedule of Charging

Westminster acting as Administering Authority (WAA) wishes to support it's fund employers to enable them to provide all relevant data to both members and to WAA as per the requirements of the PAS set out above. Any employer who is unclear on the requirements of the PAS or is struggling with any aspect of the requirements should inform WAA of any concern as soon as possible, WAA will provide support where it can. WAA's first priority is to ensure compliance for the benefit of members and employers, ensuring that accurate data is stored for members. That pension can be processed quickly and accurately when required and that WAA and it's employers all meet their statutory obligations.

Where additional costs have been incurred by the Administrating Authority as a direct result of an Employer's poor performance these costs will be recovered from the Employer.

The Administrating Authority will give the reasons for doing so in accordance with the regulations.

In addition to the schedule below other circumstances could generate a charge:

- Instances where the performance of the Employing Authority has resulted in fines being levied against the Administering Authority by the Pension Regulator, Pensions Ombudsman, HMRC or other regulatory body.

- Additional cost incurred in providing specialist third party advice in administering the Scheme on behalf of the employer, including but not exclusive to actuarial services, occupational medical practitioner services and legal services.

- Persistent failure to resolve issues in a timely and satisfactory fashion.

In these circumstances the Administrating Authority will set out the calculations of any loss or additional cost incurred, in writing, stating the reason for the cost(s) and the basis for the calculation.

WAA will monitor aspects of the PAS on a quarterly basis, the aspect monitored may change and not all employers data will necessarily be reviewed on each occasion. WAA will be reviewing data from SCC to ensure it's own compliance which will be reported on to the Pension fund Committee and the Pension board.

WAA will also seek evidence from SCC of employer compliance with the PAS but may also request data directly from the employer who will be expected to respond with relevant evidence or assurance of compliance where relevant. If an employer does not respond to any request for information within **30 days** of request then this will also be chargeable at **£200** an occasion.

Administration Description	Performance Targets	Charge
New Starters and Transfers In		
New scheme member: Employer to send to the Administrating Authority the details of the new member.	Within 25 working days after the start date.	£50 per case
Leavers and Transfers out		
Scheme Leaver: Employer to send the Administrating Authority a completed leaver notification.	Within 25 working days from the employee's last day in the Scheme.	£50 per case
Retirements: Employer to send the Administrating Authority a completed notification.	At least 15 working days before their final paid day of work.	£50 per case
Deductions		
Monthly deductions: Employer to send funds and schedule of deductions from salary to the Administering Authority. **Payment of Other Sums Due:** Employers should make payment of any invoiced sums as set out within this PAS within 30 days of invoice date.	By the 19th day of the month following the month in which contributions were deducted.	£100 per instance of late payment.

7. Strategy to develop web enabled services for employers and employees.

In 2016/17 the Administrating Authority will implement, develop and engage employers in an on line portal. Initially, the portal will be used for data sharing with employers and information communication with employees.

Whilst forms will be restricted to being downloaded completed and resent, it is anticipated that the portal will be developed to allow members of the scheme to self-serve e-forms direct to the scheme administrators.

8. Further Information

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Annual Report of the Pension Board 2018/19

The role of the local pension board is to assist the scheme manager (the administering authority) in securing compliance with:

- The scheme regulations
- Other governance and administration legislation
- Any requirements of the Pensions Regulator (tPR)
- Additional matters, if specified by scheme regulations

The boards are required to have an equal number of representatives from employers and scheme members. They may also have other types of members, such as independent experts, but such members will not have a vote.

The law requires local pension board members to have knowledge and understanding of relevant pensions laws, and to have a working knowledge of the LGPS and its documentation. Whereas the role of the pension committee usually involves carrying out a decision-making function, members of pension boards should focus on the processes involved in running the fund. For example, are policies and procedures up-to-date, are the requirements of the Pensions Regulator being met and is the fund following recognised best practice.

At a national level, there is also the Scheme Advisory Board (SAB). This consists of representatives from across a broad spectrum of LGPS stakeholders. Its purpose is to encourage best practice, increase transparency and coordinate technical and standards issues by being reactive and proactive. Separate SABs exist for the schemes in England & Wales, Scotland and Northern Ireland.

Employer Representatives

- Councillor Angela Harvey – Chair of Local Pension Board (Westminster, Conservative)
- Councillor Guthrie McKie – Vice-Chair of Pension Board (Westminster, Labour)
- Marie Holmes – (The Grey Coat Hospital)

Scheme Member Representatives

- Terry Neville OBE
- Christopher Smith (Westminster, UNISON)
- Chris Walker

During the year 2018/19 the board met three times, (the fourth quarterly meeting taking place in May 2019)

- 5 September 2018
- 26 November 2018
- 29 January 2019

During the year the Board had a varied and extensive work programme covering the following areas:

Regular reports presented throughout the year:

- The monitoring of quarterly fund investment performance
- Reports detailing the funds financial management, including cash flow and scrutiny of the fund risk register
- Pensions Administration Key Performance Indicators
- Pension Fund Costs

Other examples of work that the Board covered during the year:

- A report from the Head of Operational People Services detailing the membership of the Westminster Pension Fund by employer. The discussion also included employer admission agreements and how the Board could help promote the LGPS to new members going forward
- A review of the assessment of the funds investment managers approach to Environmental Social and Governance (ESG) issues. This report was prepared by the funds investment advisor (Deloitte) for the Pension Fund Committee.
- A report on the recent progress made by the London Collective Investment Vehicle including key staff appointments, a new governance framework and investment sub-fund launches.
- A discussion following a report presented on the proposed statutory guidance on asset pooling from the Ministry of Housing, Communities and Local Government (MHCLG). The board provided feedback which was fed into the Westminster response to the consultation process.
- Knowledge and Skills assessments for each member ensuring that future training

programmes can be targeted to the most topical and relevant areas.

The Local Pension Board also attended two bespoke events during the year:

- On 9 July 2018 an event hosted by PENtag and Investec Asset Management took place. This was an all-day event covering a broad range of topics. PENtag's presentation of the history of pensions in the UK, the benefits provided by the LGPS, administering the LGPS scheme and the role of the Pensions Ombusdsman. The session provided by Investec Asset Management consisted of types of investments and asset allocation, levels of risk and return, governance and compliance.
- On 17 September 2018 a three-hour session was arranged for the Board. The training was delivered by industry expert John Raisin. This was largely a legislative session that outlined the role and responsibilities of various committees and bodies both on a local and national level.

Angela Harvey, Chair of Westminster Local Pension Board – June 2019

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City of Westminster

Grant Thornton

The Audit Findings for City of Westminster Council Pension Fund

Year ended 31 March 2019

2 May 2019

Contents

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Headlines

This table summarises the key findings and other matters arising from the statutory audit of City of Westminster Council Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2019 for those charged with governance.

Financial Statements	Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Pension Fund's financial statements: • give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and • have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.	Our audit work was completed on site during April 2019. Our findings are summarised on pages 4 to 10. We have identified one adjustment to the financial statements that resulted in a £5.6m increase to the Pension Fund's financial position. As the adjustment is not material, management have decided not to amended the financial statements. Audit adjustments are detailed in Appendix A. Our work is substantially complete and there are no matters of which we are aware of that would require modification of our audit opinion (Appendix C) or material changes to the financial statements, subject to the following outstanding matters; - receipt of Additional Voluntary Contributions from providers Aegon and Equitable Life Assurance Society; - receipt direct confirmations of year end asset valuations from Fund Managers (we have used the reports provided to the Council at this stage); - receipt and review of Pension Fund Annual Report; - receipt of the PWC review of IAS19/26 reporting at 31 March 2019; - receipt of management representation letter; and - review of the final set of financial statements. Our anticipated audit report opinion will be unqualified.

Acknowledgements
We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Summary

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management and the Audit and Performance Committee.

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

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls; and
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

We have not had to alter or change our audit plan, as communicated to you at the Audit and Performance Committee on 5 February 2019.

Conclusion

We have substantially completed our audit of your financial statements and subject to outstanding queries being resolved, we anticipate issuing an unqualified audit opinion following the Audit and Performance Committee meeting on 17 June 2019, as detailed in Appendix C.

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality calculations have been updated to take account of the Net Assets balance in your draft financial statements. We detail in the table below our determination of materiality for City of Westminster Council Pension Fund.

	Pension Fund Amount (£)
Materiality for the financial statements	14,100,000
Performance materiality	9,870,000
Trivial matters	705,000
Materiality for specific transactions, balances or disclosures	We have not set any specific materiality limits, but we have reported any misstatements we identify in cash, related parties and key management personnel remuneration within this report.

Going concern

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Going concern commentary

Management's assessment process	Auditor commentary
Management have reviewed the Fund's funding position and cash flows.	• The Pension Fund has more than sufficient assets to meet its liabilities as they fall due over the next 12 months. Local Government Pension schemes are effectively underwritten by the tax payer with deficits financed by increased contributions agreed with the actuary that are financed through Council, Admitted and Scheduled bodies contributions. • There is no plan by the Ministry of Housing, Communities and Local Government to wind up the City of Westminster Council Pension Scheme. • The Pension Fund continues to operate as usual in 2018/19. Contributions and investment income continue to be received as expected. • **The** Council has approved at full Council, subject to the revised triennial figures, approval to pay off its entire Pension Fund deficit in April 2020 or an expected £150m. We are satisfied with the approach which has been developed with legal and actuarial advice.

Work performed	Auditor commentary
Detail audit work performed on management's assessment	• We have reviewed managements assessment that the financial statements are prepared on a going concern basis. • We are satisfied that there are sufficient assets to meet liabilities as they fall due. The last triennial actuarial valuation also demonstrated an improvement in the funding level to 80%. • The Council have paid £24.5m deficit funding contributions into the pension fund in 2018/19. • The fund continues to operate as usual.

Concluding comments	Auditor commentary
	• We are satisfied that the Pension Fund Financial Statements are prepared on a Going Concern basis.

Significant findings

	Risks identified in our Audit Plan	Commentary
1	**Improper revenue recognition** Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	**Auditor commentary** Having considered the risk factors set out in ISA240 and the nature of the Pension Fund's revenue streams, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including the Council as the administering authority, mean that all forms of fraud are seen as unacceptable. Therefore we do not consider this to be a significant risk.
2	**Management override of controls** Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund face external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk for the Fund.	**Auditor commentary** We have undertaken the following work in relation to this risk: • review of entity controls; • review of accounting estimates, judgements and decisions made by management; and • review of unusual significant transactions Our audit work has not identified any issues in respect of management override of controls.

Significant findings

	Risks identified in our Audit Plan	Commentary
3	**The valuation of Level 3 investments is incorrect** By their nature, Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£77 million) and the sensitivity of this estimate to changes in key assumptions Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers as valuation experts to estimate the fair value as at 31 March 2019. We therefore identified valuation of Level 3 investments as a significant risk.	**Auditor commentary** We have undertaken the following work in relation to this risk: • gained an understanding of the Fund's process for valuing level 3 investments and evaluated the design of the associated controls; • reviewed the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investment; • independently verified the Hermes Property Unit Trust valuation to independent market data; • reviewed the custodian independent valuation of Hermes Property Unit Trust; • considered the competence, expertise and objectivity of any management experts used; • verified the investment balances to the fund manager and custodian reports; and • the Pantheon valuation is currently held at cost as per the critical judgement in your accounting policies. We are satisfied that the valuation of level 3 investments are not materially misstated.
4	**Incomplete or inaccurate financial information transferred to the new general ledger** In December 2018, the Council implemented a new general ledger system. When implementing a new significant accounting system, it is important to ensure that sufficient controls have been designed and operate to ensure the integrity of the data. There is also a risk over the completeness and accuracy of the data transfer from the previous ledger system. We therefore identified the completeness and accuracy of the transfer of financial information to the new general ledger system as a significant risk.	**Auditor commentary** We have undertaken the following work in relation to this risk: • reviewed the Fund's arrangements and controls over the transfer of data from Agresso (legacy ledger) to SAP (new ledger); • mapped the closing balances from Agresso to the opening balance position SAP to assess accuracy and completeness of the financial information, undertaking sample testing as appropriate; and • completed an information technology (IT) environment review to document, and evaluate the IT controls operating within the new general ledger system. We are satisfied that the data transfer from Agresso to SAP was accurate and complete.

Significant findings

	Risks identified in our Audit Plan	Commentary
5	**Valuation of Level 2 Investments** While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly. We therefore identified the valuation of the Fund's Level 2 investments as an other risk	**Auditor commentary** We have undertaken the following work in relation to this risk: • gained an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls; • evaluated the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments; • reviewed the reconciliation of information provided by the pension fund's individual fund manager's custodian and the Pension Scheme's own records and sought explanations for variances; and • we have reviewed the latest AAF 01/06 or ISAE 3402 audited reports on internal controls, published by the respective investment managers and Custodian. The investment balances in the financial statements were based on the custodian's report. The custodian reported the valuation as at month 11 for investments in Standard Life, CQS and LGIM. The month 12 balances were subsequently £5,598k higher than the balances disclosed in the financial statements. As the adjustment is not material management have decided not to adjust the financial statements. We are satisfied that the investments are are not materially misstated.

Significant findings - accounting policies

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	• Normal contributions, both from the members and from the employer, are accounted for on an accruals basis. • Employer deficit funding contributions are accounted for on the due dates on which they are due under the schedule of contributions set by the actuary or on receipt if earlier than the due date. • Employer's augmentation and pension strain contributions are accounted for in the period in which the liability arises. • Individual transfers into the funs are accounted for when received. • Investment income arising from the underlying investments of the Pooled Investment Vehicles is either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as a cash dividend to support the Fund's outgoing cash flow requirements. • Distributions from pooled funds are recognised at the date of issue. • Interest income is recognised in the fund account as it accrues.	The revenue recognition policy is consistent with the Code of Practice of Local Authority Accounting. Management have followed the policy in accounting for the funds revenue streams.	Green
Judgements and estimates	Key estimates and judgements include : • Valuation of level 3 investments • The assumptions within the IAS26 calculation of the present value of future retirement benefits • The assumptions within the triennial valuation	The policies adopted for material accounting estimates appear to be appropriate under the Code of Practice of Local Authority Accounting. Our testing indicates that the material estimates included in the financial statements have been calculated based on reasonable judgements and assumptions from experts.	Green
Other critical policies	• The Pension Fund has adopted the standard accounting policies as set out in the Code.	We have reviewed the Pension Fund's policies against the requirements of the CIPFA Code of Practice. The Pension Fund's accounting policies are appropriate and consistent with previous years. We recommended that a disclosure was added to clarify that the Pantheon Investment of £14,403,000 has been valued at cost on the basis that fair value as at 31 March 2019 cannot be reliably estimated.	Green

Assessment
- Marginal accounting policy which could potentially be open to challenge by regulators
- Accounting policy appropriate but scope for improved disclosure
- Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1	**Matters in relation to fraud**	We have previously discussed the risk of fraud with the Audit and Performance Committee. We have not been made aware of any incidents in the period and no issues have been identified during the course of our audit procedures.
2	**Matters in relation to related parties**	We are not aware of any related parties or related party transactions which have not been disclosed.
3	**Matters in relation to laws and regulations**	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4	**Written representations**	A letter of representation has been requested from the Pension Fund, which will be included in the June 17 Audit and Performance Committee papers.
5	**Confirmation requests from third parties**	We requested from management permission to send confirmation requests to your custodian, fund managers and banks. This permission was granted and the requests were sent. We have received a response from Longview fund managers, but we are still awaiting responses from all other fund managers.
6	**Disclosures**	Our review found no material omissions in the financial statements.
7	**Audit evidence and explanations/significant difficulties**	All information and explanations requested from management was provided.
8	**Matters on which we report by exception**	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. We are awaiting the draft Pension Fund Annual report to review.

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

Audit and Non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. No audit and non audit related services were identified.

Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management. There were no adjusted misstatements.

Impact of unadjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2019.

	Detail	Pension Fund Account £'000	Net Asset Statement £' 000	Impact on total net assets £'000	Reason for not adjusting
1	The financial statements were based on the custodian's report. The custodian reported the month 11 investments in Standard Life, CQS and LGIM. The month 12 balances were £5,598k higher than the balances disclosed in the financial statements.	Credit (Profit) and loss on disposal of investments and changes in the market value of investments 5,598	Debit Investment assets pooled investment vehicles 5,598	Increased total net assets 5,598	The adjustment is not material
	Overall impact	£5,598	£5,598	£5,598	

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Detail	Auditor recommendations	Adjusted?
Disclosure	In note 16 for assets exposed to interest rate risk the value on 1% increase should be £90,110k not £91,269k.	Management have made the required amendment	✓

Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit Fees

	Proposed fee	Final fee
Pension Fund Audit	16,170	16,170
Total audit fees (excluding VAT)	£16,170	£16,170

- The fee of £16,170 agrees to the disclosed in the pension fund financial statements

There are no fees for non-audit or audited related services have been undertaken for the Pension Fund.

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Audit opinion

We anticipate we will provide the Pension Fund with an unmodified audit report. This is a draft version that will be updated.

Independent auditor's report to the Members of City of Westminster council on the pension fund financial statements

Opinion

We have audited the pension fund financial statements of City of Westminster (the 'Authority') for the year ended 31 March 2019 which comprise the Fund Account, the Net Assets Statement for the year ended 31 March 2019 and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2019 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the pension fund of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Section 151 Officer's use of the going concern basis of accounting in the preparation of the pension fund financial statements is not appropriate; or
- the Section 151 Officer has not disclosed in the pension fund financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the pension fund financial statements are authorised for issue.

Other information

The Section 151 Officer is responsible for the other information. The other information comprises the information included in the Annual, the Narrative Report and the Annual Governance Statement, other than the pension fund financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Audit opinion

In connection with our audit of the pension fund financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund financial statements or our knowledge of the pension fund of the Authority obtained in the course of our work or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.
We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)
In our opinion, based on the work undertaken in the course of the audit of the pension fund financial statements the other information published together with the pension fund financial statements in the Annual Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the pension fund financial statements are prepared is consistent with the pension fund financial statements.

Matters on which we are required to report by exception
Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

Responsibilities of the Authority, the Section 151 Officer and Those Charged with Governance for the financial statements
As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Section 151 Officer. The Section 151 officer is responsible for the preparation of the Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, which give a true and fair view, and for such internal control as the Section 151 Officer determines is necessary to enable the preparation of pension fund financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund financial statements, the Section 151 Officer is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the pension fund lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the pension fund.

The Audit and Performance Committee is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the pension fund financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these pension fund financial statements.

Audit opinion

A further description of our responsibilities for the audit of the pension fund financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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

Grant Thornton UK LLP
10 Bishopsgate
London
EC2N 4AY

[illegible] June 2019

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PIRC

LOCAL AUTHORITY PENSION PERFORMANCE ANALYTICS

ANNUAL REPORT 2018/19

- 2018/19 Local Authority Universe results
- Long term results and trends
- Comments and analysis

INTRODUCTION

WELCOME TO the 2018/19 PIRC Local Authority Pension Performance Analytics Annual Review. Who would have anticipated funds would return more than 10% p.a. over these last three years between revaluations? The continued excellent performance from the investments, despite economic and political volatility, should make balancing the actuarial books a little easier than funds may have been expecting.

We are delighted to be able to publish this year's peer group results, based on a Universe of 64 funds with a value of £193bn. This represents some two thirds of local authority pension fund assets and includes all of the Welsh and Northern Pools, all bar one of the London Pool, with funds from all other pools except Central. We look forward to this number continuing to grow as more funds come on board.

This year we welcome the Isle of Wight, Cumbria and Hackney schemes into the Universe.

This has been a year of substantial activity across the funds as the move into pooling began to materialise in earnest. We saw a continuation of the move between passive managers that had begun the year previously followed by a movement of funds across most pools into the active global equity offerings.

These changes have tended to be at portfolio level with fund strategic allocation remaining broadly unchanged. This is not surprising given the impending triennial revaluation in England and Wales.

If you need to know anything more please just ask.

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CONTENTS

2018-19 UNIVERSE RESULTS

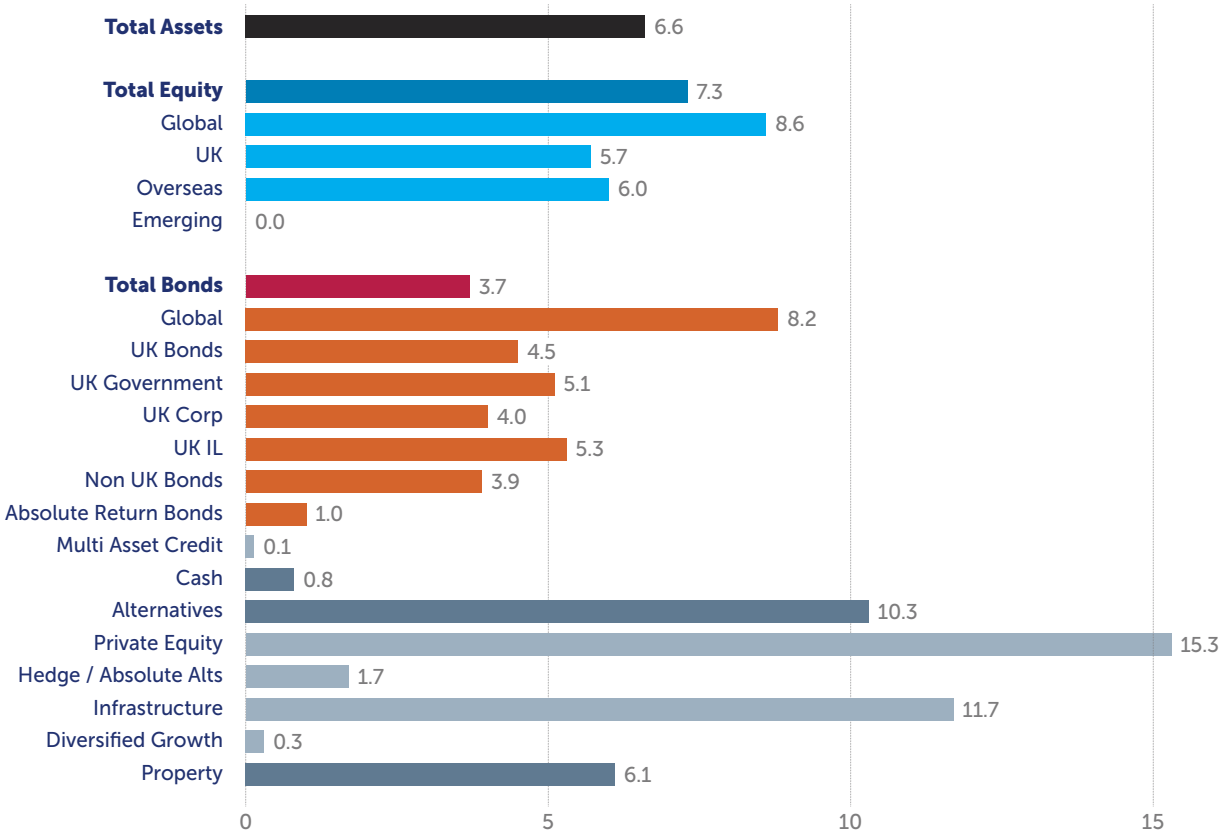
- A year of global political uncertainty, a burgeoning trade war between the US and China and no resolution to the Brexit issue. Despite this, investment returns, though volatile, were positive and the average Local Authority fund produced a return of almost 7% for the year.

- This was slightly below the long term average of around 8% p.a. but this return was ahead of inflation and actuarial assumptions.

- Asset class returns were tightly grouped with bonds, property and equities returning 4%, 6%, and 7% respectively for the year.

- Private equity was the best performing asset class at 15% followed by infrastructure at 12%. Absolute return investments all performed relatively poorly averaging only 1% for the year.

Figure 1: 2018/19 performance



There were many headwinds facing investors over the last year. Unease over historically high levels of markets, political uncertainty, the escalating trade war between the US and China and the ongoing unresolved issues around how, or even if, the UK would leave Europe all impacted sentiment and made for a volatile year. Despite this, over the last twelve months the average Local Authority pension fund has returned a very respectable 6.6%. While this return is below the 30 year average of 8.4% p.a. it is well ahead of inflation and of actuarial assumptions which are currently around 4% p.a.

Figure 1 shows asset class returns were tightly grouped. Bonds, property and equities returned 4%, 6%, and 7% respectively for the year.

As in the previous year when assets were also tightly grouped, strategic asset allocation had less of an impact than usual and so the range of individual fund returns was narrow with most funds returning between 5% and 8% for the year.

Unusually, there were bigger differences within asset classes than between them. With equities emerging markets returned an average of 0% whilst global equity portfolios delivered close to 9%. Likewise within alternative investments funds achieved an average return of 10% but there was a wide range of returns delivered. Funds that held high levels of private equity and infrastructure would have seen double digit returns from these assets whilst those invested in absolute return investments were likely to have experienced returns of less than 2% for the year.

Within bonds, traditional index based investment strategies produced returns well ahead of those delivered by absolute return or multi asset strategies.

These figures reinforce the importance of clearly understood and implemented decision making at all levels within the asset hierarchy.

Performance relative to fund specific benchmarks

After strongly outperforming their own benchmarks in 2017/18 many funds saw a sharp reversal of fortune and in the latest year two thirds of funds failed to match their benchmark return. Of the third that outperformed the relative results were modest and only a handful added more than 1%. The key reasons for the relatively poor performance were disappointing returns from many active equity managers and below target returns from many absolute return investments.

Only a third of funds managed to outperform their strategic benchmark last year.

What did well in the latest year?

Private equity continued to perform strongly with a return of 15% for the year. It has outperformed quoted equity in the medium term but the outperformance is not yet visible over the longer term.

Infrastructure too performed extremely well.

US equities (the key component of global equity funds) continued their extended run of excellent performance, assisted by the ongoing strengthening of the US Dollar.

Ethical / Green / Environmental investment did well in garnering funds. These strategies saw a large influx of money across a range of funds. This was focussed principally in global equity portfolios where we saw a net inflow of £3 billion. There was also an inflow to green investment within new infrastructure allocations across a number of funds.

What fared less well?

Emerging market equities after being the best performing equity area in the previous year, fared particularly badly this year, failing to deliver a positive return.

With an average return of 1% **absolute return** funds performed relatively poorly across a variety of strategies and asset types.

Equity protection, taken out by some funds as insurance against possible market falls was not required and the cost had a drag on performance for the year.

Continued low interest rates meant holding any level of **cash** continued to have a negative impact on return.

Figure 2: Asset allocation - latest year

% allocation	31/3/2018	31/3/2019	Change
Equities	55	55	-
UK	15	14	-1
Overseas	40	41	1
Bonds	18	19	1
UK	8	8	-
Global	4	4	-
Overseas	1	0	-1
Absolute return	5	5	-
Multi-Asset Credit		1	1
Cash	3	3	-
Alternatives	11	11	-
Private equity	5	5	-
Infrastructure	3	3	-
Absolute Return	3	3	-
Diversified growth	4	3	-1
Property	9	9	-

What has changed over the year?

After the dramatic reduction in equity exposure as funds moved to lower risk strategies through 2017/18 the strategic asset allocation changes in the latest year were modest as can be seen in Figure 2. However beneath that a number of changes emerged and trends, that had started in previous years continued:

Move into **'green' investments** across a range of funds and through both active and passively managed investments.

Continued move into **enhanced index/smart beta** investments including low volatility.

Multi-asset credit gained ground.

A continued move away from index based bench-marks towards **absolute return benchmarks** within alternative assets and within bond allocations.

An increase in the level of **passive equity investment**

Continuation of the **switches across index tracking managers** as funds take advantage of reduced fees negotiated at pool level.

2018/19 IN DETAIL

Asset allocation

The equity allocation remained unchanged but within this the move away from UK equities continued. The majority of funds now have no specific UK equity allocation, investing instead through global equity investments. It has been interesting to note that a number of pools are currently not offering a UK equity vehicle and so, by default, this move looks certain to continue.

Structures remained broadly unchanged as funds wait for the results of the 2019 actuarial revaluations.

The new money within the bond/income allocation is generally being invested into absolute return type investments – whether they be bond based, multi-asset credit, private debt or property income funds. The bulk of the investment in index based strategies (the UK Bond, global and overseas allocation in Figure 2 above) is invested passively.

Within alternatives there has been a continued flow of funds into infrastructure and we expect this to grow as allocations are drawn down and the Pool infrastructure offerings become funded.

Diversified growth allocation reduced. One of the bigger players in this market Aberdeen Standard, saw a number of funds disinvest on the back of poor performance whilst other funds, perhaps prompted by the disappointing returns of the asset class as a whole, have switched to alternative products, such as multi-asset credit.

Cash exposure increased slightly over the year. Some of this may be the result of worries about the level of the equity markets but it is also the result of a number of funds being in the process of transition.

Risk reduction

In 2017/18 we saw funds de-risk to some degree. The key manifestation was the move from equities to less 'risky' assets such as diversified growth / absolute return portfolios which target lower than equity returns but at substantially lower than equity volatility. This trend didn't continue through the latest year. It would seem that funds that had not already implemented such strategies are waiting until there is clarity about ingoing funding levels and costs from the latest actuarial revaluations which should be complete towards the end of this year.

We continued to see limited use of equity protection strategies. These are effectively derivative trades where a fund insures itself against a large fall in the equity market. Because equity markets did not fall in the way many had anticipated, and indeed rose strongly, this insurance was not called upon. The cost of the strategy became a drag on performance for those funds that had employed it in the latest year.

Income generation

As more funds continue to move close to or into a cash flow negative situation (where the payments of pensions out of the fund is greater than the contribution inflow) there has been increased focus on income generating assets. Whilst equities generate income this income is usually immediately reinvested so funds are looking more closely at

More funds continue to move close to or into a cash flow negative situation.

alternative sources. We continue to see increased investment into higher yielding, income generating assets such as property, infrastructure and multi-asset credit funds as well as private debt all of which would help to deliver the income required.

Asset performance

Equities

Equities had a torrid time as global markets plunged in the December quarter amidst concern over a global trade war before rebounding in the first calendar quarter of 2019 to deliver positive returns for the year across most regions.

There has been a significant move into green equity investment strategies.

The approach to equity investment varies widely across funds. Most active equity investment is now undertaken through global pooled vehicles benchmarked against global indices that incorporate both developed and emerging markets. Some funds choose to invest in global developed market funds, allowing them to choose a separate manager and a defined allocation to emerging markets.

A declining number of funds maintain a bespoke UK equity allocation managed by a specialist UK equity manager. The increased globalisation of the UK stock market and the relatively poor performance of that market and the active fund managers operating within that space have all been contributory factors to this decline.

Of the funds that run a UK / Overseas equity split rather than invest globally only a small number of still manage their active equity portfolio on a geographical regional basis. These funds tend to be at the larger end of the size range.

Global equities last year returned 8.6% in aggregate. The split of returns can be seen in Figure 4. There is not a consistent approach to passive management within equities either. Whilst some funds invest in a global equity fund most invest against a fund specific global equity allocation. Generally this allocation has a lower exposure to the US market than the major indices and this is reflected by the underperformance of this group relative to the broad market indices.

Figure 3: Global equity returns 2018/19

	% return
Global equity	8.6
Total active	9.4
Total passive	7.4
Bespoke	7.0
Index	11.8
Hedged index	5.7
Enhanced index	7.0

The passive funds tracking global indices performed best last year as can be seen in Figure 3. The funds tracking enhanced indices (RAFI, low volatility etc) delivered lower returns in line with these indices. It will be interesting to follow the relative results of these groups as we have seen increased interest and investment into enhanced index strategies.

Across both active and passive equities we have seen, in this latest year, a move into **green / low carbon / environmental equity** investments. Most funds going down this route are currently investing passively against a market index excluding predefined stocks, or reweighted to reflect particular factors. This has been facilitated by the availability of a range of indices now that cover a wide range of solutions to particular concerns (low carbon, ex fossil fuels, ESG screened etc) which are able to track the main global indices within relatively tight bands. This is a far more balanced approach than simple stock exclusion as funds can implement strategies to meet their environmental guidelines whilst ensuring that return and volatility remain broadly consistent with their previous investment approach.

Other funds are investing actively in vehicles designed to be climate aware with a sustainable focus, usually measured against the standard global indices.

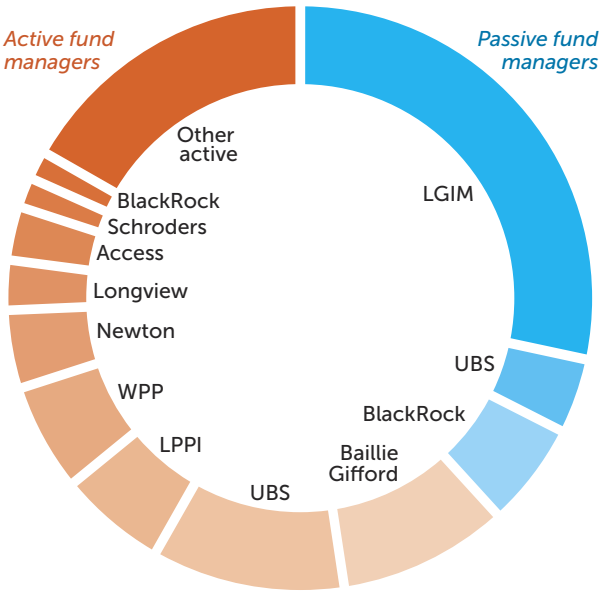
From a level of close to zero a year ago we now see a fifth of the Universe global equity investment by value invested in these types of funds. We will monitor the

performance of this group from next year when we have a full year of data available.

Active global equity managers failed to add value against the index in aggregate this year Baillie Gifford, the largest manager in this group underperformed as did UBS and Schroders whilst of the other main managers Longview and Newton both outperformed the index. The best and worst performers this year were less well known managers. Veritas produced returns of around 18% for the year while Woodward, Hoskins and Natixis Harris all failed to achieve a positive return.

The bulk of global equity money remains with LGIM, UBS and Baillie Gifford as shown in Figure 4.

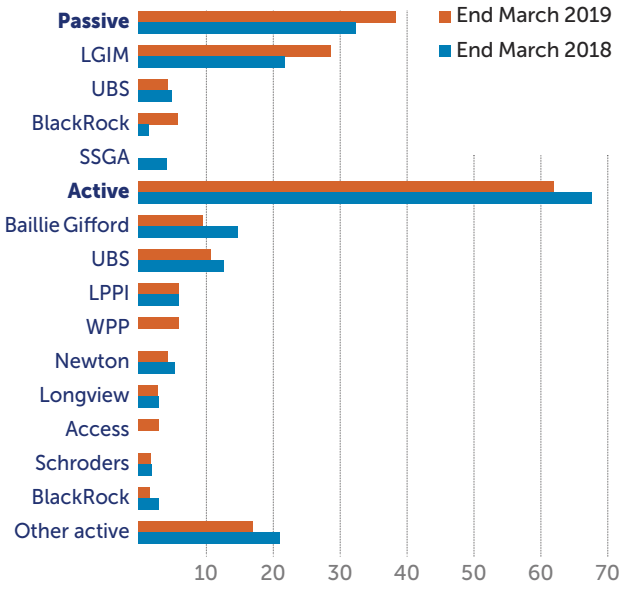
Figure 4: Global equity managers by % value, 31/3/19



If we look at Figure 5 we can see that there has been a continuation of the move towards passive management of global equities and that LGIM has been the major beneficiary of the restructuring brought about through pooling. SSGA which last year was the sixth largest manager of local authority global equities is no longer represented at all.

The move to pooling makes it increasingly more difficult to quantify just who manages what part of the LGPS assets. For instance it appears that Baillie Gifford has seen a substantial reduction in assets under management when, for example, they now manage a sizeable part of one of the two WPP global offerings. We will come back to look at this issue further through the review.

Figure 5: Change in % of global equities under management



The move to pooling makes it increasingly more difficult to quantify just who manages what part of the LGPS assets.

UK Equities

UK Equity performance in the latest year was below the FTSE All Share return of 6.4%. Whilst a quarter of UK equities are managed passively the majority of UK equity portfolios are managed actively and last year the active managers fared poorly with the average actively managed UK equity portfolio returning only 5.7% after fees. Whilst this number is disappointing the real scale of the underperformance can be seen if the internally managed UK equity results are stripped out. Internal UK equity managers performed strongly last year – removing them leaves the external active UK equity managers delivering an average return of only 3.7%, almost 3% behind the index. Majedie (who underperformed last year) remains the most used active manager in this area although this will obviously change as funds move further into the Pool offerings.

Bonds

Bond markets produced small positive returns as can be seen in Figure 6. Those funds that invested in abso-

lute return mandates delivered a return of only 1% this year. Multi-asset credit also performed poorly. Bond portfolios that are managed against market indices performed broadly in line with these benchmarks Most bonds are managed on an active basis and the continued move towards absolute return portfolios (all of which are managed actively) has meant that the level of passive management within this group has declined further in the latest year.

Figure 6: Bond performance relative to market benchmarks

%	Return	Relative to BM
UK Government	5.1	+1.4
UK corporate	4.0	-0.1
UK IL	5.3	-0.2
Global	8.2	+4.0
Absolute return	1.0	-3.5
Multi-asset credit	0.1	-4.4

Alternatives

Alternative investments, as usual, produced a wide range of results measured against a very broad range of targeted outcomes:

Private Equity remains the largest of the 'alternative' assets. It also continues to be the best performing, delivering a return of 15% for the year. Whilst most funds continue to measure this asset against an equity index (or against an equity index with a hurdle) a number of funds are incorporating this within their overall absolute return alternative strategy.

In the latest year **infrastructure** investments also performed extremely well, with funds averaging over 11%. More than half the funds in the Universe now have an investment in this area. A return of between 4% and 6%, either expressed as an absolute or as a percentage over cash is the most common benchmark and we are seeing an increase in green investment within this area.

Absolute return / hedge funds produced a return of 2% for the year, broadly similar to that of diversified growth and absolute return bonds. Whilst there is a broad range of benchmarks used across the group it is encouraging to note the continued move away from a cash only benchmark to the more taxing (and more appropriate) 'cash plus'.

Absolute return investments performed poorly last year, behind benchmarks and below the return of other asset classes.

Diversified growth

This asset saw another relatively disappointing year, delivering an average of 0.3%. Newton was the only manager to outperform its benchmark last year, whilst Ruffer, GMO and Aberdeen Standard failed to achieve positive returns. This continuation of disappointing performance saw a number of funds disinvest from this asset during the year.

Property

Property delivered an average return of 6% for the year, in line with the IPD benchmark. The range of returns was extremely tight with most funds grouped between 4% and 7% for the year.

Over 90% of funds in the Universe now have some property exposure and we saw a widening of the scope of property investing with funds looking at property income investments to include within the bond/income part of their strategy and residential property funds too.

LONGER TERM PERFORMANCE

- Long term performance has been excellent. Funds delivered a positive return in 25 of the last 30 years and delivered an annualised performance of 8.4% p.a. – a return significantly ahead of inflation.

- Whilst larger funds in aggregate have outperformed, the very best performance continues to come about from some of the very smallest schemes.

Performance has been, and remains, extremely strong over the medium and longer term. The thirty year return of 8.4%p.a, is almost 6% p.a. ahead of inflation over the same period. This exceptional level of return will have been reflected in large savings of running invested funds over a pay as you go approach.

Figure 7 shows that there have been only two periods of negative performance in the last thirty years – at the start of the millennium (the bursting of the dot-com bubble) and the global financial crisis of 2008/9. Both periods were followed by strong double-digit returns. The equity 'shocks' that investors are so concerned about mitigating have been infrequent and the reward for holding equities substantial.

Figure 8 shows the average returns achieved across each of the three year actuarial valuation periods together with the average return for the last 30 years. The three year return will have an important impact on funding levels and costs to the participants. This year, with upcoming actuarial revaluations in England and

Figure 7: Long term performance of local authority funds

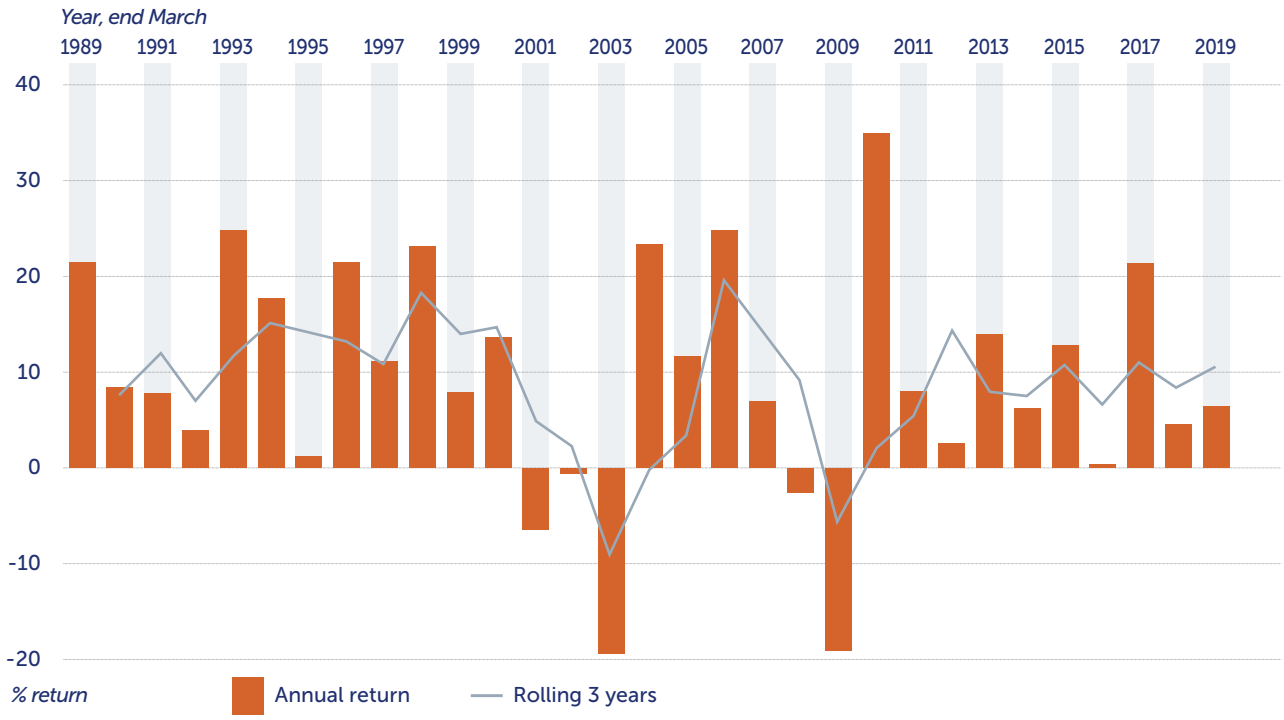
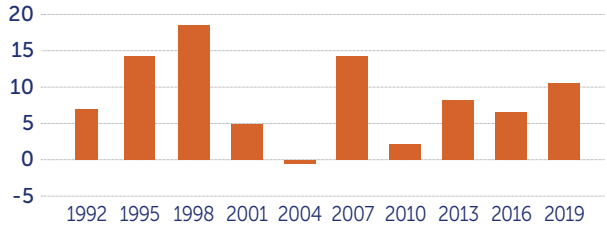


Figure 8: Returns over actuarial revaluation periods

% p.a. returns between actuarial valuation



Wales this return will be under particular scrutiny.

Despite global and domestic UK political and economic uncertainty, investment markets surged ahead over the last three years and most funds have seen fund values grow by around 30% over the period – well ahead of even the most optimistic expectations and actuarial projections. This, combined with flattening mortality data may make this valuation a little less painful than funds had expected.

Figure 9 shows that over the three years the average fund returned 10.5% p.a. and over the ten years returned 10.7% p.a. These results are particularly impressive when viewed in the context of very low single digit inflation over the same period.

Figure 9: Range of results, to 31/3/2019

% p.a.	3yrs	5yrs	10yrs	20yrs	30yrs
Average	**10.5**	**8.8**	**10.7**	**6.4**	**6.4**
Top quartile	10.8	9.2	11.2	6.6	8.5
Median	10.0	8.5	10.6	6.0	8.2
Bottom quartile	9.2	7.8	10.1	5.7	8.0
Interquartile range	*1.6*	*1.5*	*1.2*	*0.9*	*0.5*

The table also shows the range of results – 50% of returns fall between the top and bottom quartile (the interquartile range) and the median is the middle return achieved (regardless of fund size).

The median result is below the average over all periods indicating the relatively strong performance of larger funds in aggregate over their smaller peers. This long term outperformance was one of the key drivers of the pooling initiative.

This result does not reflect the range of results across the smaller funds, a group within which there is a marked dispersion. Indeed over all periods the very best performances have come from some of the smallest funds.

It is interesting just how tightly grouped the returns are over the longer term. Despite a great multitude of managers, strategies and advisers over the last thirty years most local authority schemes produced a return within 0.5% p.a. of their peers.

Asset class performance

Different funds are cutting their assets in different ways. Some are looking at liability matching and growth, others are carving out income generation, whilst others focus on liquidity. This can mean funds could hold the same investment but for different reasons. For instance one fund may include private credit

Asset class performance is becoming increasingly difficult to disentangle as funds become ever more complex.

Figure 10: Longer term performance by asset class, % p.a. to end March 2019

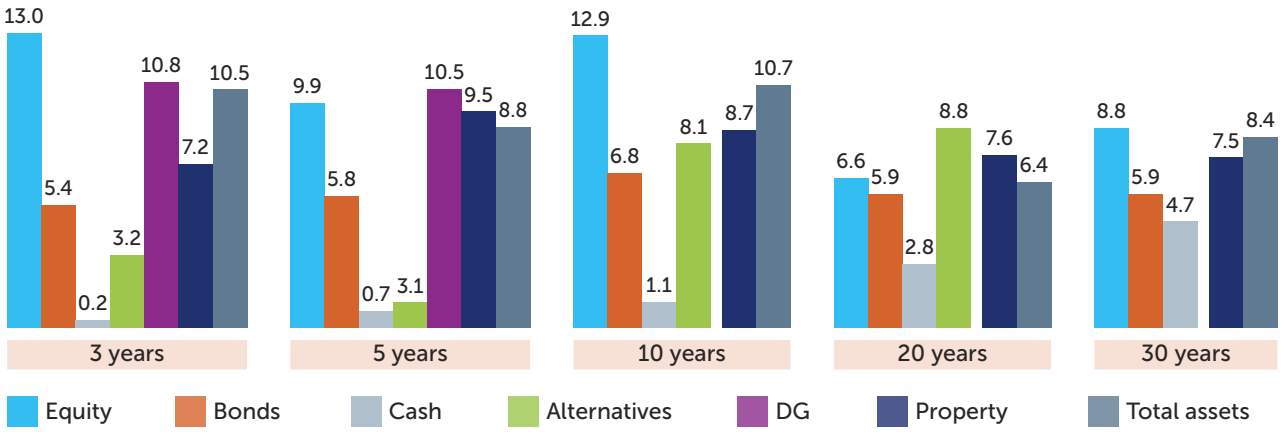
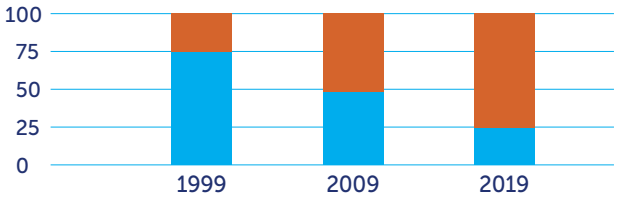


Figure 11: Equity allocation over time, % at end March



	1999	2009	2019
Overseas	26	53	76
UK	74	47	24

within alternatives whilst another may show it under their bond allocation.

Even within asset subclasses, we see funds with markedly different investments and benchmarks as they seek quite different outcomes – infrastructure remains the prime example of this.

Equities

Equities remain the most transparent of the asset classes insofar as most funds have a dedicated equity component benchmarked against a market index (or combination thereof).

In aggregate active global equity managers have not added value over the long term.

The latest year saw a continuation of the long term trend away from domestic equities. As can be seen in Figure 10 the average UK exposure has declined dramatically over the past twenty years. It is now less than a quarter of total equity exposure compared to half ten years ago and three quarters twenty years ago.

Now less than half of funds still retain a separate allocation to UK equities. This separation is largely a historical artefact – funds believed that UK assets were a better match for their UK liabilities and that domestic managers had a better chance of success in outperforming the UK market. This is consistent with a 'home country' asset allocation bias by investors across the world.

Funds that held a relatively high exposure to **UK equities** within their portfolios would have achieved returns below those of their peers in the latest year and over the longer term as UK equities have trailed their overseas peers – shown in Figure 11. Over the last

Figure 12: Longer term equity regional performance

	% p.a. 3 years	5 years	10 years
UK	9.2	5.9	11.5
Overseas	14.1	11.6	13.2
North America	17.0	15.6	16.4
Europe	11.0	8.3	11.6
Japan	13.7	12.2	10.7
Pacific	14.1	9.1	11.9
Emerging	13.3	8.7	10.6

five years the UK equity return has been only half that from overseas markets. This is a combination of both the weakness of the UK market and the weakness of Sterling over much of the period.

Although still ahead over the longer term active UK equity managers have trailed the index over the medium term as can be seen in Figure 12, undermining one of the key arguments for a home bias within fund allocation.

Over the medium term, the overall **global equity** return has been exceptionally strong – double the level of assumptions made by actuaries in their scheme modelling. US equities have outperformed the other major markets over all longer term periods, assisted by the strength of the Dollar.

UK equities have performed relatively poorly when compared to overseas markets over both the short and medium term.

Funds have, in aggregate, failed to add value over the market indices over the medium and longer term as can be seen in Figure 13. Whilst some of the blame for this lies firmly at the door of many active managers

Figure 13: Equity performance relative to indices

	% p.a. to 31/3/19 3 years	5 years	10 years
Global equities	14.3	11.6	13.2
World index	14.4	11.8	13.4
Relative	*0.0*	*-0.2*	*-0.2*
UK equities	9.2	5.9	11.5
FTSE All Share	9.5	6.1	11.1
Relative	*-0.3*	*-0.2*	*0.4*

some of the underperformance has resulted from the costs incurred in changing managers and the opportunity costs incurred from moving managers at the wrong point in their cycle or of holding on to them too long.

Funds have to accept that this reduced volatility may come at a cost and that cost may be the reduced opportunity to substantially outperform the benchmark.

The move into pooling is tasked with improving upon these lacklustre results. However at first glance it would appear that some of the structures that are being implemented will find it difficult. We have discussed before the difficulties of complex structures. Funds may feel reassured that the broad diversification will succeed in bringing down volatility (whilst one manager is failing it is hoped another will be excelling). Funds do however have to accept that this reduced volatility may come at a cost and that cost may be the reduced opportunity to substantially outperform the benchmark.

Around a quarter of funds hold a separate allocation to **emerging markets**, giving them the opportunity to flex their equity risk profile. The long held assumption has been that these markets experience higher volatility than developed markets but that this risk will be rewarded by higher returns. However, the decision to hold emerging markets has not been rewarded over most of the last decade with returns from this area below those delivered by most developed markets.

Bonds

Historically funds held most of their bond exposure within two main investments – **UK Government** (nominal gilts) and **UK Government Index-Linked** securities. These assets were seen broadly as a diversifier for equities and a proxy for scheme liabilities.

Diversification began in the late 1980's as funds started to invest some of their bond allocation overseas and continued in the mid noughties when funds started to seek out the higher returns available from corporate debt. For over a decade the average fund has held more in UK corporate bonds than it does in government gilts.

More recently we have seen funds invest in bond portfolios that are not benchmarked against market indices but which are seeking instead to deliver an absolute level of return (usually defined as Cash plus x%). These absolute return portfolios aspire to tap into better returns from a diversity of issuers, unencumbered by the straightjacket of the machinations of domestic interest rates and manipulated yields (sometimes negative in real terms) that have been available across bond markets in recent years.

We are also seeing some funds allocate some of their strategic bond weighting into multi-asset income / multi-asset credit funds where the manager can invest across a range of assets to achieve a targeted yield or an absolute level of return.

Figure 14: Longer term bond performance

	% p.a. to 31/3/19		
	3 years	5 years	10 years
UK bonds	5.4	5.6	7.2
UK index linked	7.5	8.8	8.7
Overseas	7.5	7.1	6.2
Absolute return	2.9		

Over all periods as can be seen in Figure 14, index-linked gilts have been the best performing of the bond assets assisted by the increased demand from pension funds seeking to match liability cash-flows and by investors concerned about the possibility of rising inflation.

Longer term, funds have outperformed the market indices because of their overweighting to longer dated issues, a sector that has performed well over this period driven in large part by high demand from pension funds trying to buy assets that more closely match their liability profiles almost regardless of price.

Alternatives

As can be seen in Figure 15 the weighting in alternatives has doubled over the last decade to reach the current level of 11% of the average funds' assets. Ten years ago around half of all alternative investment was held within private equity, a percentage that has stayed broadly consistent through the period. However, the investments that funds held ten years ago in active currency and tactical asset allocation funds have largely disap-

Figure 15: Allocation to alternative investments as % of total fund

	2004	2009	2014	2019
Private equity	1	3	4	5
Hedge funds / Absolute alts	0	2	2	3
Infrastructure	0	0	1	3
Other	0	1	0	0

Figure 16: Longer term performance of alternatives

	% p.a. to 31/3/19		
	3 years	5 years	10 years
Private equity	14.5	14.7	10.2
Hedge funds / Absolute alts	4.6	4.4	5.0
Infrastructure	11.8	11.0	-

peared and been replaced with infrastructure, hedge fund and various absolute return strategies instead.

Hedge fund investment increased markedly following the credit crisis as funds sought to reduce equity volatility, peaking in 2011 before falling back, partly on the grounds of disappointing returns and in part, as funds diversified into an increasingly broad and complex, but arguably more transparent, pool of other **absolute return** investments.

Allowing better access for smaller funds to infrastructure investments was one of the key drivers behind pooling.

Infrastructure has only been identified as a distinct component of many funds' strategies in recent years but is becoming increasingly important as funds seek diversified forms of risk and relatively high yields. It now makes up just over a quarter of the total alternative exposure of the average fund. Allowing better access for smaller funds to infrastructure investments was one of the key drivers behind pooling and we expect that the exposure of many funds will increase over the relatively short term as the pool offerings in this area start to draw down funds.

Figure 16 shows the strong results from private equity and infrastructure. Whilst absolute return funds have delivered returns in line with their benchmarks, the return achieved over all periods has been well below the other alternative asset classes.

Diversified Growth funds

These funds make up 3% of the average fund but commitment to this asset is skewed, with over half of all funds having no exposure at all. Over the last five years, these funds returned an average of 3.1% p.a. This level of return is well below that of most other assets. It also remains below the benchmark expectations of many investors in this area. However the returns have been delivered at relatively low volatility. Both the return delivered and the level of volatility have been just over a third of that of equities over the five year period.

Funds have benefited from their long term high commitment to equities.

Property

After its significant fall in value immediately post the global financial crisis in 2008/09 property has recovered well. Although the near term returns trail those of equities, at 7.3% p.a. and 9.6% p.a. over the three and five years respectively, the recent performance has been close to the long term (30 year) average for this area of just below 7.5% p.a.

Whilst we are seeing a small degree of international diversification the vast bulk of property investment remains UK based.

Cash

Any exposure to cash over any of the periods would have reduced overall fund performance. To be fully invested has been a very successful long term strategy.

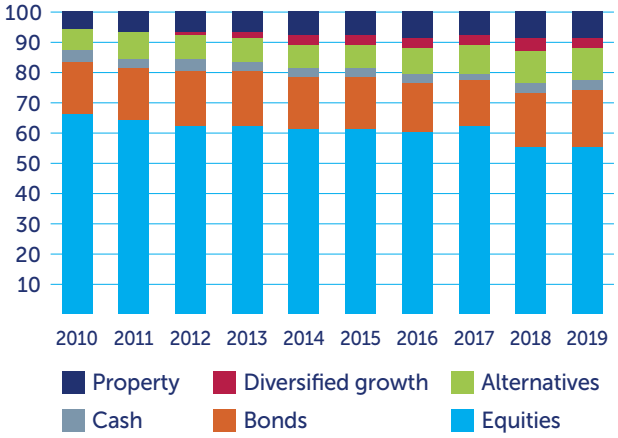
Asset allocation

Figure 17 shows high level asset allocation remained broadly unchanged over the last decade – with equities remaining the dominant asset class in most funds' allocations. The average local authority fund is still substantially overweight equities when compared to schemes in the corporate sector that continue to run an investment portfolio . These

Funds structure is becoming ever more complex.

Figure 17: Asset allocation, last ten years

% weighting at 31/3/19



schemes have shrunk their equity component as they have sought to 'de-risk' their assets, moving instead to bonds and cash-flow matching investments.

Given the strong performance of equities over the recent past this decision will have made the corporate schemes considerably more expensive for the employer. In contrast, LGPS funds have seen their asset values increase significantly. As well as having a positive impact on funding levels this has offset some of the increases brought about by increased longevity and falling bond yields (the metric on which they are measured) in their liabilities over the same period.

Despite this broadly static high level asset allocation there has been considerable change to the detail of funds at the detailed level with alternatives portfolios in particular becoming ever more diverse.

Complexity

There has been a strong trend for funds to hold ever larger numbers of portfolios of relatively small value. It is not uncommon now for even the smaller funds within the LGPS to be structured in such a way that requires them hold a double digit number of managers.

Complexity brings considerable burdens in terms of administration, monitoring and governance.

Complexity brings considerable burdens in terms of administration, monitoring and governance (particularly for relatively illiquid investments) whilst further increasing the number of managers or investment products is likely to have a minimal impact on the fund bottom line.

The move into pooling should offer the opportunity to reduce complexity and the number of portfolios held. There is an opportunity to simplify asset structure through the member authorities being offered a limited number of well run, well targeted investment funds.

The move into pooling should offer the opportunity to reduce complexity and the number of portfolios held.

Currently however, it seems that pools are trying to accommodate as many funds' asset class, product and manager preferences as possible and, as such are still talking of running large numbers of sub funds.

Within the London CIV funds buy individual managers and so they retain direct control over manager selection (albeit from a limited subset of managers offered by the CIV) and the level of manager diversification they want.

Most of the other pools have however taken a different approach – whereby an individual fund will invest, for example in the pools global equity portfolio. In this scenario this portfolio is almost certain to contain more than one manager. The individual fund has no direct control over either the firm chosen or the number of managers within the grouping.

There are pros and cons to such an approach. One advantage could be that the Pool takes the historically difficult, timely and expensive task of manager selection from individual funds, freeing them to focus on strategy. A second advantage is diversification – by having a range of managers for one asset the fund should achieve less volatile performance. Yet another advantage could be a reduction in cost.

Amongst the potential disadvantages is firstly the possibility that the Pool turns out to be no better at selecting managers than the individual funds. Indeed there is no track record offered by any of the pools to suggest additional skill in this area.

A second downside could be that with a group of managers the opportunity for strong outperformance is reduced. A third may be that by allocating smaller amounts of money to a number of managers costs do not reduce to the anticipated levels.

The final disadvantage of this approach may be the extra cost incurred in paying someone (either the Pool or an intermediary) to monitor and manage the suite of managers.

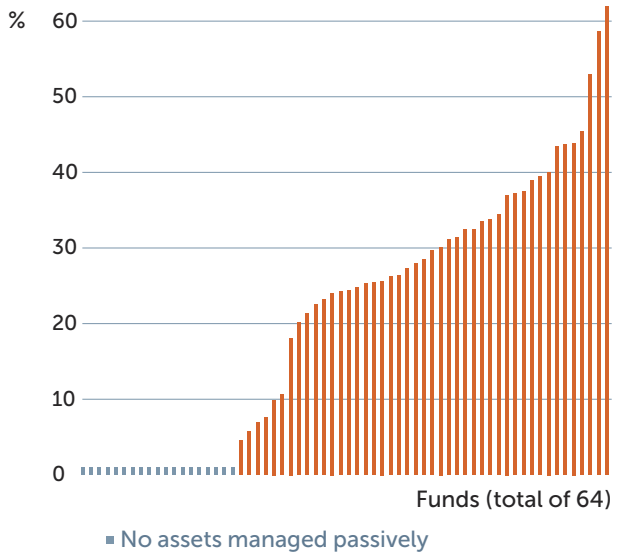
How this plays out in performance and cost terms over the next few years will be of enormous interest. We will come back to this issue to review further towards the end of this document.

Active or passive?

The proportion of funds managed actively, although lower than a decade ago, remains high, at around three quarter of total assets. In the latest year we saw a small increase in passive equity investment as funds reviewed their equity strategies ahead of pooling.

It seems counterintuitive that, although funds are focussed on reducing costs the move from (high cost) active management to (low cost) passive has not gained more significant ground and that most funds continue to seek active value over and above the active managers' fees.

Figure 18: Level of passive management by fund
% passive at end March 2019



Currently within the Universe there are just under a third of funds that are entirely actively managed whilst a further third have more than 30% managed passively as can be seen in Figure 18.

Risk and volatility

There has been a move from equities to 'lower risk' investments.

- Over recent years we have seen a continued move away from equities and a commensurate increase in lower risk investments such as absolute return strategies and in assets with strong income generating potential, such as multi asset credit and infrastructure.
- Whilst many view their funds as very long term investments and are therefore prepared to live with market volatility in the short term, others are increasingly looking to mitigate the impact of these short term fluctuations.
- Negative cash-flow (or the ever-nearing possibility thereof) means funds are having to consider how best to enhance income flows.
- Given the relationship between risk and return it little surprise that the best returns over the recent past and the longer term have been delivered by the funds that have accepted the highest level of volatility.

The long-term performance is always dominated by the results from equities. Despite disinvestment from this area over many years, equities still make up more than half of the average fund asset allocation. Over the last decade there has been a marked move away from UK equities towards global equity portfolios. This move has resulted in US equities becoming the largest component in most funds equity portfolios and for many the largest single component of their entire fund. Funds have different attitudes to the investment (asset) risk that they are taking. Whilst many view their funds as very long term investments and are therefore prepared to live with market volatility in the short term, others are increasingly looking to mitigate the impact of these short term fluctuations. Over recent years we have seen a large increase in lower risk investments such as absolute return strategies and in assets with strong income generating potential.

These lower risk strategies are being put in place be-

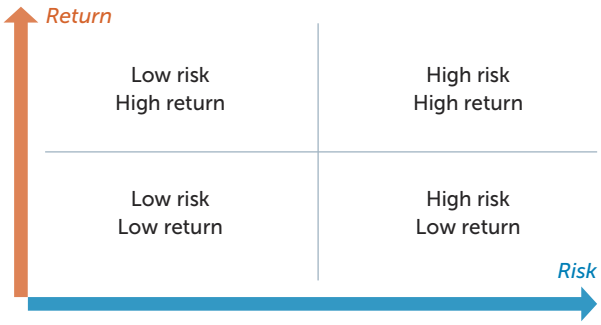
cause of the changing circumstances in which funds find themselves. After decades of being in a situation where the money coming in (through contributions and income) has been greater than that going out (in pension payments) some funds are experiencing negative cashflow for the first time. This brings new challenges as funds try to avoid a situation where they are forced to sell assets at distressed values.

The more volatile assets have delivered the highest return whilst the least volatile has delivered the lowest.

Complex profiles of admitted bodies also have an impact on individual fund risk appetite and finding strategies to deal with this issue continues to tax many funds.

Figure 19 shows there is a direct (and ordinarily obvious) relationship between risk and return and as such, we should expect to see the more risk averse funds deliver lower volatility but achieve lower returns than their peers.

Figure 19: Relation between risk and return



We have plotted the various asset classes into this risk/return space over the last ten years In Figure 20 below. It can be seen that, as usual, the more volatile assets (equities) have delivered the highest return whilst the least volatile (cash) has delivered the lowest.

If we look at the shorter term in Figure 21 a very similar picture emerges. Funds have been rewarded for the risk that they have taken on through their equity investment be that quoted or private. Infrastructure has been the most efficient asset over this period delivering a return of 11% p.a. at a volatility of under 5% p.a. (although this volatility may be understated by the valuation process of some of these investments).

Figure 20: Asset class returns in Risk/Return space - last ten years

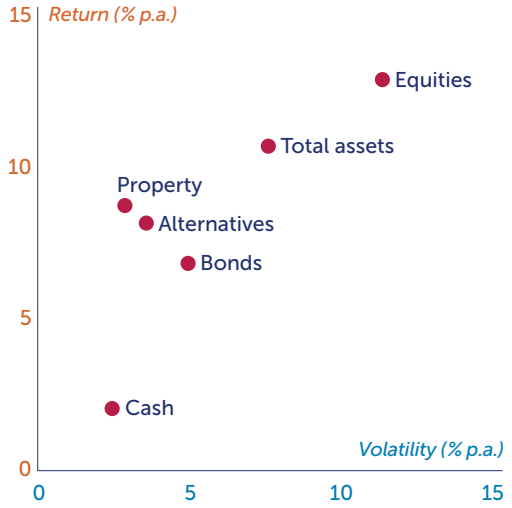


Figure 21: Asset class returns in Risk/Return space - last three years

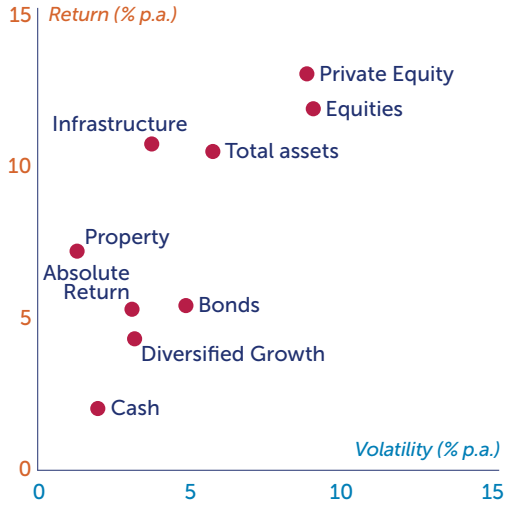


Figure 22 shows individual fund performance over the period in risk and return space. Each fund is represented by a blue dot. The higher the fund lies on the vertical y axis the better its return, the further to the right on the horizontal x axis the greater the volatility experienced. The cross-hair lines represent the median risk and return.

Over the ten year period the funds that have performed best have been the ones that have accepted a higher level of volatility. Whilst there is a clear trend line of the return increasing in line with volatility it is

Figure 22: Risk and return distribution of funds over last ten years

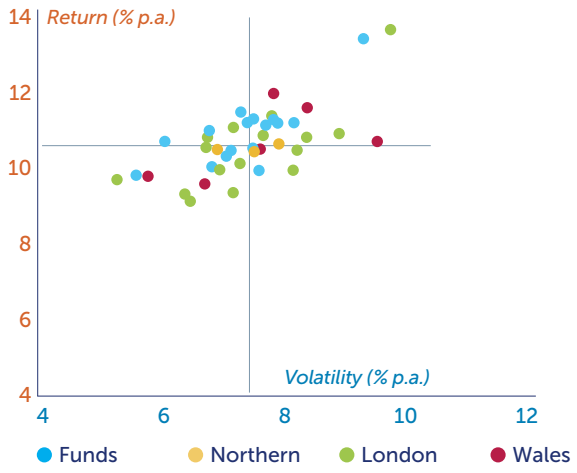
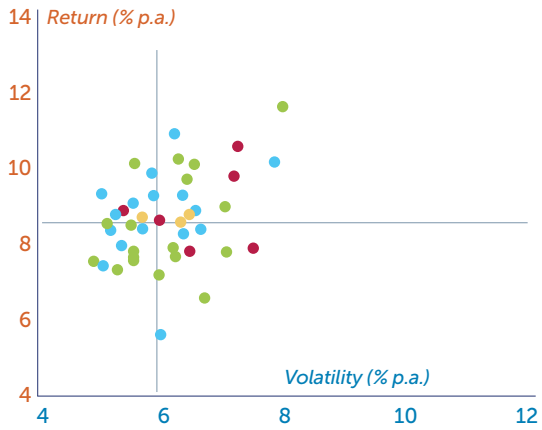


Figure 23: Risk and return distribution of funds over last five years



Not all funds are included in the risk/return analysis as not all have been able to provide the monthly data necessary to calculate fund volatility.

interesting that some funds do seem to 'derisk' significantly more efficiently than others. The small number of funds in the top left quadrant that have managed to deliver better than average results at a lower than average volatility tend to be larger than their peers – size perhaps allowing more effective diversification?

Over the last five years, as can be seen in Figure 23 overall volatility has reduced as has the overall level of return generated. The spread of results has widened over this period and the risk/return tradeoff is less clear to see although the best performing funds are still those accepting the highest volatility.

Over the long term a lower risk strategy has come at a (often considerable) cost. Whilst we would not wish to comment on the efficacy of one approach over the other, it is important that investment committees, officers and other decision makers appreciate the potential value implications of 'de-risking'. Most LGPS funds have liabilities that are extremely long term in nature. This should allow funds to be less concerned with short term volatility. The strictures put in place by the cycle of triennial revaluations can have the effect of reducing funds' time horizons and focussing them on much shorter term periods. However, as we have shown earlier, it is a much rarer occurrence than may be commonly perceived for there to be a negative result over the three year triennial period.

Over the long term a lower risk strategy has come at a (often considerable) cost.

Figure 24: Global equity pool offerings

MULTI MANAGER					SINGLE MANAGER	
B2C	LPP	Central	Wales (Opp)	Wales	Access	London
Investec	Internal	Union Investment	Morgan Stanley	Baillie Gifford	Longview	Longview
Harris Associates	Robeco	Harris	Numeric	Pzena	Baillie Gifford	Baillie Gifford
Lindsell Train	Magellan	Schroders	Sanders	Veritas	M&G	Epoch
Loomis Sayles	First Eagle		Jacobs Levy			Allianz
	Wellington		S W Mitchell			Newton
	Baron		NWQ			
			Oaktree			

Best and worst performing funds

Over the last 5 years the funds that have achieved the best returns shared a number of features. The funds have held a relatively high level of equities throughout the period. As a result they have experienced more volatility than other funds and, over this period the volatility has been rewarded. However they have also shared some other common features. The funds have had more of their assets managed actively than their peers. They have had a relatively high level of investment in Baillie Gifford and BlackRock. The funds tend (but are not all) smaller than average and the fund structures are less complex. These funds are generally well funded. We do not know whether they have done well because they are well funded (and can therefore accept more volatility) or whether they are well funded because of the strong relative performance.

The funds that delivered the lowest returns also share some characteristics. These funds have a relatively low level of equities and a commensurately higher level of alternatives particularly diversified growth investments. They are almost all less volatile than average. Like the best performing group these funds tend to be smaller than average. These funds have a higher than average portion of their assets managed on an index tracking basis – possibly a reasonable response to disappointment from their active managers over part of the period.

This group of funds tends to be relatively poorly funded when ranked against their peers. Again, it is difficult to untangle whether they have de-risked because they are poorly funded or whether they are poorly funded because they have de-risked. What we can say with certainty is that a lower risk / lower return approach is unlikely to close any funding gaps and it is likely that the participants in these funds will see contributions rise to close the shortfall.

Impact of pooling

The returns that are shown for the latest year do not include any costs that funds have incurred in the set-up of the various pooling arrangements. At this stage these costs are likely to have little impact on overall scheme returns. Going forward we continue to investigate how best to collect the direct costs at individual scheme level so that performance can be calculated before and after these costs which have the potential to vary quite markedly across participating funds. It will also be important to show that the pools are delivering value for the participating funds. We have some concerns around the level of return being sought for some of the pool funds on offer.

Fund performance still does not incorporate the direct costs of Pooling.

Most of the pools have now launched their active equity offering, the structure of each is outlined in Figure 24.

The London CIV and Access Pool have taken the same approach whereby individual funds can select between single manager funds, thereby allowing the manager selection to remain with the investment committee. The other Pools, with the exception of Northern where the participating schemes are remaining broadly intact, are offering a multi-manager approach.

Multi manager funds

In a multi-manager scenario the Pool chooses a number of managers, in most cases these are external whilst in the case of LPP this is a combination of internal and external. The multi-manager approach intends to reduce volatility whilst combining portfolios in such a way as to deliver outperformance.

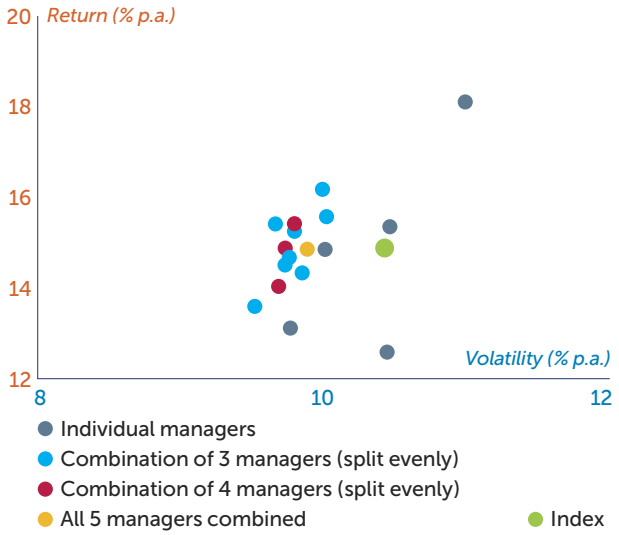
Pools must be able to show they are delivering value for participating funds

Multi-manager products have been available for many years. Indeed a number of pension funds invested in such products years ago before divesting on the back of disappointing performance. Will the pools fare better? This will depend on whether they have greater skill in manager selection than has previously been demonstrated by the industry as a whole.

Active equity managers have not fared particularly well over the recent past as we discussed at length last year. To get a feel for whether funds would have achieved a better result from a multi-manager

approach we took monthly data for indicative portfolios for the last three years for the top 5 active global equity managers and then combined these in a variety of combinations which are shown in Figure 25.

Figure 25: Global multi-manager combinations. 3 years to end March 2019



The individual managers are shown in grey. The combinations of three managers (split evenly) in red, combinations of four managers (split evenly) in blue and all five managers combined in yellow. The index is shown in green.

Looking at the combinations of three managers it can be seen that the multi-manager approach does reduce the volatility of returns as would be expected. It also reduces the range of results – in effect the opportunity for strong outperformance (or underperformance) is diminished. If we then increase the complexity to four funds (shown in purple) the volatility and range of results increases further. By the time we increase the structure to five managers the return that is generated is in line with the index (albeit at lower volatility).

These results do not include the additional inevitable layer of cost that comes about from the structures that need to be in place to select, monitor and review the managers within the offering. So, a multi-manager approach will almost certainly reduce volatility however it would seem that such an approach is likely to deliver returns that are closer to the market index than that which would be delivered by a single manager. We therefore question just how the aggressive outperformance targets set by the pools will be met.

A multi-manager approach will reduce volatility but may dampen performance.

Looking at the roster of managers within the offerings we are seeing many who were previously unknown to and have no track record within the Local Authority market. These firms are often quite small and specialised. This may or may not result in interesting innovative insights that allow exceptional performance but it also raises other potential issues such as key man risk, something of which unfortunate investors in Woodford will be uncomfortably aware.

Funds will need to ensure that the move into pool assets is in their own best interests and will not negatively impact longer term returns.

As part of good governance each fund investing in the multi-manager arrangements should expect to be given detailed information to allow them to understand:

- who the managers selected are – structure / size / people / investment style
- how these managers have been chosen
- why the allocation between managers is as it is
- how the Pool expects the component managers to perform and in what way
- how the Pool expects the aggregate portfolio to perform and in what way
- what process is in place for monitoring and over what periods
- what procedures are in place in case of 'failing' managers
- how are the oversight costs incorporated into performance.

It will be an interesting few years as we see just what these strategies deliver. As a check on how the change has impacted them, funds may find it useful to continue to measure the performance of their outgoing managers. This would give a very simple comparison of the value added (or otherwise) of the move. Please get in touch if you'd like to discuss this further.

APPENDIX

Longer term returns, % p.a.

	2019	3 years	5 years	10 years
Total Equity	**7.3**	**13.0**	**9.9**	**12.9**
Global	8.6	14.3	11.6	13.2
UK	5.7	9.2	5.9	11.5
Overseas	6.0	14.1	11.6	13.2
North America	16.2	17.0	15.6	16.4
Europe	2.0	11.0	8.3	11.6
Japan	-1.2	13.7	12.2	10.7
Pacific	2.9	14.1	9.1	11.9
Emerging	0.0	13.3	8.7	10.6
Total Bonds	**3.7**	**5.4**	**5.8**	**6.8**
Global	3.9	5.9	3.5	1.7
UK Bonds	4.5	5.5	5.7	7.2
UK Government	5.1	5.7	-	-
UK Corp	4.0	5.8	-	-
UK IL	5.3	7.6	8.9	8.8
Non UK bonds	3.9	6.1	6.2	5.8
Absolute Return bonds	-	-	-	-
MAC	0.1	-	-	-
Cash	**0.8**	**0.2**	**0.7**	**1.0**
Alternatives	**10.3**	**10.8**	**10.5**	**8.1**
Private Equity	15.3	15.1	14.7	10.2
Hedge Funds	1.8	3.1	4.5	5.0
Infrastructure	11.7	11.9	11.0	-
Diversified Growth	**0.3**	**3.2**	**3.1**	-
Property	**6.1**	**7.2**	**9.5**	**8.7**
Total Assets	**6.6**	**10.5**	**8.9**	**10.8**

Asset allocation

	% Allocation at end March											
	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Equities	65	62	66	64	62	63	63	62	60	62	55	55
Bonds	18	20	17	17	18	18	17	17	16	15	18	19
Cash	4	4	4	3	4	3	3	3	3	2	3	3
Alternatives	5	7	7	9	8	8	8	8	9	10	11	11
Diversified Growth	-	-	-	-	1	2	3	3	3	3	4	3
Property	7	7	6	7	7	7	8	8	9	8	9	9

The questions that the Universe seeks to address

THE PIRC Local Authority Pension Fund Performance Universe is a survey of UK local authority defined benefit pension funds. As at 31 March 2019 it comprised 64 funds with a value of £193 bn.

At aggregate level

- How has the LGPS performed in absolute terms over the short, medium and longer term?
- Is the LGPS adding value relative to the strategic benchmarks that funds have set?
- How is the LGPS structured in terms of asset allocation and how has this changed over time?
- What is the performance of the aggregate LGPS in the major asset classes in which it invests over the short, medium and longer term?
- How does this performance compare against benchmarks?
- Is risk taken being rewarded?
- What is the spread of performance – why are some funds performing better than others, can strengths and key drivers of performance be identified?

At fund level

- How does the absolute level of investment return achieved by the fund compare with others in the LGPS?
- What level of risk has been taken to achieve this return and how does this compare with others?
- How does the relative performance compare to that achieved by others in the LGPS?
- What level of risk has been taken to achieve this return and how does this compare with others?

These questions can be answered relative to the full LGPS or split in a variety of ways including by region/funding level/structure

- How have these differences come about?
- How does the structure of the fund differ from other funds?

New questions relating to pooling

- How does the level of investment return achieved by the fund compare with others in the pool?
- How does the relative performance compare to that achieved by others in the pool?
- How has the pool manager performed relative to its benchmark, target and other pool managers operating the same mandate?
- How has the overall pool performed in absolute terms relative to other pools?
- How has the overall pool performed in relative terms relative to other pools?
- Is the performance of the pool improving?
- Is the volatility/risk of the pool reducing? How does this compare to the other pools?
- Is manager change within the pool reducing? How does this compare to the other pools?
- How does the structure of the pool differ from that of the other pools?

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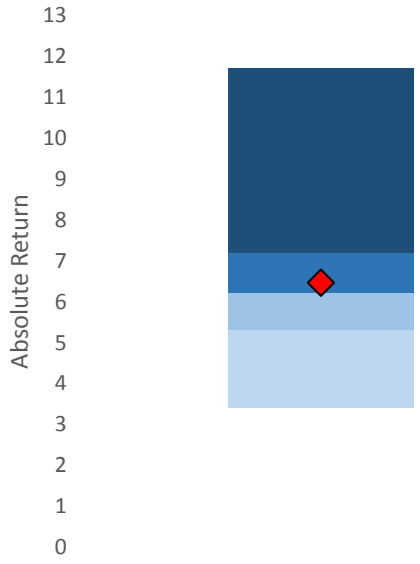
London Pension Funds Performance - Latest Year

- In the latest year the London Funds produced an aggregate return of 6.5%.
- This was in line with the Universe average, ranking 45th percentile.
- Within this group there was a wide range of returns achieved-from 3.4% (ranking 100th percentile) to 10.9% (2nd percentile).

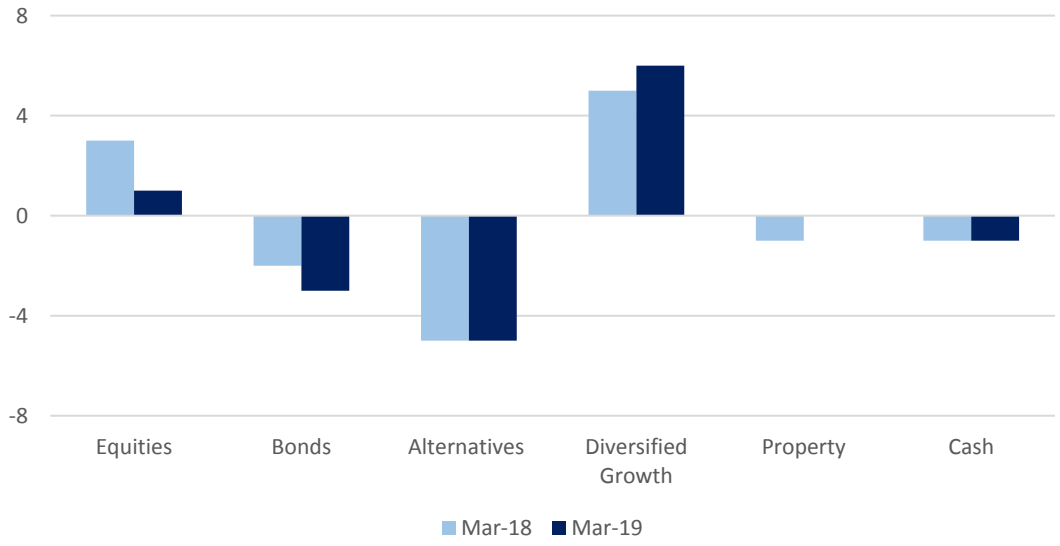


The figure shows the Fund return within the range of results achieved by the LGPS Universe in the latest year. The returns are divided into quarters (quartiles) and the fund is shown as a red diamond.

Top quartile
Second quartile
Third quartile
Fourth quartile
Fund

Asset Allocation

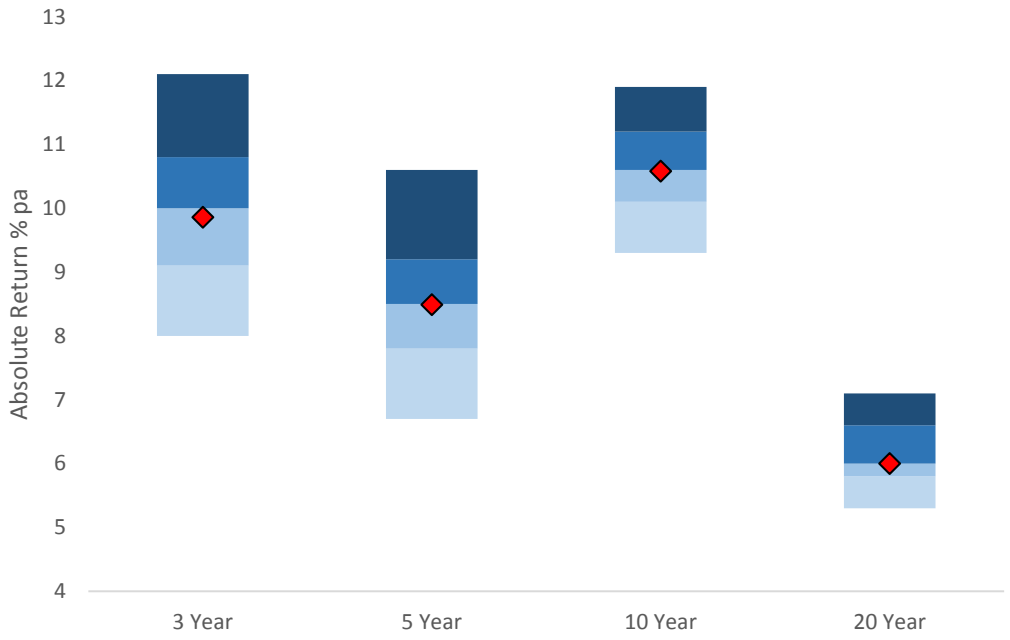
- The London Funds on average have a higher allocation to diversified growth than most of their peers and a lower exposure to most other assets.
- During the year there was little change in overall asset allocation.
- This allocation had a negative impact on performance last year due to the poor performance from Diversified Growth assets.



The chart shows the average London Fund's relative % weightings at asset class level at 31st March 2018 and 2019.

Longer Term Returns

• The London Funds have performed slightly below average over all periods.
• The range of results is wider across the recent past because of the large difference in returns between equities and absolute return/ diversified growth strategies.
• Funds with a high equity allocation will have performed substantially beter than those funds who have invested a significant proportion of assets in these less volatile strategies.
• Over the last ten years the best performing London fund produced a return 5.3%p.a. above that from the poorest performing - this represents a cumulative shortfall of 67%.



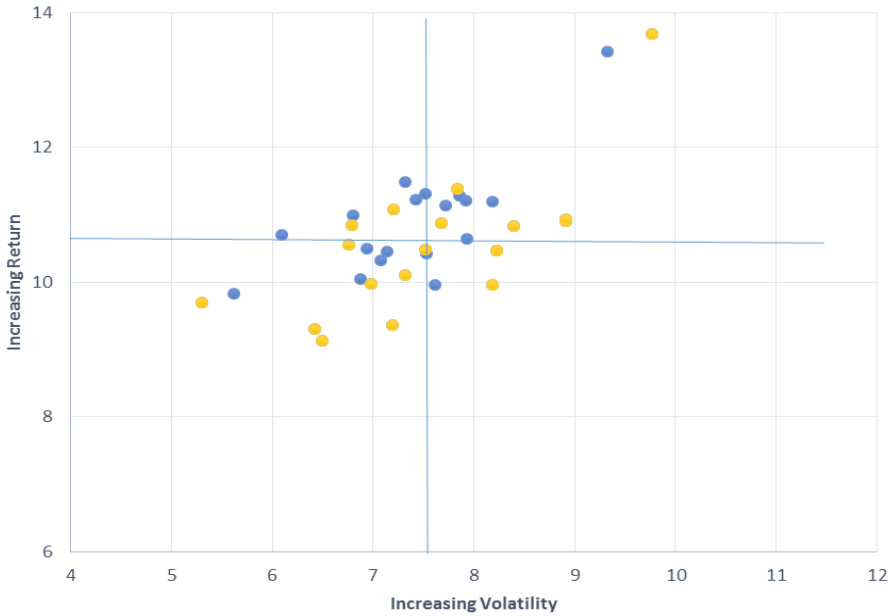
Universe Average		10.5	8.8	10.7	6.4
London Funds Average		9.9	8.5	10.6	6.0
Range:	Best	13.5	11.9	13.7	7.9
	Worst	7.9	6.7	8.4	4.7
	Difference	*5.6*	*5.2*	*5.3*	*3.2*

Risk and Return

• Over the last ten years the London Funds (shown as orange dots) were evenly distributed within the risk / return space.
• The Funds with lower than average volatility achieved lower than average returns and those that accepted more volatility outperformed.
• Over the last five years the volatility hasn't been so neatly rewarded. We have seen the Funds becoming generally more volatile relative to others but for some funds this has not resulted in additional return.

Last Five Years (% p.a.)

Last Ten Years (% p.a.)



We do not have monthly data for some funds for the full periods so cannot calculate their volatility results.

The charts show all funds (blue dots) and London funds (orange dots) in the LGPS Universe in risk/return space. The further up the vertical axis a fund is the better the return achieved. The further along the horizontal axis the more risk has been taken.
The blue lines are the median results. These divide the funds into quadrants. Most successful appear to be in the top left quadrant.

Fund Returns and Rankings

• The best performing funds (highlighted in orange) have been Kensington & Chelsea and Bromley.
• Whilst Brent has been the worst performing over the longer term, recent performance has improved.
• Barnet and Havering are the lowest performing funds over more recent periods - both have been adversely impacted by their high commitment to Diversified Growth.

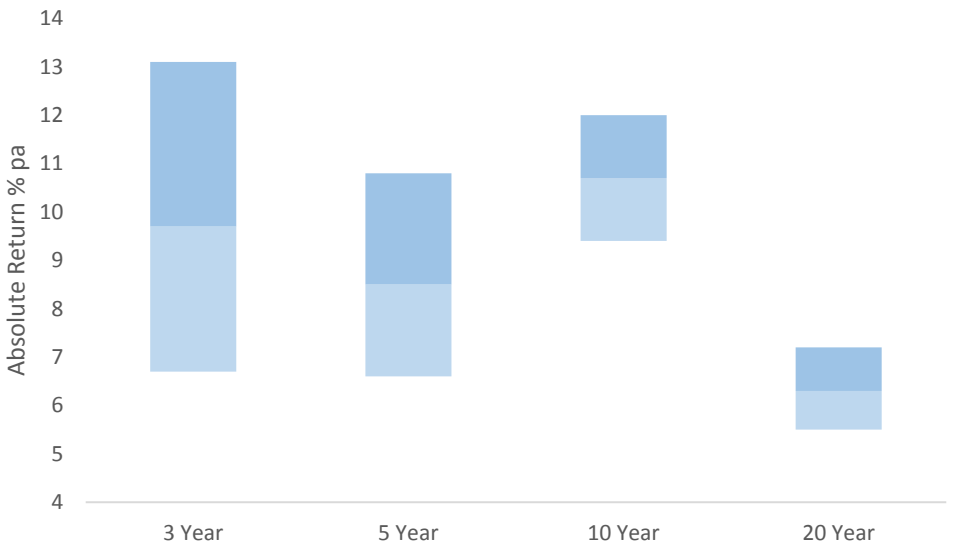
	1 Year	*Rank*	3 Yrs (% p.a.)	*Rank*	5 Yrs (% p.a.)	*Rank*	10 Yrs (% p.a.)	*Rank*	20 Yrs (% p.a.)	*Rank*
Barking and Dagenham	5.2	*76*	9.4	*69*	8.5	*54*	9.4	*93*	5.1	*96*
Barnet Pension Fund	5.1	*82*	7.9	*97*	6.7	*95*	8.4	*98*	5.5	*91*
Bexley Pension Fund	7.4	*21*	10.4	*39*	9.4	*18*	11.5	*11*	7.1	*6*
Brent Pension Fund	7.2	*26*	8.5	*86*	7.6	*80*	9.1	*97*	4.7	*98*
Bromley Pension Fund	8.0	*11*	13.5	*1*	11.6	*2*	13.7	*1*	7.9	*1*
Camden Pension Fund	4.9	*92*	9.9	*58*	7.2	*92*	10.2	*68*	6.0	*55*
City of London Corporation Pension Fund	7.6	*13*	9.8	*60*	7.9	*69*	10.4	*64*		
Ealing Pension Fund	4.8	*94*	9.7	*63*	7.7	*77*	10.8	*41*	6.6	*23*
Enfield Pension Fund	7.3	*24*	8.8	*82*	8.5	*49*	9.7	*86*	6.2	*43*
Greenwich Pension Fund	4.3	*97*	8.2	*92*	7.2	*94*	10.0	*80*	5.3	*94*
Hackney Pension Fund	5.7	*68*	9.3	*73*	7.5	*85*	9.6	*89*	5.7	*85*
Hammersmith and Fulham	5.0	*87*	8.2	*90*	7.8	*76*	10.6	*52*	6.2	*40*
Haringey Pension Fund	5.7	*66*	11.5	*10*	10.1	*12*	11.4	*16*	5.7	*77*
Harrow Pension Fund	6.0	*57*	11.0	*18*	9.1	*28*	11.6	*9*	6.4	*34*
Havering Pension Fund	3.4	*100*	8.3	*87*	7.4	*89*	10.5	*57*	5.4	*93*
Hillingdon Pension Fund	5.2	*78*	8.6	*84*	7.5	*84*	10.0	*79*		
Hounslow Pension Fund	8.6	*8*	10.5	*34*	7.8	*76*	10.5	*59*	6.3	*36*
Islington Pension Fund	7.0	*32*	9.0	*78*	7.6	*82*	10.1	*72*	5.5	*89*
Kensington and Chelsea	10.9	*2*	13.2	*2*	11.9	*1*				
Kingston upon Thames	6.2	*50*	9.9	*57*	9.0	*30*	10.9	*36*	6.0	*51*
Lambeth Pension Fund	4.5	*95*	8.1	*94*						
Lewisham Pension Fund	7.2	*28*	10.8	*26*	9.7	*16*	10.9	*38*	5.7	*76*
Merton Pension Fund	7.8	*13*	10.4	*37*	8.3	*63*	10.9	*37*	6.4	*32*
Newham Pension Fund	9.0	*3*	10.0	*53*	10.1	*10*	10.9	*39*	5.9	*57*
Redbridge Pension Fund	5.7	*63*	8.9	*79*	7.9	*67*	9.3	*95*	5.7	*81*
Southwark Pension Fund	9.0	*5*	10.7	*31*	10.3	*7*	11.1	*30*	6.5	*30*
Sutton Pension Fund	6.4	*48*	10.0	*50*	8.7	*41*				
Tower Hamlets Pension Fund	6.5	*45*	10.9	*21*	8.5	*51*	10.1	*73*	5.9	*62*
Waltham Forest Pension Fund	6.9	*36*	8.0	*95*	6.5	*97*	10.9	*34*	5.9	*59*
Wandsworth & Richmond Fund	6.7	*42*	11.0	*16*	9.2	*25*	11.9	*5*	6.7	*19*
Westminster Pension Fund	6.1	*53*	10.4	*36*	8.5	*57*				
Universe Weighted Average	6.6		10.5		8.8		10.7		6.4	
London Weighted Average	**6.5**		**9.9**		**8.5**		**10.6**		**6.0**	

Best performing
Worst performing

Benchmark Performance

• The chart shows the benchmark returns for the London funds over the longer term with the centre line being the median.
• It is clear to see how wide these expected returns have been, particularly over the shorter term.
• Given the Benchmark (which reflects the strategy of the Fund) wil be the key driver of return, some funds were expecting returns well below those targetted by their peers. Given the similar liability profiles of the funds this is something worth reviewing.

Range of Benchmark Results (% p.a.)



Performance Relative to Benchmark

Range of Relative Results (% p.a.)

	3 Year	5 Year	10 Year	20 Year
Worst	-1.6	-1.4	-1.5	-1.0
Median	-0.2	-0.4	-0.2	-0.2
Best	1.6	0.8	1.7	0.9

• Over all periods most funds have failed to achieve benchmark performance.
• The distribution of relative returns is even across all periods.
• The funds that have performed best relative to their benchmark also tend to be at the top end of the total performance rankings- they have managed to implement a successful asset allocation and pick outperforming managers.
• Conversely the funds that have performed poorly relative to their benchmark tend to be at the lower end of the total performance rankings - they have suffered from a lower returning strategy compounded by underperforming managers.

PIRC measures the performance of all London funds with the exception of Croydon who have yet to supply data to the service.

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 October 2019**
Classification:	**General Release**
Title:	**Carbon Exposure Report**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 This paper summarises:

- The carbon footprint of the Pension Fund's equity and property portfolios.

2. RECOMMENDATIONS

2.1 That the Pension Fund Committee notes and comments on the report findings.

3. CARBON EXPOSURE

3.1 The attached Appendix 1 breaks down the Pensions Funds Carbon exposure. The equity exposure is broken down by three main areas:

- **Carbon and Environmental Intensity:** This is broadly the amount of carbon produced by the equity investments on a relative basis.

- **Fossil Fuel / Stranded Assets:** This is fossil fuel exposure that the Fund has.

- **Energy Transition:** This is how much energy contributes to the "energy transition" or assisting to offset carbon in the future.

3.2 The Pension Fund's equity holdings exposure shows that growth manager Ballie Gifford has significantly less exposure to carbon intense and fossil fuel assets than the passive equity portfolio and the Majedie Portfolio.

3.3 The attached report also shows the MSCI World Low Carbon Index exposure as a comparator to the Fund's current equity allocations.

3.4 The Pension Fund property portfolio is also responsible for carbon emissions. However, it is quite difficult to accurately estimate due to the fact that the properties are operated by individual tenants.

3.5 The information available to one of the Fund's property managers, Hermes, shows a positive story, with carbon emissions reducing by 44% over the year.

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

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

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Carbon exposure report

Deloitte.

City of Westminster Pension Fund
Carbon exposure through the investment portfolio

Introduction

This paper has been prepared for the Pension Fund Committee ("the Committee") of the City of Westminster Pension Fund ("the Fund"). The purpose of this paper is to provide the Committee with a measure of the Fund's investment exposure to carbon emissions and reserves.

Although it should be noted that this information can be challenging to obtain and measure, we asked all of the Fund's managers to provide any data and any format that was available. We asked Trucost, part of S&P Global and a specialist in measuring the carbon exposure of equity portfolios, to analyse each of the Fund's equity strategies, as well as a Low Carbon passive index. We were also able to obtain information from both of the Fund's property managers, Hermes and ASI, although both managers are currently developing their carbon measurement and reporting.

At present, despite increasing demand for carbon and fossil fuel measurement to take place, the remaining managers in the Fund's investment portfolio (Insight, CQS and Pantheon) are still looking to develop what they feel is the most suitable approach to measuring their exposure to carbon and are proactively engaging with management regarding this.

Equity portfolio

The portfolio analysis provided by Trucost appraises each fund in the Fund's equity portfolio. It analyses each underlying company the respective funds invest in for potential exposures to carbon. There are a number of terms Trucost uses which are worth defining.

Carbon pricing, via a "carbon tax" and a "cap-and-trade" approach where emitters have to buy permits to be able to produce emissions, is considered to be one of the most cost-effective ways to reduce global greenhouse gas emissions as it provides an economic incentive to reduce emissions when this can be done at a cost below the carbon price. Understanding the Fund's exposure to carbon will therefore help to understand the additional costs these potential changes would have on the performance of the portfolio.

A **carbon intensive company** is a company which has high levels of carbon emissions in relation to its economic importance.

Apportioning is an essential technique which Trucost uses to calculate some of its key exposure metrics. Trucost apportions the resources and pollutants of an investor's holding in a company on the principle of ownership i.e. if an investor holds 1% of the shares of a company, that investor therefore also owns 1% of that company's resources and pollutants.

For each equity fund analysed in the reports provided by Trucost, the **apportioning factor** is obtained by dividing the absolute value of the equity fund's holding in a company by that company's market capitalisation (total value of a company's shares) on the date of analysis. The resources and pollutants of each individual company are then multiplied by that company's specific apportioning factor to calculate the resource and pollutant quantities specific to each company held in that fund. These figures are then summed to determine the individual equity fund's overall level of resources and pollutants.

Carbon measurement throughout the reports provided by Trucost are based on a combination of **Direct Emissions** and **First Tier Indirect Emissions**.

- Direct emissions represent the amount of carbon dioxide emissions sourced from greenhouse gases generated directly from company operations. This includes on-site fuel combustion such as gas boilers and fleet vehicles, the carbon dioxide emissions from biomass (for example burning wood) and a number of select harmful chemicals.

- First tier indirect emissions reflect the carbon dioxide emissions generated by purchased electricity, heat or steam, and the emissions generated by a company's non-electricity supply chain.

The table below summarises some of the key metrics presented in the four reports provided by Trucost. The LCIV UK Equity Fund has been compared against its FTSE All-Share benchmark, whereas the LCIV Global Alpha Fund is measured against the S&P Global Large-Mid-Cap Index for the purpose of this exercise. We also compare the Legal & General World Equity Index Fund – GBP Currency Hedged, which the Fund invests in, and the Legal & General MSCI World Low Carbon Target Index. The metrics used to analyse the portfolios are described in more detail below the table.

		LCIV UK Equity Fund		LCIV Global Alpha Fund		Legal & General	
		Fund	Benchmark	Fund	Benchmark	World Equity	Low Carbon
Carbon and environmental intensity (tCO_2e/mGBP)	Carbon to value invested	371	315	109	259	214	91
	Carbon to revenue intensity	266	358	257	432	378	167
	Weighted average carbon intensity	319	314	192	360	329	157
Fossil fuels and stranded assets	Fossil fuel reserves (VoH)	22.1%	22.6%	4.4%	5.7%	5.7%	1.2%
	Embedded emissions (tCO_2)	2.8m	3.6m	0.5m	1.3m	0.9m	0.1m
Energy transition (GWh)	Fossil fuel	7.6	5.3	0.0	24.2	23.8	1.0
	Renewable	0.2	3.1	0.0	6.2	5.3	1.7
	Other	12.9	2.0	0.0	7.3	8.2	2.3

Carbon and environmental intensity

Each of the carbon and environmental intensity metrics are measured in terms of tonnes of carbon dioxide emissions per pound amount, with carbon dioxide emissions measures based on direct emissions and first tier indirect emissions, as described earlier in this report. The first two metrics indicate an investor's contribution to climate change, whilst the weighted average carbon intensity method reflects an investor's exposure to carbon intensive companies.

- **Carbon to value invested** divides the apportioned emissions of each company by the amount the fund has invested in that company. This reflects how efficient the companies in a portfolio are at creating shareholder value, relative to the levels of carbon emissions produced. As an example, if valuations rise for all companies held in the fund and all else remains equal, then the carbon to value invested would be expected to fall. The LCIV Global Alpha Fund has a lower Carbon to Value invested than its benchmark due to a relative under-allocation to the Utilities sector, whereas the LCIV UK Equity Fund has a higher measure than its benchmark as a result of its Industrials and Basic Materials sector holdings.

- **Carbon to revenue intensity** divides the apportioned emissions of each company by the apportioned annual revenues of that company. This metric indicates how operationally efficient the portfolios are in terms of the amount of revenue created which can be attributed to the portfolio, relative to the levels of carbon emissions apportioned to the fund. If, all else being equal, revenues rise, then the carbon to revenue intensity would expect to fall. By this measure the LCIV Global Alpha Fund has a higher value than its benchmark and the LCIV UK Equity Fund has a lower value. This tells us that while the LCIV UK

Equity Fund invests in carbon intensive companies, these companies are high revenue generating companies.

- **Weighted average carbon intensity** is calculated by multiplying each company's weight in the portfolio (current value of investment divided by current overall portfolio value) by the emissions of the company as a proportion of the entire company's revenue. This metric represents a portfolio's exposure to carbon intensive companies, under the assumption that carbon intensive companies are likely to be more exposed to carbon pricing mechanisms or other carbon regulatory risks. As would be expected, as is the case for all carbon intensity measures, the MSCI Low Carbon Target Index has a considerably lower value than the other strategies and benchmarks.

Fossil fuels and stranded assets

Future emissions from fossil fuel reserves currently far outweigh the allowable carbon budget (the cumulative amount of CO_2 emissions tolerable over a period of time according to the Paris Agreement). Trucost assesses the exposure to fossil fuel reserves and stranded assets by analysing the companies held within portfolios with business activities in extractive industries such as oil and gas extraction, mining, dredging and quarrying, and holdings in companies that have disclosed proven and possible fossil fuel reserves in the portfolio. A stranded asset is defined as an asset that may suffer from unanticipated or premature write-downs, devaluations or conversion to liabilities due to changing regulations. The two metrics included in the table above are described below:

- **Fossil fuel reserves** measured by Value of Holdings ("VoH") exposure, represents the exposure of the portfolio to companies with fossil fuel reserves, where VoH represents the sum of the weights of companies in a portfolio that have revenues dependent on fossil fuel reserves above a threshold. The threshold allows Trucost to exclude companies whose revenue from fossil fuel reserves is not considered material.

- **Embedded emissions** represents the carbon emissions attributed to the fossil fuel reserves which have been disclosed by companies in the portfolio. This metric is measured in tonnes of carbon dioxide emissions from the fossil fuel reserves, apportioned to each respective portfolio using the apportioning method described previously. When assigning embedded emissions to a company, Trucost takes into account those fossil fuel reserves that are held by a company with 90% confidence (proven reserves) and with 50% confidence (probable reserves), based on company operating conditions such as regulatory and contractual approvals.

Energy transition

Whilst the previous measures consider the carbon footprints of the funds in question, the energy transition metrics consider how energy is generated from the companies within the relevant portfolios. Energy generated from the burning of fossil fuels (coal, petroleum and natural gas) releases carbon dioxide into the atmosphere, with coal producing the most carbon dioxide per amount of energy generated. Whereas energy generated from renewable sources (solar, wind, wave and tidal, geothermal, hydroelectric and biomass) acts as a mitigation against carbon emissions.

Trucost measures the amount of energy generated by each generation type within each company in Gigawatt hours (GWh) and apportions these figures as per the apportioning method described earlier, where the three generation types are via fossil fuels, renewables and "other" methods such as nuclear, landfill gas and other power generation techniques which are not classified as fossil fuels or renewables. These figures are represented in the table above, however it must be noted that only two companies within the LCIV UK Equity Fund portfolio are deemed to be generators of energy (Centrica and BP) and no funds are classified as energy generating within the LCIV Global Alpha Fund portfolio, as only energy production data disclosed by companies could be included in the analysis. This highlights the lack of transparent and reliable reporting that is available in the industry currently with regards to the production of 'green' or 'clean' energy and emissions.

Property portfolio

The Fund's property allocation reflects investments in the Hermes Property Unit Trust Fund ("the HPUT") and the Aberdeen Standard Investments Long Lease Property Fund. We have relied on information provided to us by both managers when completing this section.

Hermes

Hermes' real estate investment process seeks to deliver risk-adjusted financial returns for clients whilst providing a defined positive environmental and social outcome through its Responsible Property Investment (RPI) programme which is embedded into its asset management process.

As part of the RPI, the HPUT uses active operational management to improve its assets with the aim of reducing carbon emissions on a year-by-year basis by 9%. Decisions are supported by a detailed programme based on granular data collected on an on-going basis by the installation of smart meters. The data is collected by a third party sustainability expert and shared with Hermes each month. Each quarter, Hermes compares the data collected from each asset to a pre-specified minimum strategic and operational sustainability benchmark and considers any issues and outliers which are required to be addressed.

Over 2018, the HPUT achieved a 16% decrease in carbon dioxide emissions compared with 2017, where carbon emissions are the total of the direct and 'Indirect Scope 2' carbon emissions. Indirect Scope 2 emissions occur as a consequence of the electricity purchased and used by the organisation. This reduction is calculated on a like-for-like basis, meaning that only assets that were held in the HPUT over a full two-year period to the end of 2018 were included in the analysis and hence the impact of any acquisitions and sales over the period is ignored. Therefore this difference can be fully attributed to the implementation and development of active operational management.

Hermes has highlighted several examples of energy intensive assets which have seen considerable improvements in terms of efficiency measures over 2018. Since 2014, these properties have collectively achieved a 44% reduction in emissions (1,720 tonnes of CO_2 across the entire Hermes platform) through active operational management. The active property management decisions taken by Hermes relating to these examples include:

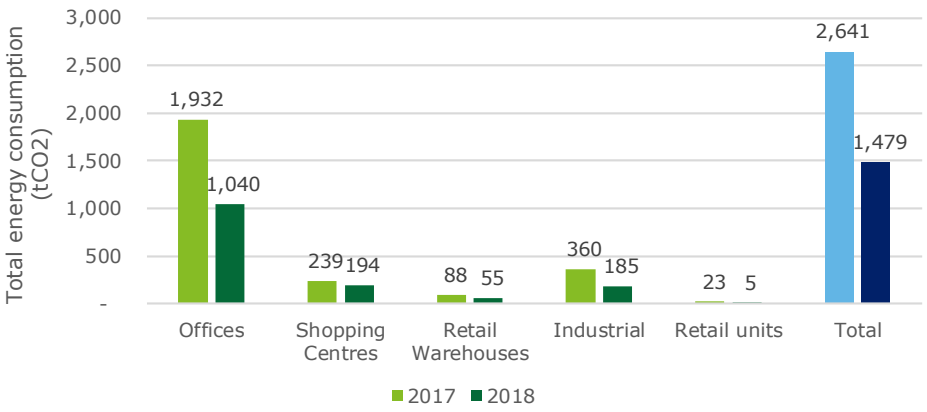
- Lighting upgrades, implementing the use of energy efficient LED lighting systems;
- Actively managing plant operational times;
- Implementing the Collaborative Asset Performance Programme (CAPP+) which establishes intelligent control of building performance by collecting and analysing data from a building management system and half-hourly energy meters;
- Effective and proactive building management, including adding passive infrared sensors;
- Ongoing technical improvements; and
- Running multiple tenant and community engagement programmes.

In addition to active operational management, as part of the RPI, Hermes completes rigorous sustainability due diligence of any opportunity before completing an acquisition.

The HPUT saw a 22% reduction in carbon emissions over 2018 when measured at an absolute level against 2017 i.e. when accounting for sales and acquisitions of assets. A large proportion of the difference between this figure and the figure calculated on a like-for-like basis above is attributed to the sale of the Cavendish Square property over 2018. This high-profile property was a large source of carbon consumption and the sale of this asset contributed significantly to the decrease in emissions.

Over 2018, the HPUT produced a total of 1,921 tonnes of carbon dioxide from the portfolio's £1,612m gross asset value. This equates to c. 78 tonnes of carbon dioxide emissions attributable to the Fund's £65.6m investment in the HPUT. These figures are based on c. 80% of the HPUT portfolio's assets, with a number of assets' greenhouse gas emissions not disclosed to Hermes.

The chart overleaf represents the change in total energy consumption from the HPUT, attributed to the different industries within the HPUT fund's holdings over 2017 and 2018, measured by tonnes of carbon dioxide. The figures in 2018 are based on the assets that were held in the fund throughout the whole of 2017 and 2018 where emissions data is available, and the figures in 2017 are based on available data on the assets that were held in the fund throughout the whole of 2016 and 2017.



Based on this data, it can be seen that total energy consumption has decreased over the year on a like-for-like basis throughout all industries that the HPUT has exposure to. The Offices sector appears accountable for a large proportion of HPUT energy consumption and this can be attributed to Offices representing c. 35% of the HPUT portfolio by asset value as at the end of 2018. The implementation of CAPP+, as mentioned earlier in this report, has significantly improved the monitoring and data coverage of the majority of assets in the portfolio. It has led to improved management of operation times and engagement with clients and has had a considerable effect on the offices within the portfolio, with as an example, the Great George Street central London office building producing 36% fewer emissions since entering the HPUT portfolio.

The Industrials sector in general is a high contributor to carbon emissions, with the use and combustion of fossil fuels essential to the various steps of the manufacturing and industry processes. Over the year, the energy consumption from the Industrials sector within the HPUT portfolio has almost halved in value, despite the allocation to this sector increasing from c. 26% to c. 31% over 2018, with Hermes actively working to improve building management, in addition to pressure on the wider industry to reduce its levels of carbon emissions.

In addition, during 2018, Hermes' operational carbon emissions were offset by working with Trees for Cities. For every tonne of greenhouse-gas emissions that Hermes generates from day-to-day operations and business travel, Hermes purchases "carbon offset" from Trees for Cities who plant trees in various city locations across the UK. Carbon emissions are offset in this way via the absorption of carbon dioxide and other harmful gases by the trees planted, with additional oxygen levels also released into the atmosphere during the process. The level of carbon offset is verified by an independent third party company, whose approach is aligned with ISO principles. This guarantees that an equivalent amount of greenhouse-gas emissions are reduced in the atmosphere based on the number of trees planted in this way. In order to offset 834.5 tonnes of carbon dioxide emissions over 2018, Hermes were responsible for planting 2,229 through Trees for Cities. It must be noted that this relates to a combination of all of Hermes' portfolios, as opposed to directly relating to the HPUT.

Aberdeen Standard Investments

ASI aims to achieve positive returns for clients by aligning investment strategy, client appetite and asset opportunities with a unique environmental, social and governance (ESG) policy which includes progressing solutions to environmental and climate related issues.

The Long Lease Property Fund implements a firm-wide "impact dial" which assesses each asset based on issues such as the environmental condition and the efficiency of the asset, and the willingness of the occupier to implement necessary changes and provide regular communications with ASI. These guidelines apply to every single asset within the portfolio. Detailed questionnaires are completed by individual portfolio managers in order to collect the relevant information for each asset. Each asset is assessed against each of the factors in the impact dial and is assigned a score, with the lowest scoring assets not applying the relevant factor at all and the highest scoring assets making significant improvements and providing advanced solutions specific to that factor.

These scores are compared with the house standard (benchmark) ratings, the potential of each asset, and the tailored fund target. If the house standard is not met then improvements are sought. Once the "impact dial" has been fully implemented throughout the Long Lease Property Fund, ASI will detail the respective findings and developments into a regular report.

The long-term target may change as specific regulations change. ASI is not responsible for the day-to-day management of assets but looks to minimise the level of carbon emissions from the Long Lease Property Fund portfolio by the following means:

- **High quality development projects**; implementing "future-proofing" refurbishment of the assets, for example by using sustainable materials and fabric throughout the development of assets. 25% of the portfolio is BREEAM certified: BREEAM is a world leading sustainability assessment method for projects, infrastructure and buildings which recognises and reflects the value in higher performing assets via assessments of the asset's economic sustainability, environmental performance and climate resilience amongst other ESG factors. Where climate resilience considers the mitigation of the contribution to, and preparing for the impacts of a changing climate;

- **Renewable energy generation**; ASI is currently reviewing the feasibility of implementing solar panels across the full portfolio. This opportunity has arisen due to reduced panel prices and government incentives and will result in ASI becoming a generator of energy, as well as a property portfolio manager; and

- **Occupier engagement**; engagement with tenants on energy and water consumption. ASI's lease agreements for these assets have clauses stating that the tenant must ensure that the building is compliant with all relevant environmental, health & safety legislations.

If targets can't be met by refurbishment or engagement then ASI may choose to change the portfolio through the removal of assets. ASI states it is happy to accept a potential negative impact to short-term performance in return for long-term stable returns through more attractive, enhanced assets.

Throughout 2018, ASI has actively tried to improve energy efficiency in the Long Lease Property Fund profile through the installation of LED lighting and high-efficiency equipment and appliances such as water heater timers for up to 50% of the portfolio. In addition, ASI has built energy management system upgrades/replacements, installed wall and roof insulation, and actively engaged with tenants on energy efficiency for up to 25% of the portfolio over the year.

The majority of assets held within the Long Lease Property Fund are let to single tenants, where the responsibility for the operation and upkeep of the premises lies with the tenants as part of the tenancy agreement. Due to the nature of these leases, tenants are under no obligation to share the environmental performance of the assets with the manager. While ASI encourages tenants in the Long Lease Property Fund to do so, and are happy to advise tenants on how best to improve environmental performance, it is difficult to obtain enough data to achieve the level of analysis that more traditional balanced funds receive.

The Long Lease Property Fund had a gross asset value of £2,990m as at 31 December 2018 and produced a total of 5,386 tonnes of carbon dioxide over 2018 based on direct and Scope 2 indirect emissions. Given the lack of environmental performance information available to ASI, the level of emissions only reflects c. 12% of the portfolio and is therefore not an accurate representation of the portfolio.

The Long Lease Property Fund achieved a 14.1% decrease in greenhouse gas emissions on a like-for-like basis over the year of 2018, compared with 2017. This figure represents the difference in the amount of greenhouse gas emissions each year from assets held for the time period covering the whole of 2017 and 2018 and excludes the impacts of sales and acquisitions over this time period.

As well as using the "impact dial" assessment, ASI also submits its assets to a global benchmark, GRESB, which provides an in-depth analysis of the sustainability performance of ASI against its peers. The Long Lease Property Fund ranks slightly below that of the peer average. ASI questions the suitability of the GRESB benchmark as the GRESB scoring system holds a high weighting towards the levels of data coverage provided. Given the single-let nature of the Long Lease Property Fund's assets, data is difficult to collect so ASI scores low in this category. Despite this, the Long Lease Property Fund's GRESB score has improved year on year, with the improvement over 2018 attributed to the increased data coverage surrounding the conversations between tenants and property managers surrounding the implementation of Solar panels.

Deloitte Total Reward and Benefits Limited
October 2019

Risk Warnings

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

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

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 October 2019**
Classification:	**General Release**
Title:	**Global Custodian Contract Extension**
Wards Affected:	**None**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 The Pension Fund global custodian contract with Northern Trust is due to expire on 30 September 2019.

1.2 The current contract, approved at the Audit, Pensions and Standards Committee on 30 June 2014, has scope for an automatic two-year extension on the current terms.

1.3 Due to the changing nature of the Local Government Pension Scheme (LGPS), Northern Trust remains the only realistic appointment for London Local Authority LGPS pension schemes. This arises from most London Local Authority assets being pooled with the London CIV (LCIV), who employs Northern Trust, and therefore other providers cannot be competitive in the market.

1.4 Northern Trust have offered to apply the LCIV level of discount, saving £8k per annum.

2. RECOMMENDATIONS

2.1 The Pension Fund Committee is recommended to approve the continuation of the global custodian contract with Northern Trust for an additional two years up to 30 September 2021, with an estimated annual cost of £25k per annum.

3. BACKGROUND

3.1 On 14 July 2014, the Audit, Pensions and Standards Committee agreed to award the contract to Northern Trust for a period of five years with a two-year extension, with an original estimated cost of £52,250 per annum.

3.2 It was Central Government's view in 2015 that LGPS Pension Funds should be pooling their assets in order to achieve savings on investment manager and other operational fees through economies of scale. As such, WCC has 70% of its assets pooled with LCIV. These assets are held in pooled funds via LCIV's global custodian, Northern Trust.

3.3 Traditionally, the global custodian business generated profits through a variety of different ways, but one of the major sources of revenue was holding direct segregated assets which result in higher transactional fee income and other residual benefits such as stock lending income.

3.4 With WCC's and other London Boroughs' assets moving to the LCIV model, the incentive for global custodians to take on LGPS business has been significantly reduced as Northern Trust currently holds most of the assets. Market intelligence suggests that, in order to make up for the lost revenue, other global custodians are forced to make significant flat fee increases to existing mandates (with one provider raising its fee to circa £120k per annum for similar sized funds). Other providers are not bidding at all for new business outside of their pool.

4 FUTURE OF CUSTODY SERVICES

4.1 The future direction of travel for the LGPS is increased emphasis on pooling and for this to be enshrined in regulation and government statutory guidance. Indeed, other London Local Authorities, which are likely to achieve significantly higher levels of pooling with no segregated assets, are moving away from having any global custodian at all.

4.2 The LGPS Global Custody Services Framework expired in April 2019 but call-off contracts let under the framework can run till 30 September 2024 insofar as the option to extend was included in the original contract award.

4.3 To this end, it is recommended that the incumbent global custodian, Northern Trust, be reappointed to the City of Westminster Pension Fund for an additional two years up to 30 September 2021, with an estimated annual cost of £25k per annum.

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

Matt Hopson mhopson@westminster.gov.uk **or 0207 641 4126**

BACKGROUND PAPERS: None

APPENDICES: None

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 October 2019**
Classification:	**General Release**
Title:	**Draft Actuarial Valuation**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 This paper introduces the initial results of the 2019 triennial actuarial valuation process for the City of Westminster Pension Fund, which are further discussed in appendix 1 attached by the Pension Fund's actuary, Barnett Waddingham (BW).

1.2 The key highlights are:

- The Fund's funding level, as a whole, has risen to 100% from the 80% level in 2016, which is broadly due to the excellent investment returns over the period, increasing by £209m more than expected.

- The two major changes to the assumptions are a reduction in the real discount rate and a reduction in the long term improvement in pensioner longevity. These two changes combined broadly net off, with the liabilities reducing by £10m in total as a result.

2. RECOMMENDATIONS

2.1 That the Pension Fund Committee note and comment on the initial actuarial results.

3. DRAFT ACTUARIAL RESULTS

3.1 In the period from 2016 to 2019, the Pension Fund has increased its overall funding level from 80% to 100%. The main drivers for this improvement were the significant investment returns of £209m above what was assumed in 2016.

3.2 The funding level for Westminster City Council (as a single employer) stands at 86%, improving from 70% previously.

4. CHANGES TO ACTUARIAL ASSUMPTIONS

4.1 There are a number of assumptions made during the triennial actuarial valuation process, with the two most significant ones being longevity projections and the real discount rate used to value liabilities.

4.2 Longevity rates have shown a decline in improvement since 2011, which implies that mortality expectations have started to flatten out. The actuary has taken into account this trend by reducing the long term improvement expectations from 1.5% per annum to 1.25% per annum. This small adjustment makes a substantial difference to the valuation of the liabilities, reducing the total by approximately £83m.

4.3 The real discount rate, a proxy for the real investment return, has fallen from 2016 to 2019, falling from 2.7% (5.1% investment return less 2.4% CPI) to 2.2% (4.8% investment return less 2.6% CPI). The discount rate has reduced for investments as BW has considered that investments have risen significantly in recent years and have factored in a higher level of prudence going forward.

4.4 As a result of the financial changes and demographic changes above, the net increase to the Fund's overall contribution rate is 0.7%, rising from 16.9% to 17.6%.

5 NEXT STEPS

5.1 The next steps for the Pension Fund Committee will be to agree a Funding Strategy Statement at the January 2020 Pension Fund Committee meeting, followed by the final actuarial valuation report and new investment strategy statement in March 2020.

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

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

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Draft Actuarial Valuation
Appendix 2: Actuarial Valuation Timeline

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BARNETT WADDINGHAM
beyond the expected

City of Westminster Pension Fund

Actuarial valuation as at 31 March 2019

Initial results and proposed assumptions advice

Barry McKay FFA
Barnett Waddingham LLP

26 September 2019

Introduction

We have been asked by Westminster City Council, the administering authority for the City of Westminster Pension Fund (the Fund), to carry out an actuarial valuation of the Fund as at 31 March 2019. The Fund is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

This report is addressed to the administering authority of the Fund. The purpose of the valuation is to review the financial position of the Fund and to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2020 to 31 March 2023 as required under Regulation 62 of the Regulations.

In particular, the purpose of this report is to set out the background to the valuation, and summarise the proposed methods and assumptions to be used alongside the initial results on that basis.

The final assumptions will be agreed with the administering authority and will be consistent with the Fund's Funding Strategy Statement.

The last formal actuarial valuation of the Fund was carried out as at 31 March 2016 and the results of that valuation carried out by Barnett Waddingham were set out in the formal valuation report, dated 31 March 2017.

This report focuses on the whole Fund results only.

This advice is not intended to assist any user other than the administering authority in making decisions or for any other purpose and neither we nor Barnett Waddingham LLP accept liability to third parties in relation to this advice.

This advice complies with Technical Actuarial Standards (TASs) issued by the Financial Reporting Council – in particular TAS 100: Principles for Technical Actuarial Work and TAS 300: Pensions.

The administering authority must provide us with sufficient and up to date information relating to matters relevant to our advice. We will only be able to accept responsibility for the advice based on the information provided.

This report is provided further to the proposed methods and assumptions advice dated 29 May 2019 and discussions had with the administering authority on 31 May 2019.

This report should be considered alongside the initial results discussions that are set to take place on 3 October 2019.

Contents

Executive summary

Some of the key messages contained within this report are set out below:

Funding position
Based on the proposed assumptions set out in this report the funding position of the whole Fund has increased from 80% to 100% since the 2016 valuation

Contributions
Individual employer contributions will be communicated later in the process but the average primary rate has increased from 16.9% to 17.6% since the 2016 valuation.

Discount rate
We have used a smoothed approach to calculate the discount rate of 4.8% based on a weighted average of estimates of long-term asset returns with an allowance for prudence.

Mortality
Indicators of future levels of mortality improvements have fallen leading to an improvement in the funding position.

Salary increases
Based on evidence we have taken a view to reduce the future level of salary increases over the long term. This leads to a small improvement in the funding position.

Risks
Regulatory uncertainties including McCloud, cost cap management, Section 13 valuations and GMP equalisation have put increased pressure on the 2019 valuation results.

Proposed assumptions

Our proposed principal assumptions are set out in the table below along with a comparison of the assumptions used at the previous valuation. We confirm that in our opinion these assumptions are appropriate for the purpose of the valuation. Assumptions in full are set out in Appendix 2.

Key assumptions	Proposed assumption for 2019 valuation	Assumptions used for the 2016 valuation
CPI inflation	2.6% p.a.	2.4% p.a.
Salary increases		
Short-term	n/a	CPI to 31 March 2020
Long-term	3.6% p.a.	3.9% p.a.
Discount rate		
Scheduled bodies	4.8% p.a.	5.1% p.a.
Admitted bodies		
In service	3.7% p.a.	4.5% p.a.
Having left service	3.7% p.a.	3.0% p.a.
Post retirement mortality	Male / Female	Male / Female
Member base tables	S3PA	S2PA
Mortality multiplier	110% / 105%	80% / 85%
Projection model	CMI 2018	CMI 2015
Long-term rate of improvement	1.25% p.a.	1.5% p.a.
Smoothing parameter	7.5	n/a
Initial addition to improvements	0.5% p.a.	n/a

Results

The proposed assumptions are, overall, expected to give results as follows:

- The Fund's funding level has increased from 80% to 100% as at 31 March 2019, corresponding to a deficit of £1,556,000 on an ongoing funding basis.
- The primary contribution rate required to meet the cost of benefits as they are earned from year to year has increased from 16.9% p.a. to 17.6% p.a. of Pensionable Pay, at the whole Fund level.
- The Fund's estimated funding position on the standardised basis has increased from 94% to 111%.

The total contribution rates (i.e. primary plus secondary rates) to be paid by each employer will be calculated, discussed and finalised following agreement of the assumptions to be used in the valuation.

Please note that the above represents the impact on a whole Fund level; results on an individual employer level will vary.

Methodology

We do not propose any fundamental changes to the existing approach to setting contributions. In particular, we will continue to use a smoothed approach and the discount rate will be based on a weighted average of estimates of long-term asset returns with an allowance for prudence. We have assumed that the Funding Strategy Statement (FSS) will be broadly unchanged.

We have proposed some changes or updates to some assumptions since the previous valuation, particularly around the discount rate assumption which will place a higher value on projected liabilities compared to the assumptions used at the 2016 valuation. However, some of this increase will be offset by the proposed changes to the salary increase assumption and the mortality projection

model which will lead to a reduction in the value of the liabilities.

The proposed assumptions were set out in our separate advice paper dated 29 May 2019. These assumptions were based on market conditions to 24/05/2019 and were therefore subject to change. The market statistics that we have used in this report have been smoothed around the valuation date so that the market conditions used are the average of the daily observations over the period 1 January 2019 to 30 June 2019.

Regulatory uncertainties

There are currently a few important regulatory uncertainties surrounding the 2019 valuation as follows:

- Effect of the McCloud and Sargeant cases and the cost cap on the future and historic LGPS benefits structure
- Change in timing of future actuarial valuations from a triennial cycle
- Guaranteed Minimum Pensions (GMP) equalisation

More details of these issues can be found later in this report. At this stage we have made no allowance for these issues in the proposed assumptions but as we go through the valuation process we will work closely with the administering authority to consider how to approach these issues when setting the contribution rates for employers. In particular, due to further announcements by MHCLG we will need to consider the treatment of McCloud and disclose clearly in the Funding Strategy Statement the approach taken.

Next steps

We look forward to discussing this advice with the administering authority at our meeting on 3 October 2019, following which we will prepare the individual employer valuation results allowing for any agreed changes to the proposed assumptions.

We will provide the administering authority with access to our online contribution modelling tool, *Illuminate ME*. This tool will enable the administering authority to engage with their employers where appropriate to discuss their individual contribution rates, and agree appropriate and affordable recovery plans for any deficits revealed based on their own covenant strength.

Following agreement of the final method and assumptions to be used, we will prepare our formal report on the valuation which will include a certificate setting out the primary and secondary contribution rates for all employers in the Fund for the period from 1 April 2020 to 31 March 2023. The report will be completed no later than 31 March 2020 and must be made available to members on request.

We look forward to discussing this paper with the administering authority.

Barry McKay

Barry McKay FFA
Barnett Waddingham LLP
26 September 2019

Valuation purpose

The purpose of the 2019 actuarial valuation is to set appropriate contribution rates for each employer in the Fund for the period from 1 April 2020 to 31 March 2023, as required under Regulation 62 of the LGPS Regulations. This three year period is currently being considered by the Ministry of Housing, Communities and Local Government (MHCLG) and there is a possibility of moving to a quadrennial valuation cycle in line with other public service schemes. This is likely to have a knock on effect on the number of years of contributions certified as part of the 2019 valuation.

The contribution rates consist of two elements, the primary rate and the secondary rate:

- The **primary rate** for each employer is the employer's future service contribution rate (i.e. the rate required to meet the cost of future accrual of benefits) expressed as a percentage of pay.
- The **secondary rate** is an adjustment to the primary rate to arrive at the total rate each employer is required to pay (for example, to allow for deficit recovery).

Regulation 62 specifies four requirements that the actuary "must have regard" to and these are detailed below:

1. The existing and prospective liabilities arising from circumstances common to all those bodies
2. The desirability of maintaining as nearly a constant a primary rate as possible
3. The current version of the administering authority's Funding Strategy Statement
4. The requirement to secure the "solvency" of the pension fund and the "long-term cost efficiency" of the Scheme, so far as relating to the pension fund

The wording of the second objective is not ideal in that it appears to be aimed towards the primary rate rather than taking into account the surplus or deficit of the employer. We believe that if we achieve reasonably stable total individual employer rates (which seems like a preferable objective) then we will also meet the regulatory aim.

The third clause simply means that we should be aware of and take account of the Fund's Funding Strategy Statement (FSS). The administering authority is responsibility for drafting and maintaining this statement although we would anticipate being consulted on the drafting.

Definitions for "solvency" and "long-term cost efficiency" are included in CIPFA's FSS guidance. These can be briefly summarised as:

- ensuring that employers are paying in contributions that cover the cost of benefit accrual and target a fully funded position over an appropriate time period using appropriate actuarial assumptions, and
- that employers have the financial capacity to increase contributions (or there is an alternative plan in place) should contributions need to be increased in future.

Asset valuation

We have been provided with a final copy of the Fund accounts for the year ending 31 March 2019 and the audited Fund accounts for the years ending 31 March 2018 and 31 March 2017.

The market asset valuation as at 31 March 2019 was £1,418,332,000, excluding members' additional voluntary contributions (AVCs).

For the purposes of the valuation, we use a smoothed value of the assets rather than the market value. The financial assumptions that we use in valuing the liabilities are smoothed around the valuation date so that the market conditions used are the average of the daily observations over the period 1 January 2019 to 30 June 2019. Therefore we value the assets in a consistent way and apply the same smoothing adjustment to the market value of the assets.

The purpose of smoothing the asset value is for consistency with the valuation of liabilities and to help stabilise employer contribution rates and it means that contribution rates over the next 20-30 years are not singularly dependent on the market value of assets and market conditions on one particular day.

The smoothed asset valuation as at 31 March 2019 was £1,410,581,000, based on a smoothing adjustment of 99.5%.

More details of the asset and accounts information used are set out in the Fund's annual report which is available on request from the Fund or on their website.

The following table sets out the annual Fund investment returns for the Fund over the intervaluation period as disclosed in the Fund accounts.

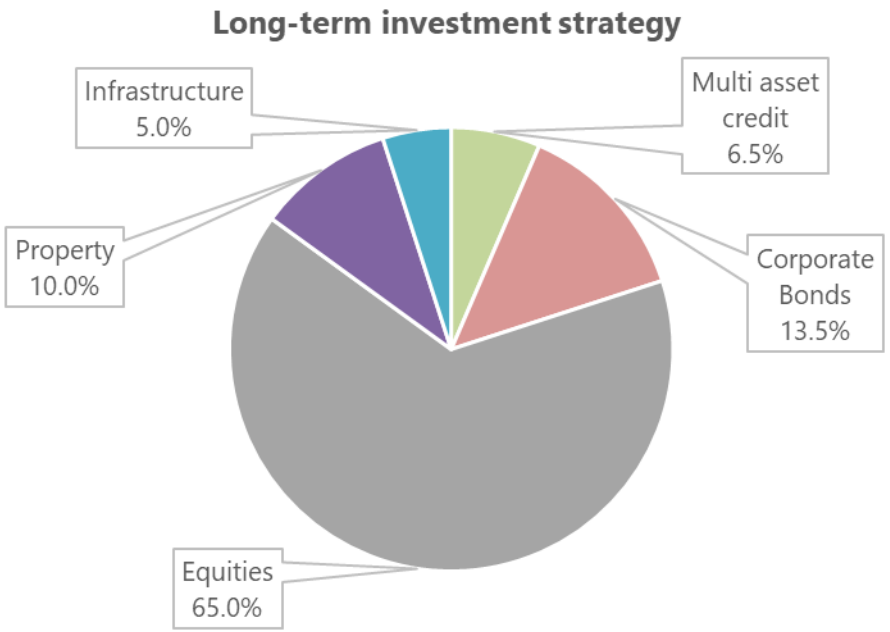
Annual Fund investment returns

Year to 31 March 2017	20.6%
Year to 31 March 2018	6.3%
Year to 31 March 2019	6.1%
Average return over intervaluation period (p.a.)	**10.8%**

Investment strategy

For the purposes of the actuarial valuation we are interested in the long-term investment strategy of the Fund. As the current asset allocation may differ from the long-term strategy, the administering authority has provided us with details of the long-term investment strategy of the Fund.

The Fund's long-term investment strategy will be set out in an Investment Strategy Statement (ISS) that should be made publicly available on the Fund's website. A breakdown of the long-term investment strategy is set out in the chart below.



Valuation of liabilities

The value of accrued or past service benefits (allowing for future salary and pension increases) are referred to as the past service liabilities, or simply the liabilities.

Using the valuation assumptions set out in Appendix 2 we estimate the future cashflows which will be made to and from the Fund throughout the future lifetime of existing members. We then discount these projected cashflows using the discount rate which is essentially a calculation of the amount of money which, if invested now, would be sufficient together with the income and growth in the accumulating assets to make these payments in future, using our assumption about investment returns.

This amount is called the present value (or, more simply, the value) of members' benefits. Separate calculations are made in respect of benefits arising in relation to membership before the valuation date (past service) and for membership after the valuation date (future service).

To produce the future cashflows or liabilities and their present value we need to formulate assumptions about the factors affecting the Fund's future finances such as inflation, salary increases, investment returns, rates of mortality, early retirement and staff turnover etc.

Prudence

As part of our calculations, we have made reference to a neutral set of assumptions which are derived in a way that is not deliberately optimistic or pessimistic.

However, our proposed funding assumptions will include a margin for prudence. The prudence margin will be set with input from the administering authority to reflect their own investment strategy and risk appetite. In this report we have produced results on both the neutral and proposed funding assumptions to give the administering authority an idea of the level of prudence contained within their assumptions.

We take a view that the overall level of prudence should be reflected in the discount rate assumption for simplicity.

Past service funding level

A comparison is made of the value of the existing assets with the value of liabilities. If there is an excess of assets over the liabilities then there is a surplus. If the converse applies there is a deficit.

Primary rate

The first stage is to calculate the value of benefits accruing to existing active members in the future over a certain period. The value of benefits accruing in the period following the valuation date is then expressed as a percentage of payroll over the same period having first deducted the equivalent contribution paid by the active members. This therefore reflects the employer's share of the cost of benefits and is known as the primary contribution rate.

At individual employer level we use a one year period for all employers who still admit new employees into the Fund. For employers in the Fund who are closed to new entrants we consider the cost of future benefit accrual over a longer period, for example, the expected remaining working lifetime of existing active members, rather than just over the next twelve months.

This is the same approach as taken in the previous valuation.

Overall result and required contribution rate

Any past service surplus, if significant, can be used to offset the contribution rates payable by employers over the period following the valuation date.

If there is a material deficiency then additional contributions are required to be paid by employers over an agreed period, either as a percentage of payroll or as monetary amounts.

Proposed assumptions

The proposed assumptions and their derivation are set out in the next section.

Longevity assumptions

Our specialist longevity team carried out analysis to determine the best-estimate assumptions to be used by the Fund Actuary for the purpose of the Fund's 2019 valuation. This set out a recommended percentage rating to make to the S3 series mortality tables. We have used this report in this advice to set out the proposed longevity assumption used in the initial results and the assumptions are summarised in Appendix 2.

Proposed assumptions

To project the future payments that are expected to arise in respect of benefits accrued at the valuation date, assumptions are required for matters such as increases to benefits, how long members live, members' dependants who may be eligible for death benefits, the exercise of member options, and when members will leave active service. How the future expenses of running the scheme will be met will also need to be considered.

To produce the future cashflows or liabilities and their present value we need to formulate assumptions about the factors affecting the Fund's future finances. We can consider these assumptions as:

- The statistical assumptions which generally provide estimates of the likelihood of benefits and contributions being paid. This includes the rates of mortality, early retirement and staff turnover; and
- The financial assumptions which determine the estimates of the amount of benefits and contributions payable as well as their current or present value. This includes inflation, salary increases and investment returns (also referred to as the discount rate).

The assumptions that we use as part of our approach are a combination of market-related statistics, historical averages and judgement. In addition, the base market statistics that we use are smoothed around the valuation date so that the market conditions used are the average of the daily observations over the period 1 January 2019 to 30 June 2019. Assets are also smoothed in a consistent way.

The smoothing mechanism is used to help with the objective of setting reasonably stable contribution rates.

We have not proposed any changes to the model adopted for the 2016 valuation or any significant changes to the assumptions used but we have proposed some changes to individual assumptions which we will set out in the relevant sections below.

We take a view that the overall level of prudence should be reflected in the discount rate assumption for simplicity, and therefore all other assumptions are a neutral estimate.

When looking at a market yield curve we generally take the 20 year point on that curve as we have estimated that 20 years is consistent with the duration of an average LGPS fund's liabilities.

In the next few sections of this report we set our advice on the proposed assumptions to be used.

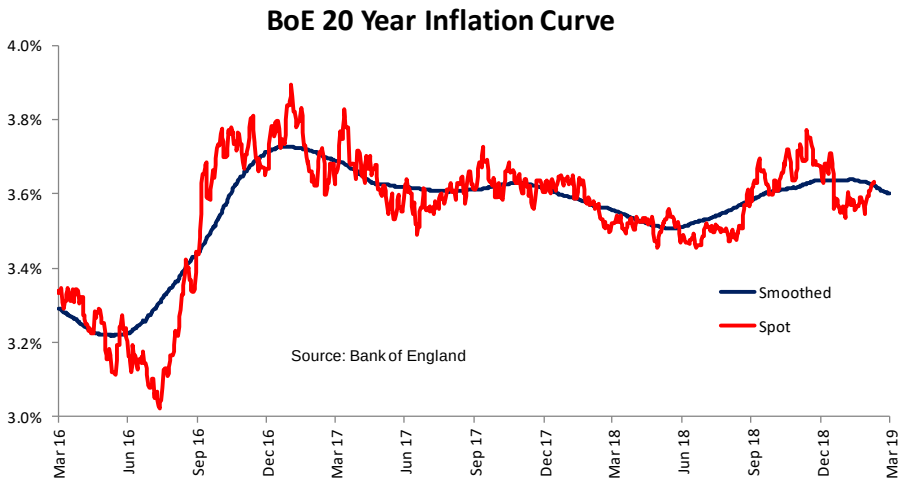
Please note that the valuation results indicate the expected cost of providing the Fund benefits based on the underlying method and assumptions; the actual cost of providing the benefits will depend on the actual experience.

Revaluation of benefits

Under the Regulations, the majority of the benefit increases are linked to inflation and the likely level of future inflation will therefore need to be considered in order to set our pension increase and revaluation assumptions.

Retail Price Index (RPI) inflation

Our starting assumption for inflation is the (smoothed) 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve which is 3.6% p.a. as at 31 March 2019.



As mentioned above, when looking at a market yield curve we take the 20 year point on that curve as we have estimated that 20 years is consistent with the duration of an average LGPS fund's liabilities. We believe that this is an appropriate approach to take for the Fund.

The same approach was taken at the previous valuation which resulted in an RPI inflation assumption of 3.3% which was based on the market-implied rate at that time.

In the 2016 valuation we made no allowance for an inflation risk premium and we do not believe that there is enough evidence to make any changes to this assumption, therefore we have not allowed for any inflation risk premium in our RPI inflation assumption.

Therefore our assumption for RPI inflation is 3.6% p.a.

Consumer Price Index (CPI) inflation

There is currently no reliable market derived measure for CPI inflation, as there are no CPI-linked government bonds.

Historically, CPI inflation has been lower on average than RPI inflation and this effect is expected to persist over the long term. The main areas of difference between the two indices are:

- The **'formula effect'** which occurs as a result of the CPI being calculated using a different statistical methodology compared to the RPI which is likely to persist over the long term;
- **Housing costs** such as council tax and mortgage interest payments, which are included in the RPI but not the CPI; and
- **Other differences in coverage** between the two indices, both in terms of constituent goods and the weightings of goods and households assessed.

At the 2016 valuation, we assumed that future CPI inflation would be 0.9% p.a. less than future RPI inflation. This difference is primarily due to the "formula effect".

Based on a decomposition by the Office for National Statistics (ONS) of recent differences between the two indices, we suggest that the formula effect is likely to contribute between 0.8% p.a. and 1.0% p.a. to the rate by which RPI inflation is expected to exceed CPI inflation over the long term.

Taking the above into account, and given the uncertainty around future constituents, we propose that a reasonable long-term assumption for CPI inflation at the valuation date is 1.0% p.a. lower than the RPI inflation assumption.

We also recently moved to this as a standard assumption for IAS19 and FRS102 pensions accounting where this assumption is required to be best estimate.

Therefore, we propose a CPI inflation assumption of 2.6% p.a.

The CPI inflation assumption used at the previous valuation was 2.4%, which was 0.9%p.a. lower than the RPI inflation assumption.

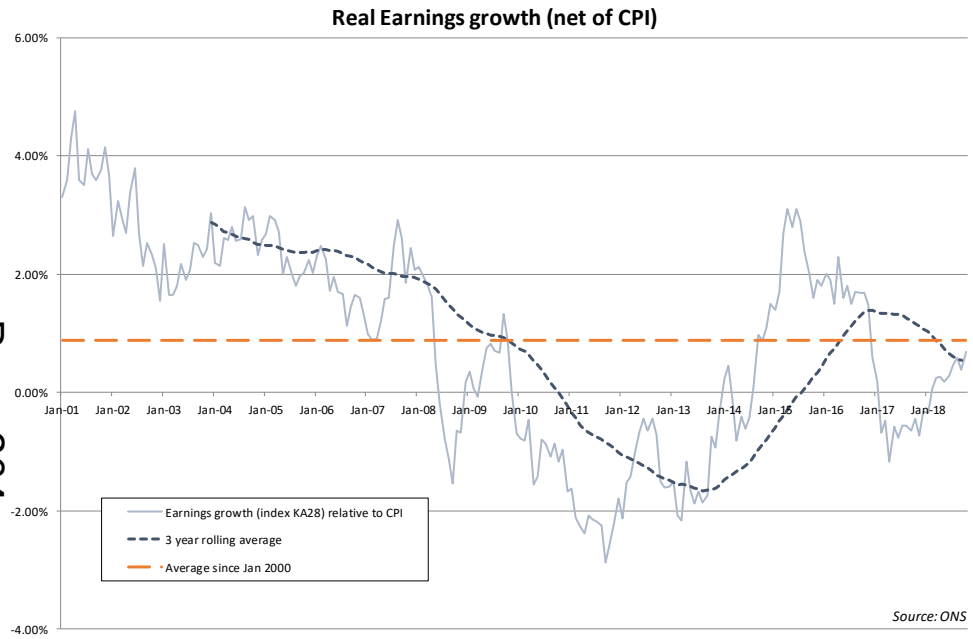
The Bank of England has a CPI target of 2.0% p.a. Effectively, we are saying that the market suggests that the Bank will, on average, not make this target and CPI inflation will average higher than the target over the next 20 years.

In the 29 October 2018 Budget, the Chancellor announced that "over time" pension increases would be in line with Consumer Prices Index Housing (CPIH). This was confirmed by a further announcement by the Chancellor on 4 September 2019 stating that the move would be made by 2030. CPIH is CPI but with housing costs (the average change in residential rents) included in the basket of goods that are measured. As housing costs often increase quicker than other goods CPIH is generally higher than CPI (but not always). All else being equal this would increase liabilities slightly. However, as Eurostat, the body which sets the statistical methodology on which CPI is based, had previously stated its intention to amend CPI to include housing costs, we had already factored this into our CPI assumption at the 2016 valuation. Eurostat have since revoked this intention but as we had already built in an allowance, the move to CPIH means that the existing difference remains appropriate and therefore we do not feel that any further adjustments are necessary at this stage.

Salary increases

While the LGPS was a final salary scheme for benefits earned prior to 1 April 2014, it is now a career average revalued earnings (CARE) scheme so that benefits earned after 1 April 2014 are increased in line with CPI inflation rather than salary increases. Therefore, the overall effect of the salary increase assumption is less than it was previously: active members' accrued final salary benefits continue to increase in line with salary increases, however, the primary rate is unaffected by the salary increase assumption. At the 2016 valuation, salary increases were assumed to be in line with CPI until 31 March 2020, and CPI plus 1.5% p.a. thereafter. The short-term assumption was set to reflect a short-term restriction in public sector pay.

The chart below shows past UK earnings growth reflected in the ONS's Average Weekly Earnings (AWE) statistics (which reflect both inflationary and promotional increases).



Earnings growth has typically been relatively volatile, especially over short time periods. It has historically been more stable in real terms although we can see from the graph above that there is still significant volatility over the last 18 years. Over the last 18 years the overall average rate has been around CPI plus 0.9%.

Recognising that there are a wide a range of potential outcomes for long-term future salary growth, we would propose that a reasonable assumption is CPI plus 1.0%. We propose that this assumption reflects both inflationary and promotional increases and therefore we would remove the salary scale assumption which previously applied in addition to the salary increase assumption. We are not proposing to have a separate assumption about short-term increases in salary. The removal of the promotional scale and the short-term overlay simplifies our overall allowance for salary increases.

Therefore, we propose a salary increase assumption of CPI plus 1.0% p.a.

Pension increases

All LGPS pension increases are linked to CPI inflation. Therefore we propose to use the CPI inflation assumption with no adjustment as a pension increase assumption. Some pension elements increase at different rates (e.g. GMP) and we allow for this in our calculations. This is the same approach taken to the previous valuation.

Discount rate assumption

The Fund's benefits will be discharged over a long period. Therefore, for comparison with the value of the assets, the liabilities should be measured in a way that allows for the future investment return expected on those assets.

In other words, the amount of each projected benefit payment should be reduced to reflect interest prior to its payment. This process is called 'discounting' and the interest (or investment return) allowed for is called the 'discount rate'. The higher the discount rate, the lower the value of the liabilities and hence the higher the Fund's funding level.

There are a number of different approaches which can be adopted in deriving the discount rate to be used, and the approach that is most appropriate will depend on the purpose of the valuation, the overall funding objectives and the risk appetite of the administering authority.

As outlined earlier in this document, we believe that the most appropriate starting point for a valuation that sets employer contribution rates is to consider the expected returns on the long-term investment strategy. We do this by grouping the various assets into broad classes, deriving an assumed return for each asset class and then working out the average based on the asset allocation between the groups.

When deriving the neutral returns for the asset classes, we will mainly be considering the return that can be achieved from passive investing. The rationale behind this is that any outperformance will then come through as "profit" rather than being anticipated in advance and there is also a practical reason which is simply that there is more information with which to make a robust assumption about future returns from passive investment across the entire asset class. The active/passive distinction is not straightforward for all asset classes but the above is the general principle.

We consider a neutral estimate of the assumed investment return for each asset class and then make an overall explicit adjustment for prudence to the discount rate assumption, which is the same as the approach taken in the 2016 valuation.

An appropriate level of prudence will depend on the risks being considered and in our review we have allowed for risks relating to volatility of asset returns and the administering authority's risk appetite.

Our starting point is the level of prudence agreed as part of the 2016 valuation.

Our approach is what could be called a "best-estimate minus" approach. While there are other approaches available (for example, setting discount rates relative to gilt yields), we believe that this approach is the most appropriate starting point for the LGPS and the Fund in particular, as it has the following characteristics:

- The Fund has a significant allocation to growth assets
- The Fund is open to new entrants
- The employers are able to absorb volatility inherent in growth assets; and
- The stability of the disclosed funding objective is an important issue.

Consistency and Section 13 considerations

The discount rate is certainly an assumption where there is justification for variance between funds due to different investment strategies or different attitudes to risk leading to different levels of prudence in the assumption.

The discount rate used to provide results to the Scheme Advisory Board (SAB) on a standardised set of assumptions has not been confirmed, but we suspect it will be equal to the "SCAPE" rate used for unfunded schemes which was recently revised from CPI plus 2.8% p.a. to CPI plus 2.4% p.a. In theory this should have no impact on the discount rates used in the funded LGPS. However, the lower

SCAPE rate is likely to have some bearing on the assumptions used by the Government Actuary's Department (GAD) for carrying out the Section 13 analysis for the 2019 valuation (i.e. they are likely to use lower discount rates in their analysis) and so it is arguably another factor to consider when choosing a discount rate for the funding valuation.

The risk of course is that that making significant changes to the discount rate assumption might lead to an unduly pessimistic discount rate which can cause issues for individual employers through contributions becoming unaffordable and so an appropriate balance needs to be found.

Asset types

For the purposes of this document we have considered the Fund's long-term investment strategy. We propose grouping the assets into the following types which we believe allows for sufficient flexibility and accuracy:

- Other bonds
- Equities
- Property
- Infrastructure
- Multi asset credit

Where the assets do not have a widely-published objective market-based indicator of future returns, then we consider the characteristics and benchmark of each fund's investment in these asset classes to derive an assumption that we believe is appropriate and this is usually based on building up from the returns derived for simpler asset classes.

Our proposed neutral returns for these asset classes are set out below. We are aiming to propose consistent derivation methods between funds to help with the consistency objective but we are happy to consider changes to these, particularly if they can be locally justified.

Gilts

Redemption yields from gilts give an indication of the future rates of return and most funds typically invest in long-dated gilts so we can use these published rates. We propose to use the smoothed 20 year point of the Bank of England nominal gilt yield curve, consistent with the duration of an average LGPS fund's liabilities. **This gives a neutral assumption of 1.7% p.a.**

Other bonds

Other bonds covers corporate bonds and other investable non-government debt. As for gilts, the yield on these can, in theory, be accessed directly from the market.

Corporate bonds are expected to provide a higher return than gilts due to the higher risks involved (i.e. default risk and the generally lower level of liquidity and marketability).

There is a wide range of companies that issue corporate bonds and the yield available varies considerably between them depending on the perceived level of marketability and credit risk.

Therefore, allowance needs to be made for the expectation that some of the bonds held will default, meaning that some of the additional return will not be realised. Our starting point is to allow for 90% of the spread between the bond yield assumption and the gilt yield assumption which is the same as at 31 March 2016. We believe that the existing assumption remains appropriate for the purpose of this valuation.

The next question is which particular bonds/credit to use in setting the assumption and we usually use the yields from the Merrill Lynch Sterling Non-Gilt AAA-AA-A over 15 year index (smoothed) to give a long-term assumption for investment grade debt. We could refine this if the Fund's own credit portfolio is substantially different.

This results in a neutral assumption of 2.6% p.a.

Multi asset credit

The Fund is invested in a multi asset credit fund with a benchmark of 3 month LIBOR plus 4% p.a. We have therefore considered a neutral return equal to 4.75% p.a. for this fund, equal to the current Bank of England base rate (as a proxy for short term interest rates) plus the outperformance of 4% p.a.

This results in a neutral assumption of 4.75% p.a.

Equities

Model

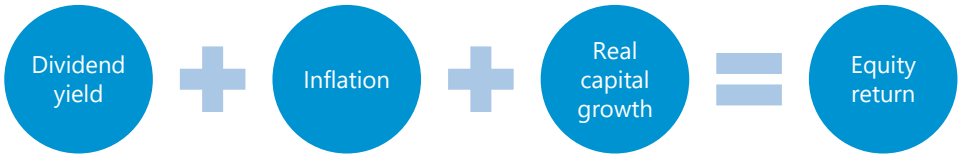
Unlike the previous asset classes, there is no direct market indicator of future equity returns and so some degree of judgement is required.

Given the extra risk and volatility from investing in equities compared to most other asset classes, it is reasonable to assume that long-term expected returns for equities will be higher than the other asset classes.

When setting this assumption, we take a cashflow-based approach and consider the return on a portfolio of equities as being equal to the dividends paid on these shares plus the growth in the value of the shares.

We also assume that the growth in the value of the equities will, over the long-term, be in excess of and linked to inflation i.e. if we assume that prices are going to increase at a faster/slower rate, we assume that there will be a corresponding change to equity values.

This means that our assumption is:



Finally, we compare the equity return assumption suggested by this model to other asset returns and to independent forecasts.

Region

We understand that the Fund's equity holdings are predominantly global. Ideally, the model would therefore incorporate global factors (appropriately weighted between the different markets and allowing for any currency hedging). Previously we effectively used the UK model as a proxy for global equities and this gave similar long-term returns at 31 March 2016. However, the proportion of corporate earnings paid as dividends in the FTSE All-Share is currently at its highest level since 1993 and so we are concerned that this might be overstating longer-term dividend streams. Therefore, as discussed below, we propose to use global indicators. In our opinion, this should give a more appropriate view for the Fund's future equity performance.

We are conscious of the current and potential volatility in UK markets due to Brexit and as a result, we will be carrying out further regular reviews to check whether we believe that the model is still appropriate for future use or whether any adjustments are needed. This will be for the purpose of monitoring funding levels and future valuations rather than directly affecting the 2019 valuation.

Dividend yield

One of the effects of including the dividend yield in the equity return assumption is when equity values fall (so that the asset value falls) the dividend yield increases so the overall equity return and discount rate assumptions increase. Effectively, we assume that at least some of the fall in the asset value will be recovered in future i.e. the value of the assets that we need now to pay the accrued benefits

(the liabilities) in future also falls. This also works the other way too (i.e. if there is an asset bubble, future assumed returns fall under our model) so this approach gives some automatic stabilisation when there are market shocks. This does mean that in the current climate where equity values have recently fallen, our equity return model gives higher assumptions than might be obtained from other models.

When the dividend yield increases in this way, it triggers a review whereby we consider whether under current market conditions we believe our model is still sufficiently robust, i.e. does it still give long-term assumptions that we are comfortable with and that are reasonable for the purposes of setting employers' contribution rates. As discussed above, we are concerned the dividend yield on the FTSE-All Share may be overstating longer-term dividend streams.

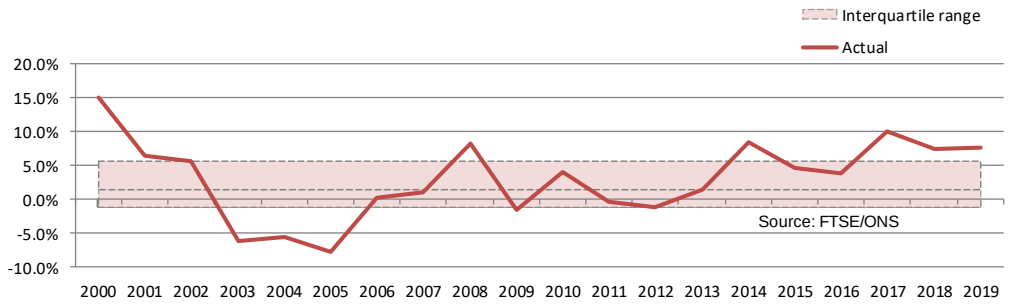
Therefore, as discussed above, we propose to use the FTSE All-World dividend yield which in our opinion should give a more balanced view of longer-term dividend streams, particularly given the Fund is predominantly invested in global equities. We believe this provides a long-term assumption for equity returns that are reasonable for setting employers' contribution rates.

Real capital growth

The other building blocks for determining the equity assumption are the real capital growth assumption. At the last valuation, this was 1.2% for the neutral assessment of the real capital growth in relation to CPI i.e. the equity assumption was equal to the dividend yield plus the CPI assumption plus 1.2%.

As we have used a global dividend yield and a UK inflation assumption, it follows that our real capital growth assumption is global capital growth in relation to UK inflation. The next chart shows the capital growth from global equities based on the FTSE All-World index, relative to CPI, since the turn of the century, together with the inter-quartile range (i.e. the range of observations that account for 50% of all observations around the median).

Global equity returns from capital growth only, net of CPI - Rolling 5 Year Averages (% p.a.)

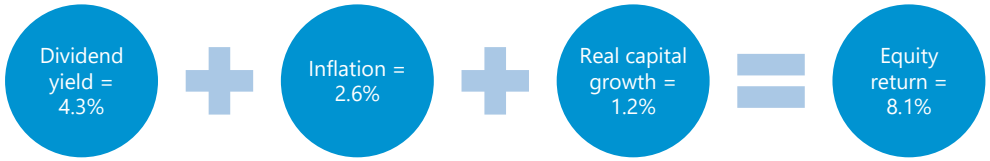


As we can see, equity capital returns are very volatile. The median value, observing the data since 2000, was around 1.5% p.a. above CPI, although there have been prolonged periods when the returns have been significantly different.

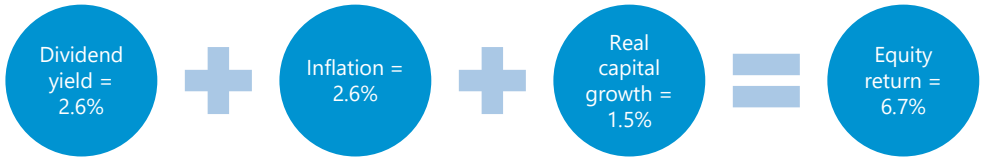
We believe therefore that a suitable neutral assumption for the capital growth assumption (in relation to CPI) is 1.5% p.a.

Equity assumption

Using the 2016 model, updated for known market conditions and changes in the RPI/CPI gap, would give an illustrative neutral equity assumption of 8.1% p.a. (derived below).



Updating the dividend yield to be based on the FTSE All-World index and a global real capital growth assumption of 1.5% p.a. would give a neutral equity assumption of 6.7% p.a. at 31 March 2019 (derived below).



As a comparison, this equates to an assumption equal to the gilt yield plus 5.0% p.a. While this could be argued as being high in relation to gilt yields (which in theory is the risk-free rate of return available), current gilt yields are low in a historical context and there are arguments that the underlying risk-free rate of return is understated by the current long-term gilt yield.

Property

Property would intuitively be expected to give long-term returns somewhere between those on gilts and equities. We understand that the benchmark on the Fund's property investments is gilts plus 2.0% p.a. We have considered the Bank of England nominal gilt yield curve, consistent with the average duration of the Fund's liabilities plus the outperformance of 2.0% p.a.

This gives a neutral assumption at 31 March 2019 of 3.7% p.a.

Infrastructure

We understand that the benchmark on the Fund's infrastructure investments is LIBOR plus 8% p.a. We feel that this could be considered to be optimistic and so we would propose to cap the assumed return at the assumed return for equity investments.

This gives a neutral return for infrastructure of 6.7% p.a. as at 31 March 2019.

Cash

The Fund always needs to hold cash in order to pay benefits although it might also hold it for tactical reasons. Previously we used the smoothed Merrill Lynch 20 year London Inter-bank Offered Rate (LIBOR) swap curve point. It can be argued that 20 year time horizon is too long for short-term holdings in cash. In addition, LIBOR is to be discontinued by the FRC from 2021 and Sterling Overnight Interbank Average Rate (SONIA) will replace it as the reference rate for swap transactions.

We would propose to use the current Bank of England base rate of 0.75% p.a. for simplicity.

Expenses

To allow for administration, oversight and governance expenses at the 31 March 2016 valuation we included an overall deduction of 0.2% in the discount rate (as the average of the three preceding years expenses as a percentage of the whole Fund asset value). To allow for (passive) investment management expenses, we included a further deduction of 0.1% in the discount rate. In practice, this figure might be higher due to the use of active management but the aim is to more than cover these additional expenses by achieving excess returns.

The administration, oversight and governance expenses accounted for 0.1% of the whole Fund asset value in 2016/17, 0.1% of the whole Fund asset value in 2017/18 and 0.1% of the whole Fund asset value in 2018/19. We therefore propose to maintain our expenses assumption at 0.2%.

Therefore our total expenses allowance would be a deduction of 0.2% to the discount rate.

Allowance for prudence

Based on the methodology described above, the derivation of the above investment return assumptions would result in a neutral estimate – in other words assumptions that produce returns that are not overly pessimistic or optimistic.

Where there is greater uncertainty in a particular assumption, such as the discount rate (i.e. investment return assumption) the recommended assumption should include a margin for prudence. We feel that it is appropriate to include a prudence margin into the discount rate assumption to reflect this uncertainty.

Ultimately, the adjustment to allow for prudence is a subjective one, having considered:

- Views on the ability of employers to pay more later if required (the employer covenant)
- Attitude to risk and risk appetite of the administering authority
- Levels of volatility in the assumed asset returns
- Consistency of the prudence margin with the previous valuation

The discount rate in real terms should also be considered in light of the SAB standardised comparative basis and estimate of the Section 13 basis that will be set by GAD.

The prudence allowance adopted at the 2016 valuation was 1.1% p.a.

A higher level of prudence places less reliance on investment return. More prudent assumptions would usually lead to higher contributions, at least initially, and then if assets delivered good returns, any deficit could either be funded over a shorter period or contributions could decrease.

Using a global dividend yield rather than the UK dividend yield to allow for the Fund have a greater proportion of overseaes equities, results in a lower expected long term return, relative to 2016.

We propose to reduce the current margin for prudence to 0.7% p.a. as this results in a suitably prudent nominal long term return of 4.8% p.a.

Combining returns

The principle behind setting the discount rate is that it reflects the actual investment strategy of the Fund so that we take the above base assumptions and combine them to get an overall discount rate. In doing this we can consider the current asset allocation or an allocation that reflects the long-term strategy. It is usually our preference to reflect the long-term strategy, where known.

We have requested information from the administering authority on the long-term investment strategy of the Fund and this is set out below, alongside the broad grouping that each asset class has been allocated to.

Asset class	Benchmark	Allocated to
Multi asset credit	6.5%	Multi asset credit
Fixed income	13.5%	Corporate Bonds
Equities		
Passive equities	22.5%	Equities
Global active equities	20.0%	Equities
UK active equities	22.5%	Equities
Property	10.0%	Property
Infrastructure	5.0%	Equities

Therefore our discount rate assumption is calculated as follows:

Asset class	2019 allocation	Neutral assumption (p.a.)
Multi asset credit	6.5%	4.8%
Corporate Bonds	13.5%	2.6%
Equities	65.0%	6.7%
Property	10.0%	3.7%
Infrastructure	5.0%	6.7%
Less expenses		0.2%
Neutral return		**5.5%**
Less prudence adjustment		
Scheduled bodies		0.7%
Admitted bodies		1.8%
Prudent discount rate assumption		
Scheduled bodies		**4.8%**
Admitted bodies		**3.7%**
Relative to CPI		
Scheduled bodies		**2.2%**
Admitted bodies		**1.1%**

At 31 March 2016, the discount rate used was 5.1% p.a. (CPI + 2.7%). We have then re-assessed the discount rate as part of this paper and our proposed assumption is 4.8% p.a. (CPI + 2.2%). This is lower due to a switch to global indicators for the future equity assumption. For admitted bodies an additional prudence margin was applied to allow for the higher risk connected to these employers leading to a discount rate of 3.7% p.a. (CPI + 1.1%).

We can also compare this discount rate to the "SCAPE" rate used for unfunded schemes which is likely to have some bearing on the discount rate used by GAD for carrying out the Section 13 analysis for the 2019 valuation. At the 2016 valuation, the discount rate was equal to CPI plus 2.7% p.a., which compared to a SCAPE rate of CPI plus 3.0% p.a. (which was subsequently reduced to CPI plus 2.8% p.a.

The SCAPE rate is now CPI plus 2.4% p.a. and we can reasonably expect that this will lead to a reduction in the acceptable discount rate bounds within GAD's analysis. Our proposal maintains a gap between the SCAPE rate and the net discount rate and we believe that this is sensible to reduce the probability that the Fund will be flagged within GAD's Section 13 analysis for the 2019 valuation.

Mortality assumption

Post-retirement mortality

The key demographic assumption required for determining the pension liabilities is the post-retirement mortality assumption.

The Fund should review their post-retirement mortality assumptions at each valuation, taking into account all available evidence, to ensure they remain appropriate for the Fund.

There are two aspects to consider in determining appropriate post-retirement mortality assumptions:

- Choosing an appropriate mortality assumption applicable today taking into account characteristics of the Fund members; and
- Making an appropriate allowance for mortality to improve in future.

The administering authority has asked Barnett Waddingham's Longevity team to do an analysis of their Fund's membership.

Using the results of the analysis we set out in the table below our recommended assumptions for the mortality base tables to be used and we include the 2016 assumptions for comparison:

Post-retirement mortality base tables	Proposed assumption	Previous assumption
Post-retirement mortality: member		
	Male / Female	Male / Female
Base table	S3PA	S2PA
Multiplier	110% / 105%	80% / 85%
Post-retirement mortality: dependant		
	Male / Female	Male / Female
Base table	S3DMA / S3DFA	S2PA
Multiplier	70% / 85%	80% / 85%

Mortality improvements

The terms 'mortality improvement' and 'rate of improvement' both refer to the amount by which the probability of death decreases for a particular age group from one year to the next. The average rate of mortality improvement in the UK over the last century has been around 1.25% pa. This rate accelerated rapidly during the 1980s and 1990s, and the average rate which applied over the period 2000 to 2011 was 2.4% p.a. before falling to 0.5% p.a. for males and 0.1% p.a. for females over the period 2011 to 2017.

However, it should be noted that the mortality improvements for members of self-administered pension schemes have been higher than those of the general

population over the period from 2008 by just over 1% p.a. on average and we comment on this further below.

Model

At the previous valuation, allowance was made for mortality to improve in future using a model developed by the CMI. This allows for recent improvements based on actual observed trends before converging to a long-term rate of improvement over a period of around 40 years. At the 2016 valuation we used the CMI 2015 projections model. The model is updated annually by the CMI to take into account the latest available data.

The CMI_2018 model was released on 7 March 2019. The latest version continues the post-2011 trend of low improvements and subsequent falls in projected life expectancies – in particular, there were nil improvements in mortality over 2018.

The model has two elements which users can amend to vary how recent improvements are assumed to converge to the chosen long-term trend. We have included further discussion on both of these elements below.

The first variable element is the **smoothing parameter** to the model, which allows the user to adjust how much credibility is placed on the most recent mortality data, which in recent years has shown lower improvement rates than previously. All else being equal a lower smoothing parameter will therefore lead to lower life expectancies and liability values as this places more weight on recent data. However, following the release of CMI 2018 there have been reports of slightly better mortality improvements in more recent data so we propose to increase the smoothing parameter to put less weight on the lower improvements reported in CMI 2018. The CMI published a default value of 7 and we propose a value of 7.5 is adopted for the valuation.

The second variable element is the **initial addition to mortality improvements parameter** which allows the user to define the extent to which recent improvements observed in the general population will be representative of recent experience of the Fund.

The CMI model is based on data for the whole of the England and Wales population (rather than pension scheme data which is the case for the S3 series base tables). The CMI have published some analysis of how recent mortality improvements in the general England and Wales population have varied by socio-economic status. This has shown that while there has been a slowdown in improvements across the whole population, this has mainly been experienced by lower socio-economic groups and the higher socio-economic groups have not been affected as strongly. In particular, the improvements in the SAPS population between 2008 and 2016 have been just over 1% p.a. higher than for the general population, possibly reflecting that pension scheme members tend to come from higher socio-economic groups on average.

The Barnett Waddingham Longevity team have carried out an analysis of the improvements observed over our LGPS client base. On the basis of this analysis, we propose a parameter of 0.5%. More detail on the reasoning for this change can be found in the longevity analysis report but in general a higher initial addition parameter will increase the value of the liabilities.

We therefore, currently, plan to adopt the 2018 version of the CMI model with the adjustment to the smoothing parameter and initial addition as mentioned above.

Long-term rate of mortality improvements

As well as choosing to use the CMI model, we need to specify the long-term rate of mortality improvement. The Fund used a long-term improvement of 1.5% p.a. at the 2016 valuation, as did most LGPS funds.

This is a particularly subjective assumption as it is asking users to make a judgement about what mortality improvements rates may be far into the future. It depends on factors such as improvements in medical technology and societal

behaviours so it crosses a range of disciplines. The average rate of mortality improvement in the UK over the last thirty years has been around 2% and although, as discussed earlier, there is evidence that this has been slowing down over recent years this is less pronounced for members of pension schemes.

From survey information from the Pensions Regulator, we understand around 70% of private sector pension schemes adopt an assumption of 1.5% p.a. Most private sector pension schemes include an allowance for prudence in their long-term rate of mortality improvement assumption and therefore there is an argument that a best estimate assumption would be lower than this. As we aim to include prudence in the discount rate only, **we propose to decrease the long-term rate of improvement used in the model to 1.25% p.a.**

Sensitivity of the mortality assumption

To help understand the sensitivity of the results to the change in mortality assumption we have set out in the table below some illustrative average life expectancies on a number of bases in order to illustrative the effect of changing both the base table adjustment and the improvement model. We have set out life expectancies at 65 for males and females who are 65 now, and 65 in 20 years' time (i.e. age 45 now):

Life expectancy at age 65 (in years)	Proposed assumption	Previous assumption with updated base table	Previous assumption
Male currently aged 65	21.7	22.2	24.6
Female currently aged 65	24.3	25.0	26.2
Male currently aged 45	23.1	24.4	26.9
Female currently aged 45	25.8	27.2	28.5

As we can see, the change in the mortality projection assumption approximately represents a drop in projected life expectancies (from age 65) of around 9% for current 65 year olds and 12% for current 45 year olds (i.e. a very significant drop, reflecting recent data). The impact of this will be to reduce the value placed on the liabilities. However, it should be noted that the impact varies across the ages.

Other statistical assumptions

We also need to consider the retirement age assumptions as well as pre-retirement assumptions such as withdrawals and transfers out. As previously mentioned, we propose to incorporate all margins for prudence in our financial assumptions and therefore the assumptions detailed in this section will be used in both our neutral and funding basis proposals.

Retirement ages

Members can be subject to multiple retirement age regimes in the LGPS. At the last valuation, we assumed that members would retire at the average age that their various tranches of benefit are payable from. For example, if a member has a large amount of pension payable from age 60, it is likely to be financially advantageous for them to take their benefits closer to age 60 than to age 65 or later. However, if most of their benefit is payable from their State Pension Age and they only have a small amount of pension available without reduction at earlier ages, they are likely to retire later.

We have performed an analysis of retirement patterns using data covering the two years to 31 March 2018 for the LGPS funds that we advise (where data was made available). Over all the funds that we analysed and the Fund specifically, the analysis revealed that the assumption was not materially different to the actual experience of retiring members.

Therefore, for the 2016 valuation, we propose an assumption that members retire at the average of each tranche retirement age, weighted by pension, which is the same method assumed in 2016.

Transfer out decrement

At the 2016 valuation, there was no allowance for transfers out in the funding basis.

However, the discount rate used for calculating transfer values in the public sector has now decreased to CPI plus 2.4% p.a., which was much lower than at the time of the initial analysis. Therefore, this leads to higher transfer values (both in and out), which in turn, may also lead to more transfer values out and so it is sensible to re-consider for the 2019 valuation. We have carried out an analysis of transfer out experience over our Funds and noted that current levels of transfers out are low and so we believe it is reasonable **to continue to assume no transfers out of the Fund**, particularly given the extra complexity adding a transfer out decrement into the basis would bring.

Pre-retirement decrements (withdrawals, ill-health retirement, death before retiremenet and salary scales)

At the 2016 valuation, we used assumptions that were equal to those assumed by GAD when they carried out their 2013 valuation of the LGPS for "dry-run" Section 13 purposes. The rationale for these was generally that it was in line with the most recent study of national LGPS experience that they had carried out.

GAD has since updated the experience analysis and tables used as part of their 2016 valuation of the LGPS for cost management purposes (currently draft at the time of writing). We have conducted analysis on withdrawals, ill-health retirements and death in service using data provided by our funds for the two years to 31 March 2018 (where that data is was available) and we have compared the actual experience with that assumed by the assumptions adopted at the 2016 valuation, and by the updated GAD assumptions.

We have no concerns about the goodness-of-fit for the withdrawal and death before retirement assumptions. The ill-health experience is discussed in the following section.

Ill-health experience

From the analysis we carried out, it appears recent ill-health experience has been significantly less than both GAD assumptions (around 60% less retirements than were assumed based on the 2016 assumptions and around 50% less retirements than assumed based on the updated assumptions).

GAD's own analysis of the overall LGPS experience in the three year period to 31 March 2016 also suggests a drop in numbers of ill-health retirements compared to the assumptions used for their 2013 valuation of the LGPS. GAD's updated assumption takes into account the six years of experience from 2010 to 2016 (and therefore recent experience is smoothed out with earlier data).

We believe it would be appropriate to allow for 50% fewer retirements than the GAD assumption in the funding basis. We have provided some sensitivity analysis which allows for GAD's assumption in full.

Salary scale

As discussed in the "Salary Increase" section, we propose to remove our salary scale assumption and include promotional increases within our general salary increase assumption.

Death before retirement

As part of their analysis, the BW specialist longevity team have also reviewed the mortality experience of the Fund before retirement and how it compared to the GAD table. They suggest a rating of 100% (males) and 102% (females) of the GAD tables. We propose rounding this to 100% in our initial results.

Therefore, we plan to adopt the updated GAD assumptions used as part of their 2016 valuation of the LGPS for cost management purposes, with the exception of the salary scale assumption, which we propose to remove (incorporating promotional increases within the general salary increase assumption), and the ill-health incidence, where we propose to reduce GAD's assumption by 50%.

50:50 membership

Some active members may elect to reduce their accrual rate in return for paying lower contributions. Actual take-up of this has been very low (initial analysis of our funds' data suggests around 0.5% of active members). We are aware of the working being undertaken by SAB to encourage take up of membership in the 50:50 scheme but at the moment we do not consider there to be enough evidence to change our assumption from that used in 2016.

We will assume that members will continue to participate in their current section and this is the same assumption that was used in 2016.

Commutation

At the 2016 valuation, we assumed that members would, on average, exchange pension to get 50% of the maximum available cash on retirement.

We have performed an analysis using the data for the two years to 31 March 2018 for the LGPS funds that we advise (where data was made available). **The analysis suggested that 50% continues to be an appropriate assumption for the LGPS funds we advise** and the Fund experience was not materially different. We will revisit this analysis later in the year when we have data from more funds available.

Family statistics

At the 2016 valuation, we assumed that 75% of males and 70% of females have an eligible dependant at retirement or earlier death. This was based on ONS projections to 2023 (published as at 2014). The ONS published a snapshot of population data in 2017 for married or cohabiting partners and this appears broadly in line with the assumption made at the 2016 valuation so **we propose to maintain this for the 2019 valuation.**

Age difference of spouse

This assumption tends to be relatively insignificant from a financial perspective and we suggest the existing assumption that husbands are, on average, three years older than their partners is maintained.

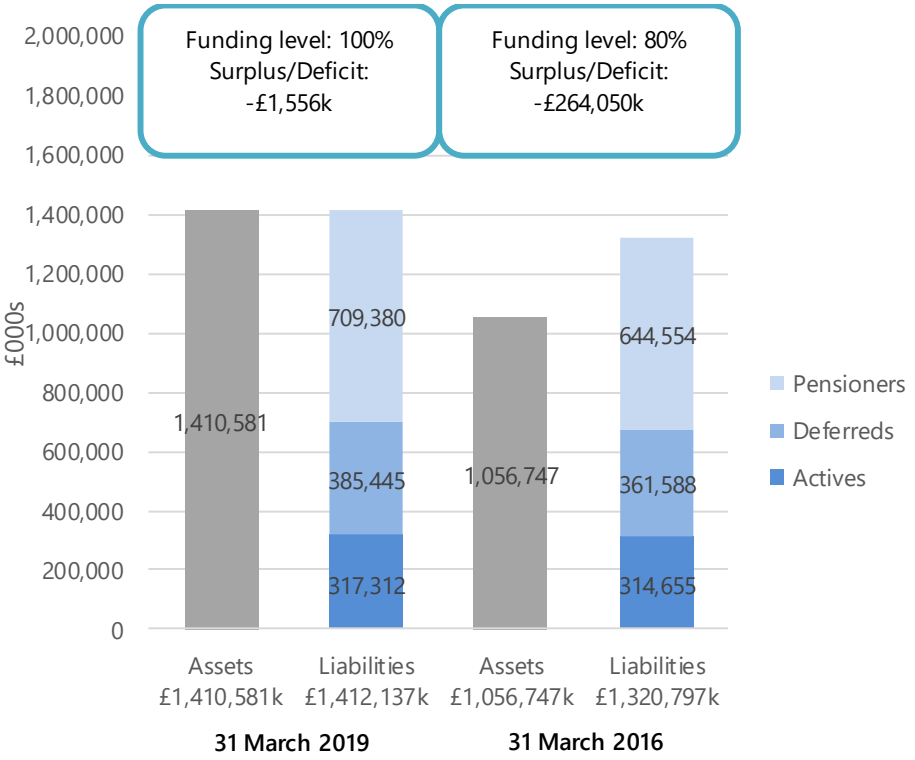
Allowance for discretionary benefits

Employers in the Fund are able to award certain discretionary benefits to their employees including unreduced early retirements. We are not aware of any previous practice or existing policy regarding the granting of discretionary benefits and therefore we propose to make no allowance for discretionary benefits to be awarded. This is the same assumption as in the previous valuation.

2019 estimated funding position

Shortfall between assets and liabilities

Using the proposed assumptions the results of the valuation are set out in the table below. We have included the funding position at the previous valuation for comparison:



There was a deficit of £1,556,000 in the Fund at the valuation date, corresponding to a funding level of 100%.

Previous valuation

The previous valuation was carried out as at 31 March 2016 by Graeme Muir. The results are summarised in the valuation report dated 31 March 2017 and revealed a deficit of £264,050,000.

The contributions payable by each employer were set out in the valuation report dated 31 March 2017. These contribution rates differ for each employer from the rate above as they are based on the employer's own membership and experience or they are the employer's share of the contributions payable within a pool of employers.

The method and assumptions used for the previous valuation are set out in a Funding Strategy Statement dated 0 January 1900 and the final valuation report dated 31 March 2017.

Results on other bases

We set out valuation results on the neutral basis, the standardised basis and the minimum risk basis in Appendix 3 .

Reconciliation to the previous valuation

The results of the previous valuation are summarised in the report dated 31 March 2016 and show a funding level of 80% corresponding to a deficit of £264,050,000. The change in the funding position over the intervaluation period will mainly depend on the answers to the following three questions:

- What were **asset returns** for the intervaluation period to 31 March 2019?
- How have the **key assumptions** changed over the intervaluation period?
- How has actual **experience compared** to the assumptions made at the previous valuation?

The key factors that have influenced the funding level of the Fund over the period are illustrated in the chart below.

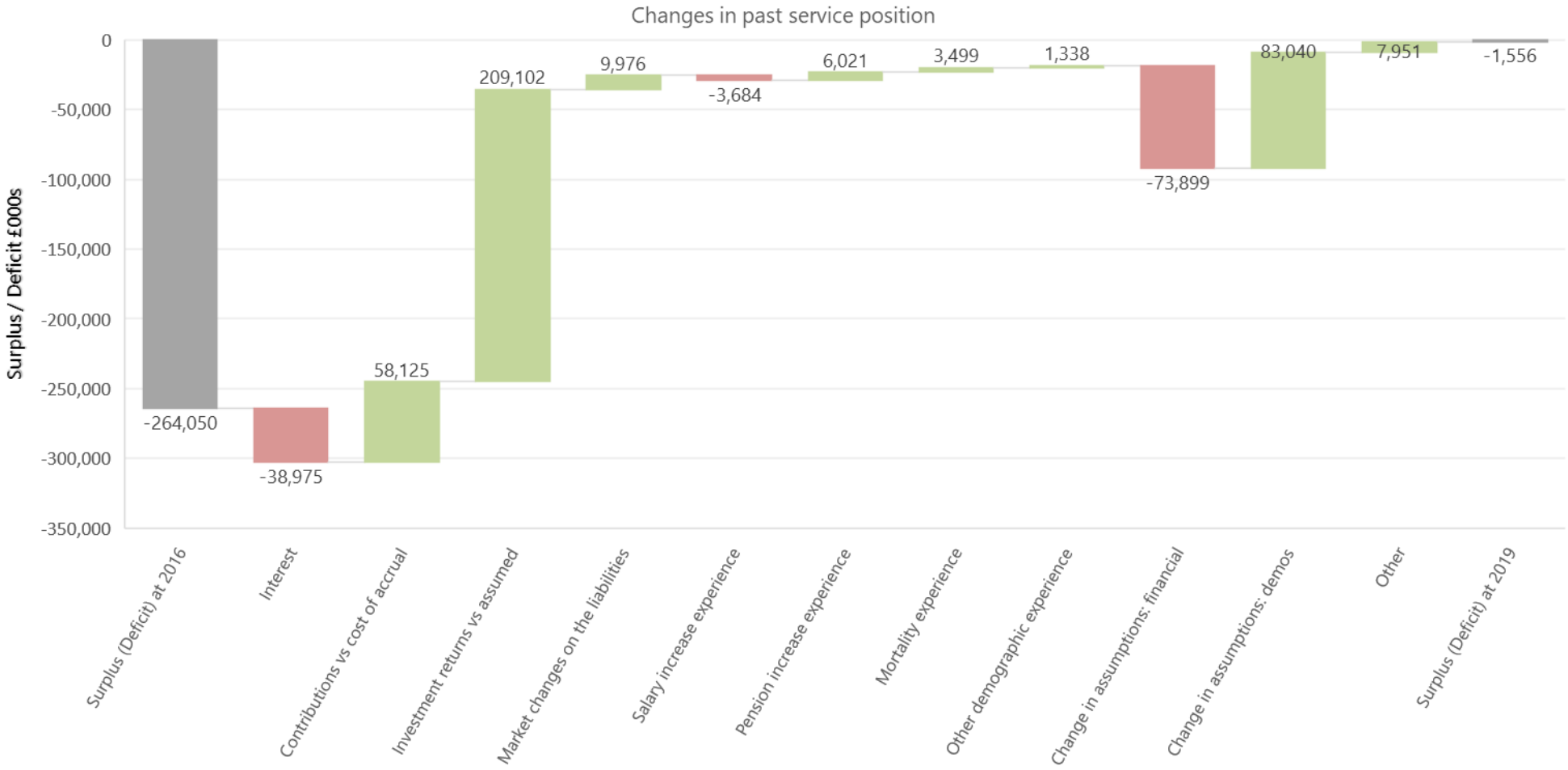
Experience

- Investment returns have been strong since 2016 leading to a profit of £209.1m. The Fund has returned around 10.8% p.a. compared to the assumed return of 5.1% p.a. over the three year period. Please note that the assumed return is a long-term assumption.
- Contributions paid were slightly higher than the cost of benefits accrued as the employers made deficit contributions resulting in a profit of £58.1m.
- Salary increases were greater than assumed with some offset from pension increases being less than assumed resulting in a loss of £3.7m. The overall impact of other demographic experience gave a small profit of around £1.3m.

Assumptions

- A review of the approach when setting the financial assumptions combined with the change in market conditions resulting in an increase in the liabilities of £73.9m.
- Updating the mortality assumptions to allow for a fall in future life expectancies resulting in a decrease in the liabilities of £83.0m.

RESULTS


Changes in past service position
Surplus / Deficit £000s
0
-50,000
-100,000
-150,000
-200,000
-250,000
-300,000
-350,000
-264,050
-38,975
58,125
209,102
9,976
-3,684
6,021
3,499
1,338
-73,899
83,040
7,951
-1,556
Surplus (Deficit) at 2016
Interest
Contributions vs cost of accrual
Investment returns vs assumed
Market changes on the liabilities
Salary increase experience
Pension increase experience
Mortality experience
Other demographic experience
Change in assumptions: financial
Change in assumptions: demos
Other
Surplus (Deficit) at 2019

Contribution rates

The total contribution rate payable by employers consists of two elements: the primary rate and the secondary rate.

We are not able to give an indication of the secondary contributions payable by each employer at this stage as these depend on the funding strategy, assumptions and employer flexibilities that are yet to be agreed.

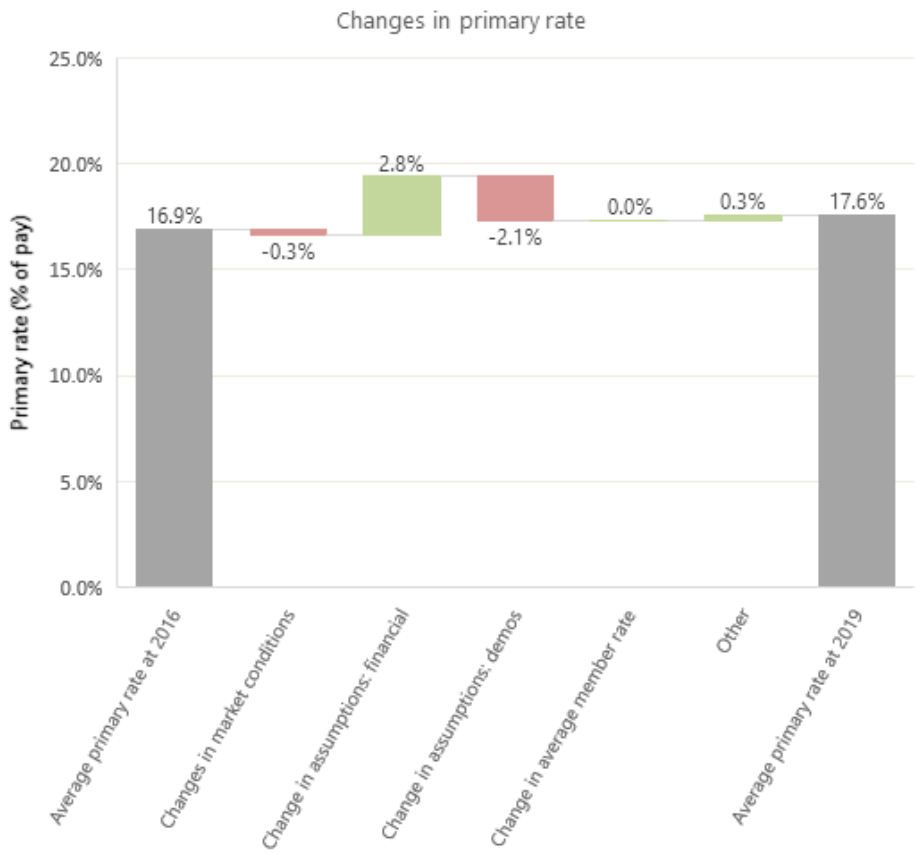
Primary rate

Using the proposed assumptions the resulting average primary rate across the whole Fund is set out in the table below after allowing for member contributions.

Primary rate	Proposed basis 31 March 2019 % of payroll p.a.	Previous valuation 31 March 2016 % of payroll p.a.
Average total future service rate	25.0%	24.3%
Less average member rate	-7.4%	-7.4%
Fund primary rate	**17.6%**	**16.9%**

Expenses are dealt with in the derivation of the discount rate and therefore we make no explicit allowance in the primary rate for expenses.

This compares to the average primary rate of 16.9% of Pensionable Pay as calculated in the 2016 valuation. The reasons for the change in the cost of future benefit accrual are set out in the reconciliation chart below.



Secondary rate

The secondary rate is an adjustment to the primary rate to arrive at the total rate each employer is required to pay (for example, to allow for deficit recovery). Contributions should be set to restore the funding positions to 100% over an agreed "recovery period".

At 31 March 2016 there was a deficit in the Fund and the secondary contributions were agreed with individual employers in order to restore the Fund to a funding position of 100% by 31 March 2038. Please note that the recovery period for individual employers varied across the Fund.

As noted earlier, we are not able to give an indication of the secondary contributions payable by each employer at this stage as these depend on the funding strategy, assumptions and employer flexibilities that are yet to be agreed.

Although it depends on the final assumptions adopted, there is likely to be a shortfall between the value of the assets and the assumed cost of providing the benefits for some of the participating employers in the Fund. The change in an individual employer's funding position will be based on their own membership and experience unless they are in a pooled arrangement with other employers.

The administering authority will need to agree recovery periods with these employers to address these shortfalls. There are a number of issues for the administering authority to consider when agreeing recovery periods with individual employers including strength of employer covenant and affordability as well as considering external pressures as a result of the Section 13 report.

Following agreement of the funding assumptions, the administering authority will have access to the online employer rate modeler, *Illuminate ME*, to demonstrate different recovery periods for all employers before these are agreed with us as the Fund Actuary.

Section 13

It is important to consider the possible results of the Section 13 report when setting a recovery plan as this is the area where the report can flag that a Fund has not met the requirements to secure solvency of the pension fund.

It is almost certain that we will not know the assumptions and tests that GAD will use for Section 13 purposes at 2019 , but we do not think that it is likely that it will be more prudent than the Scheme Advisory Board's standardised basis.

We understand that GAD are particularly keen to see recovery periods reducing from one valuation to the next, where possible.

Sensitivities to the liabilities

The results set out in this report are based on a particular set of assumptions. The actual cost of providing the benefits will depend on the actual experience, which could be significantly better or worse than assumed. The sensitivity of the results to some of the key assumptions is set out in the chart below and the corresponding risks are described in Appendix 4.

The figures in the table are shown relative to the deficit of £1,556,000 and funding level of 100% on the proposed funding basis. The data labels on each bar show the absolute change in deficit.

Sensitivity analysis - Past service funding position

	Valuation basis	Decrease discount rate by 0.1% p.a.	Increase CPI inflation by 0.1%	Increase salary assumption by 0.5%	Increase initial addition to mortality improvement by 0.5%	Increase long-term rate of mortality improvement by 0.25%	Twice as many ill-health retirements
	£000	£000	£000	£000	£000	£000	£000
Smoothed asset value	1,410,581	1,410,581	1,410,581	1,410,581	1,410,581	1,410,581	1,410,581
Total past service liabilities	1,412,138	1,434,567	1,418,771	1,420,594	1,423,976	1,428,858	1,416,198
Surplus (Deficit)	**-1,557**	**-23,986**	**-8,190**	**-10,013**	**-13,395**	**-18,277**	**-5,617**
Funding level	100%	98%	99%	99%	99%	99%	100%

Sensitivities to the primary contribution rate

The calculated primary contribution rate required to fund benefits as they are earned from year to year will also be affected by the particular set of assumptions chosen. The sensitivity of the primary rate to changes in some key assumptions is shown below.

The figures in the table are shown relative to the primary rate of 17.6% of Pensionable Pay on the proposed funding basis.

Sensitivity analysis - Primary rate

	Valuation basis	Decrease discount rate by 0.1% p.a.	Increase CPI inflation by 0.1%	Increase salary assumption by 0.5%	Increase initial addition to mortality improvement by 0.5%	Increase long-term rate of mortality improvement by 0.25%	Twice as many ill-health retirements
	% of pay	% of pay	% of pay	% of pay	% of pay	% of pay	% of pay
Total future service rate	25.0%	25.7%	25.2%	25.1%	25.3%	25.3%	25.7%
less employee contribution rate	-7.4%	-7.4%	-7.4%	-7.4%	-7.4%	-7.4%	-7.4%
Total primary rate	**17.6%**	**18.3%**	**17.8%**	**17.7%**	**17.9%**	**17.9%**	**18.3%**

Next steps

Funding discussions and alternative results

This document has been provided as background information to the triennial valuation of the Fund and detailed information regarding the funding model and the assumptions proposed along with the initial results on the proposed basis. The approach to the assumptions and the initial results will then be discussed with the Fund and a set of proposed assumptions will be agreed.

Risks

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 can be found in Appendix 4.

Employer covenant review

The Fund has previously undertaken an objective assessment of the participating employers' financial positions and their ability to meet the required contribution rates (the "employer covenant"). This may be used to inform the recovery period used for the participating employers.

Funding Strategy Statement

Once agreed, the assumptions used for the valuation must be documented in a revised Funding Strategy Statement to be agreed between the Fund Actuary and the administering authority. We will help the Fund to prepare the Funding Strategy Statement following discussion of the initial results between the Fund and the employers and using the latest guidance issued by CIPFA.

Rates and Adjustments Certificate

Employers each pay their own primary contribution rate to Fund to cover the cost of benefit accrual. Where an employer has a shortfall between the value of assets and assumed cost of providing the accrued benefits (a deficit), the administering authority will set a recovery plan, in consultation with the employer, to address this shortfall through a secondary contribution. Employers in surplus may also have a secondary rate adjustment.

The contributions payable in respect of benefit accrual and any deficit contributions under the recovery plan must be set out in a Rates and Adjustments Certificate issued in accordance with Regulation 62 of the Regulations. No allowance will be made for additional costs arising which need to be met by additional contributions by the employer (e.g. as non-ill health early retirements.

Before it becomes effective, we must certify that the Rates and Adjustments Certificate is sufficient to ensure that the funding target is met and a funding level of 100% of liabilities in maintained by the end of the recovery period. For this purpose, the certificate should be based on the position at the valuation date.

Once the final assumptions are agreed we propose to use our online employer rate modeler, *Illuminate ME* to provide illustrations of alternative recovery scenarios to help the administering authority agree appropriate recovery plans with the participating employers.

Final valuation report and certificate of contributions

Following agreement of the final assumptions and the contributions to be paid, we will prepare a formal report on the valuation which will include a certificate setting out the contribution rates for all employers in the Fund for the period from 1 April 2020 to 31 March 2023. The report will be completed by 31 March 2020 and must be made available to members on request.

Barry McKay

Barry McKay FFA
Partner
Barnett Waddingham LLP

Appendix 1 Summary of membership data and benefits

Membership data

The membership data has been provided to us by the administering authority on behalf of the Fund's administrators. We have relied on information supplied by the administering authority being accurate. A summary of the membership data is included below and data from the previous valuation is also shown for comparison.

The membership data has been checked for reasonableness and we have compared the membership data with information in the Fund's accounts. Any missing or inconsistent data has been estimated where necessary. Whilst this should not be seen as a full audit of the data, we are happy that the data is sufficiently accurate for the purposes of the valuation.

Membership summary

A summary of the membership data used in the valuation is as follows. The membership data from the previous valuation is also shown for comparison. The 2019 average ages are weighted by liability calculated on the proposed funding basis, while the 2016 average ages are unweighted.

Active members

	31 March 2019			31 March 2016		
	Number	Pensionable pay £000s	Average age	Number	Pensionable pay £000s	Average age
Males	1,242	49,662	53	1,451	51,131	45
Females	2,382	68,488	53	2,842	66,485	45
Total	3,624	118,151	53	4,293	117,616	45

Deferred members (including undecided)

	31 March 2019			31 March 2016		
	Number	Current Pension £000s	Average age	Number	Current Pension £000s	Average age
Males	3,059	8,613	53	2,645	7,554	48
Females	6,005	12,795	53	4,955	11,597	47
Total	9,064	21,408	53	7,600	19,150	47

Pensioner and dependant members

	31 March 2019			31 March 2016		
	Number	Current Pension £000s	Average age	Number	Current Pension £000s	Average age
Males	2,487	26,461	69	2,265	23,214	72
Females	3,447	20,463	68	2,386	14,153	71
Total	5,934	46,924	69	4,651	37,367	72

Benefits

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.

Allowance for GMP equalisation

On 26 October 2018 the judgement was published for the Lloyd's Banking Group Pensions Trustees Ltd vs Lloyds Bank Plc & Ors on how their Guaranteed Minimum Pensions (GMPs) should be equalised. However, HMT have confirmed that the GMP judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes", which is set out here:

https://www.gov.uk/government/consultations/indexation-and-equalisation-of-gmp-in-public-service-pension-schemes/consultation-on-indexation-and-equalisation-of-gmp-in-public-service-pension-schemes

On 22 January 2018, the Government published the outcome to its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016.

The assumption made at the 2016 valuation was that funds pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase and that funds will be required to pay the full indexation on GMPs for those attaining State Pension Age after 6 April 2016. This effectively assumes that the Government extends their current policy indefinitely and we believe this is a sensible approach to making an interim allowance for GMP equalisation.

Therefore we are not anticipating any change in our approach to valuing GMP in the 2019 valuation unless there is further guidance released for public service schemes.

Appendix 2 Summary of assumptions

In this Appendix we have summarised the assumptions at 31 March 2019 that we propose to use for the 2019 valuation. The assumptions used in the previous valuation are also given below for comparison

Assumptions	Proposed assumption for 2019 valuation	Assumptions used for the 2016 valuation
Financial assumptions		
Market date	31 March 2019	31 March 2016
CPI inflation	2.6% p.a.	2.4% p.a.
Salary increases		
Short-term	n/a	CPI to 31 March 2020
Long-term	3.6% p.a.	3.9% p.a.
Discount rate		
Scheduled bodies	4.8% p.a.	5.1% p.a.
Admitted bodies		
In service	3.7% p.a.	4.5% p.a.
Having left service	3.7% p.a.	3.0% p.a.
Pension increases on GMP	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increases. For members that reach SPA after this date , we have assumed that Funds are required to pay the entire inflationary increases	

Assumptions	Proposed assumption for 2019 valuation	Assumptions used for the 2016 valuation
Demographic assumptions		
Post-retirement mortality	Male / Female	Male / Female
Member base tables	S3PA	S2PA
Member mortality multiplier	110% / 105%	80% / 85%
Dependant base tables	S3DMA / S3DFA	S2PA
Dependant mortality multiplier	70% / 85%	80% / 85%
Projection model	CMI 2018	CMI 2015
Long-term rate of improvement	1.25% p.a.	1.5% p.a.
Smoothing parameter	7.5	n/a
Initial addition to improvements	0.5% p.a.	n/a
Retirement assumption	Weighted average of each tranche retirement age	
Pre-retirement decrements	GAD 2019 scheme valuation with no salary scale, 50% IH decrement	GAD 2013 scheme valuation
50:50 assumption	Member data	Member data
Commutation	50% of maximum	50% of maximum
% members with qualifying dependant	75% / 70%	75% / 70%
Age difference	Husbands are 3 years older	Husbands are 3 years older

Appendix 3 Results on other bases

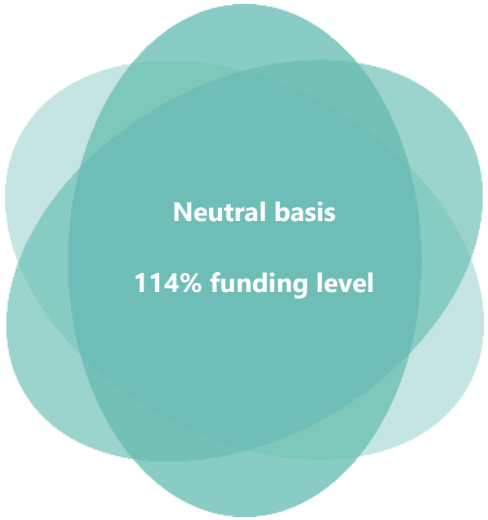
Neutral basis

The neutral basis is set with the main purpose of providing the administering authority an idea of the level of prudence contained within the funding basis. The neutral estimate should represent our best estimate of the funding position, in other words, we believe that it is equally likely that the fund will beat or miss the funding target based on the neutral assumptions derived. The neutral estimate does not contain any margins for prudence.

The funding basis includes an allowance for prudence in the discount rate assumption only. The discount rate on the neutral basis is therefore 5.4% p.a. as set out above. All other assumptions are the consistent with the proposed funding basis.

The results on the neutral basis as at 31 March 2019 are set out in the table below.

Past service funding position	Neutral basis 31 March 2019 £000s
Smoothed asset value	1,410,581
Past service liabilities	
Actives	264,248
Deferred pensioners	323,575
Pensioners	646,294
Total Liabilities	1,234,117
Surplus (Deficit)	**176,464**
Funding level	**114%**



Standardised basis

As part of our calculations we have considered the results a standardised basis as set by the Scheme Advisory Board (SAB). We are required to provide the Scheme Advisory Board with the results for the Fund for comparison purposes.

The standardised basis is set by GAD with some of the assumptions used being set locally (such as mortality) and some are set at Scheme level (including all the financial assumptions).

The results on the standardised basis as at 31 March 2019 are set out in the table below.

Past service funding position	Standardised basis 31 March 2019 £000s
Smoothed asset value	1,410,581
Past service liabilities	
Actives	287,818
Deferred pensioners	321,307
Pensioners	666,785
Total Liabilities	1,275,910
Surplus (Deficit)	**134,671**
Funding level	**111%**

Appendix 4 Risks

Some of the key risks that could have a material impact on the funding position of the Fund are described below.

Employer covenant
Employers may be unable to meet their obligations. For example, on exiting the Fund, employers may be unable to fund cessation payments

Investment
Assumed returns may not be achieved in practice and further contributions may be required from the participating employers

Inflation
If the actual rate of inflation or salary increase is higher than assumed, further contributions may be required from the participating employers

Mortality
If members live longer than assumed, the cost of providing the benefits will increase

Member options
If members exercise options which result in a higher cost of benefits (e.g. unreduced early retirements) further contributions may be required from the participating employers

Orphan liability
If employers leave the Fund with insufficient assets to cover their pensions obligations then obligations could fall to the other employers

Further details on the key risks are set out below.

Employer covenant risk

In agreeing the Recovery Plan with each participating employer it is important that the administering authority considers the ability of the employer to make contributions to the Fund both now and in the future as well as their ability to meet any future cessation deficits as they fall due.

The administering authority should form an objective assessment of the strength of the employer covenant when deciding at what level to set the recovery period for each participating employer. The administering authority should also monitor the strength of the employer covenant over time, so that any sudden changes in the employer's position can be mitigated.

Investment risk

Allowance is made in the assumptions for the expected long-term performance of each asset class. There is a risk that these returns will not be achieved in practice, which would result in further contributions being required. Further, the value of the Fund's assets may not move in line with the Fund's liabilities – either because the Fund invests in volatile assets such as equities whose value might fall, or because the value of the liabilities has increased due to falling interest rates and the assets are not of sufficient duration to keep up (or a combination of these).

The administering authority should regularly review their investment strategy to ensure they understand the risks being taken and that those risks are being managed appropriately.

Inflation

In projecting the future benefit payments, assumptions are made regarding the future price inflation and future salary increases. There is a risk that the actual rate of inflation or salary increase will be higher than assumed which will increase the cost of providing the benefits. This would result in additional contributions being required and a deterioration in the funding position unless investment returns are similarly higher than expected.

Mortality

It is not possible to predict with any certainty how long members of the Fund will live, and if members live longer than expected, additional contributions will be required and the Fund's funding position will deteriorate.

Member options

There are also other demographic risks. Certain benefit options may be exercised by members without requiring the consent of the administering authority or the Employer, for example commutation of pension for cash at retirement or taking a transfer value. The value of the cash benefit is generally expected to be less than the value of the pension exchanged so the funding position would only deteriorate if fewer members than expected took this option. Individual transfer values can be higher or lower than the value of the valuation liabilities, depending on the particular member and market conditions.

Orphan liability

As many unrelated employers participate in the Fund there is an orphan liability risk where employers leave the Fund with insufficient assets to cover their pensions obligations so that the difference may fall on the remaining employers.

Section 13

Under Section 13 of the Public Service Pensions Act 2013, the Ministry of Housing, Communities and Local Government (MHCLG) is required to commission a report on the actuarial valuations of the LGPS funds, and this report is currently prepared by the Government Actuary's Department (GAD). The purpose of the "Section 13" report to is report on whether the following aims are achieved: compliance, consistency, solvency and long-term cost efficiency, and to identify any funds that cause concerns.

The report covering the 2016 round of valuations was published in September 2018 and made a number of recommendations. One of those recommendations stated that "the Scheme Advisory Board should consider what steps should be taken to achieve greater clarity and consistency in actuarial assumptions, except where differences are justified by material local variations, with a view to making a recommendation to the MHCLG Minister in advance of the next valuation". If this recommendation is taken forward, this would clearly have a material impact on the ability of fund actuaries and administering authorities to set assumptions that they believe to be appropriate for their own fund.

There are good reasons why assumptions vary across funds. In particular, different investment strategies lead to different expected future returns, a fund's geographical region and membership profile has a significant impact on longevity assumptions and the fund's attitude to risk is factored into the discount rate through a transparent and bespoke level of prudence. Changes in assumptions will also only be made if considered appropriate in light of experience and other factors emerging since the previous valuation. We do not have a house view on assumptions. However, the external push towards consistency is another factor that we may need to consider in setting appropriate assumptions for the Fund and we will discuss consistency at various points in this document.

One "consistent" set of assumptions may be the set of assumptions that we are required to provide 2019 valuation results on to the LGPS Scheme Advisory Board (SAB) in order to aid comparison between funds. The assumptions used are a mixture of standardised and local demographic assumptions. We do not believe that these assumptions as a whole are appropriate for the funding of the Fund but they are a useful reference point.

Current regulatory uncertainties

There are currently a few important regulatory uncertainties surrounding the 2019 valuation which we have set out below. At this stage we have made no allowance for any of these issues in the proposed assumptions advice as we are awaiting further guidance. However, we are keen to engage with the administering authority at an early stage to consider the approach to each of these issues as we go through the 2019 valuation process.

McCloud/Sargeant judgement and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the SAB

in place and HMT allowed SAB put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders earlier this year and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the Government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the Government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the Government's request for an appeal in the case. We still have to wait for a remedy to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by Government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

It is still unclear what this means for the LGPS. On 14 February 2019 the SAB released a series of Q&As and a question for administering authorities to consider how they should approach the 2019 valuation. There was an overwhelming majority of funds who wanted SAB to provide guidance in order to promote a consistent approach between the funds. This guidance should assist funds deciding with their actuary how to approach these potential benefit changes in the 2019 valuation and we would be happy to discuss this further once this guidance has been issued. This could potentially include backdating benefit changes to 1 April 2019.

On 14 May 2019, the SAB published an advice note covering the implications of McCloud and the cost cap in relation to the 2019 fund valuations. The note recommended that should there be no finalised outcome by 31 August 2019 then no changes should be made to the Scheme benefit design for valuation purposes, however each administering authority should consider how they approach the additional risks that these potential extra costs may pose. This would involve making employers aware of the potential for extra costs to arise, for example via the Fund's FSS. Once the outcome is known, it may be possible to revisit contributions through an interim valuation, subject to the outcome of the consultation regarding changes to the local valuation cycle.

GAD have carried out some calculations to estimate the impact that the McCloud judgement could have on local authority accounts as at 31 March 2019, which should provide assistance to administering authorities. However we would be happy to carry out some Fund specific calculations if that would be helpful.

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. This results of the national

Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

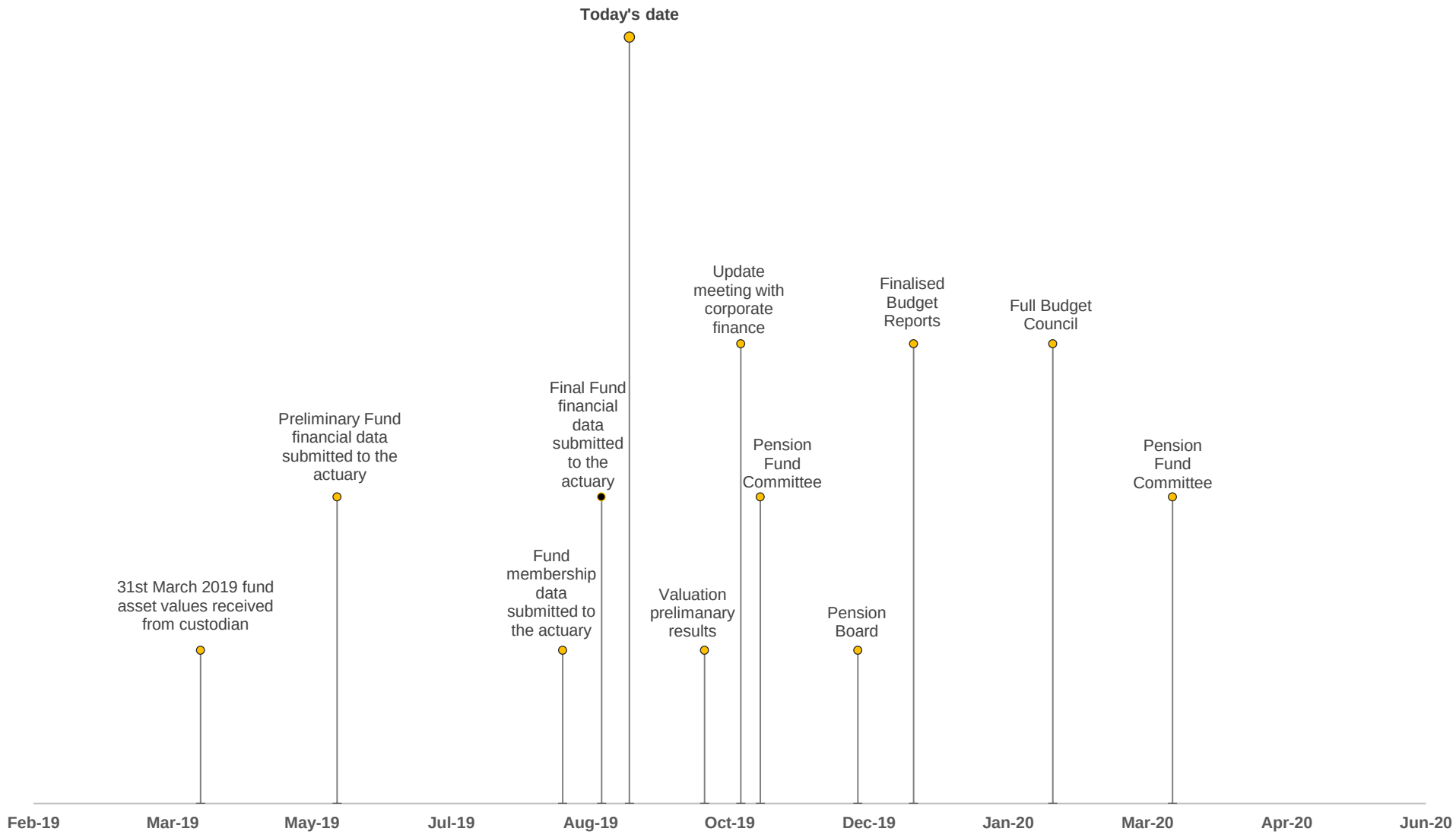
Although this has no immediate effect on the local fund triennial valuation process as the 2019 valuation is going ahead as planned, MHCLG are considering the implications of also moving the local fund valuations to a quadrennial basis. We are currently awaiting the outcome of the consultation on this which closed on 31 July 2019 but at the moment we are unsure how many years of contributions we will need to certify as part of the 2019 valuation, as the next valuation could be delayed until 2024. As part of the consultation we were pleased to see a proposal enabling interim valuations as well as a requirement for funds to reassess funding positions and contribution rates prior to 2024 as we have concerns about the five year gap between valuations which have already been raised with MHCLG.

Other regulatory uncertainties

There are a number of other risks to the Fund and the LGPS in general, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the Government. This is particularly poignant following the implementation of investment pooling.
- The State Pension Age is due to be reviewed by the Government in the next few years.

City of Westminster Pension Fund Valuation Timeline



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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 October 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** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. Executive Summary

1.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The top five risks are highlighted in the report below.

1.2 The cashflow forecast for the next three years has been updated with actuals to 30 September 2019. The bank position continues to be stable.

1.3 The forward plan for 2019/20 for the Pension Fund Committee is attached.

2. Recommendations

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

2.2 The Committee is asked to note the cashflow position, the rolling 12-month forecast and the three-year forecast.

2.3 The Committee is asked to note the attached forward plan for 2019/20.

3. Risk Register Monitoring

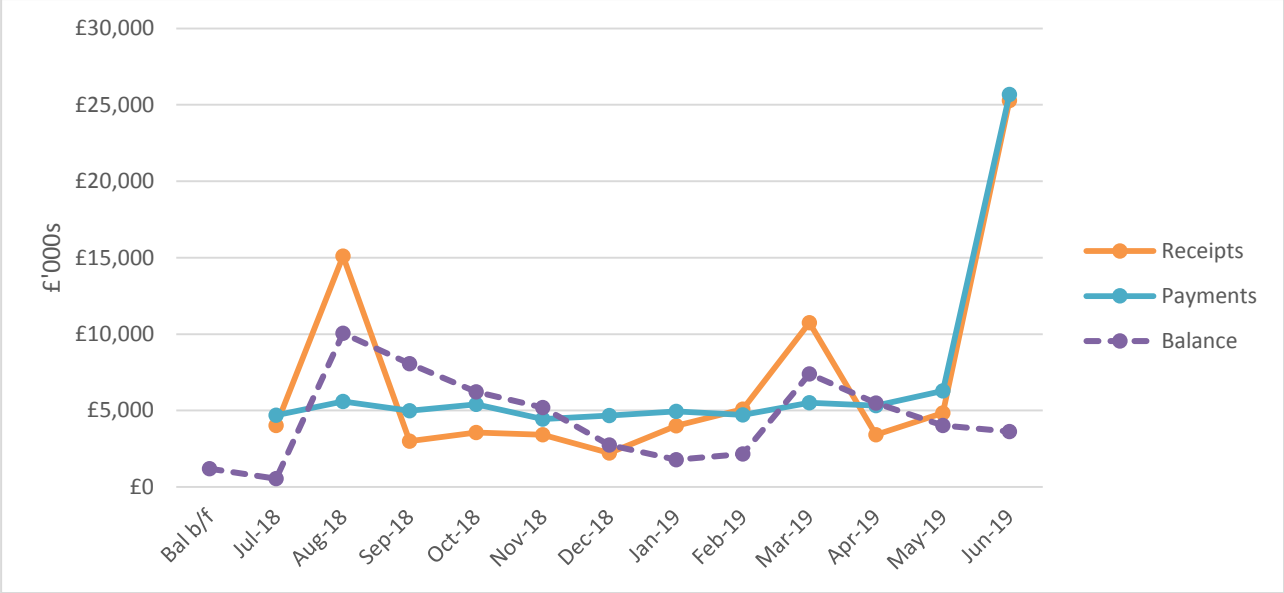
3.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The register has been redesigned to include arrows which illustrate the risk movement. The current top five risks to the Pension Fund are highlighted below:

- The London CIV disbands or fails to produce proposals deemed sufficiently ambitious.
- Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union, lack of any trade deal struck by 31 October 2019 and the economic after effects.
- Scheme members live longer than expected leading to higher than expected liabilities.
- Significant volatility and negative sentiment in global investment markets following global disruptive political/economic events.
- Price inflation is significantly more than anticipated in the actuarial assumptions.

4. Cashflow Monitoring and Forecasted Cashflows

4.1 The balance on the pension fund bank account as at 30 September 2019 was £3.6m. 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 July 2018 to 30 September 2019.



4.3 The peak in receipts during August 2018, March 2019 and June 2019 include a £10m, £7m and £22m deficit recovery receipt, as per the Council's approved budgeted deficit recovery plan. Payments out of the Pension Fund bank account have remained stable over the year, with the exception of June 2019, when a £20m investment was made to the Insight Buy and Maintain portfolio as per the Investment Strategy Consideration paper. Officers will continue to keep the cash balance under review and take appropriate action where necessary.

4.4 The following table illustrates the expected rolling cashflow for the 12-month period from 1 April 2019 to 31 March 2020. Actuals have been used for the quarter to 30 June 2019 with a forecast used for the remainder of the year. Forecasted cashflows are calculated using the previous year's actual monthly cashflows which are then inflated by 2%.

Current Account Cashflows Actuals and Forecast for period April 2019- March 2020:

	Apr-19	May-19	Jun-19	*Jul-19*	*Aug-19*	*Sep-19*	*Oct-19*	*Nov-19*	*Dec-19*	*Jan-20*	*Feb-20*	*Mar-20*	*Forecasted Rolling Total*
	£000	£000	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	
	Actual	Actual	Actual	*F'cast*	*F'cast*	*F'cast*	*F'cast*	*F'cast*	*F'cast*	*F'cast*	*F'cast*	*F'cast*	
Balance b/f	**7,397**	**5,486**	**4,021**	***3,620***	***1,960***	***469***	***479***	***627***	***1,033***	***228***	***283***	***1,652***	***£000s***
Contributions	2,881	4,021	3,157	*2,910*	*3,163*	*2,821*	*2,902*	*3,091*	*3,192*	*3,292*	*3,124*	*3,272*	*37,827*
Misc. Receipts[1]	539	780	113	*129*	*942*	*182*	*665*	*333*	*61*	*711*	*1,977*	*490*	*6,922*
Pensions	(3,323)	(3,347)	(3,386)	*(3,195)*	*(3,236)*	*(3,232)*	*(3,265)*	*(3,240)*	*(3,298)*	*(3,288)*	*(3,268)*	*(3,287)*	*(39,367)*
HMRC Tax Payments	(590)	(566)	(569)	*(614)*	*(556)*	*(564)*	*(565)*	*(565)*	*(565)*	*(583)*	*(605)*	*(565)*	*(6,905)*
Misc. Payments[2]	(1,243)	(1,599)	(21,673)	*(722)*	*(1,684)*	*(1,057)*	*(1,505)*	*(535)*	*(817)*	*(999)*	*(812)*	*(1,167)*	*(33,813)*
Expenses	(175)	(785)	(52)	*(168)*	*(121)*	*(139)*	*(85)*	*(678)*	*(378)*	*(78)*	*(47)*	*(511)*	*(3,217)*
Net cash in/(out) in month	**(1,911)**	**(1,495)**	**(22,410)**	***(1,660)***	***(1,491)***	***(1,990)***	***(1,852)***	***(1,594)***	***(1,805)***	***(945)***	***369***	***(1,768)***	***(38,552)***
Withdrawals from Fund Managers	0	0	0	*0*	*0*	*2,000*	*2,000*	*2,000*	*1,000*	*1,000*	*1,000*	*1,000*	*10,000*
Special Contributions	0	31	22,008	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*0*	*22,039*
Balance c/f	**5,486**	**4,021**	**3,620**	***1,960***	***469***	***479***	***627***	***1,033***	***228***	***283***	***1,652***	***884***	

[1] Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges
[2] Includes Transfers out, Lump Sums, Death Grants, Refunds, Investments

4.5 Actual cashflows against the forecast for the quarter ending 30 September 2019 is shown below. 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.

Cashflows Actuals Compared to Forecast for April - June 2019:

	Apr-19			May-19			Jun-19		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var
Balance b/f	**7,397**	**7,397**	**0**	**6,106**	**5,486**	**620**	**5,494**	**4,022**	**1,473**
Contributions	3,017	2,881	136	3,405	4,021	(616)	3,140	3,157	(17)
Misc. Receipts[1]	1,204	539	665	924	780	144	68	113	(45)
Pensions	(3,241)	(3,323)	82	(3,210)	(3,347)	137	(3,203)	(3,386)	183
HMRC Tax Payments	(570)	(590)	20	(643)	(566)	(78)	(569)	(569)	(0)
Misc. Payments[2]	(1,530)	(1,243)	(287)	(1,076)	(1,599)	523	(20,966)	(21,673)	707
Expenses	(170)	(175)	5	(12)	(785)	773	(41)	(52)	11
Net cash in/(out) in month	**(1,291)**	**(1,911)**	**620**	**(612)**	**(1,495)**	**883**	**(21,571)**	**(22,410)**	**839**
Withdrawals from Fund Managers	0	0	0	0	0	0	0	0	0
Special Contributions	0	0	0	0	31	(31)	22,000	22,008	(8)
Balance c/f	**6,106**	**5,486**	**620**	**5,494**	**4,022**	**1,473**	**5,924**	**3,620**	**2,304**

[1] Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges
[2] Includes Transfers out, Lump Sums, Death Grants, Refunds, Investments

Variances during the quarter to 30 September 2019:

- Receipts in April less than anticipated due to a lower volume of transfer values in.
- Higher contributions in May due to £526k of early retirement contributions received.
- Miscellaneous payments greater than anticipated in May and June due to large volumes of transfer values out and lump sum payments.
- Expenses higher than expected in May due to a large payment due to the general fund in respect of overpayment of early retirement costs.

4.6 The three-year cashflow forecast for 2019/20 to 2021/22 is shown below. Forecasted cashflows are calculated using the previous year's cashflows which are then inflated by 2%. Please note this will not match the rolling cashflow.

Three Year Cashflow Forecast for 2019/20 - 2021/22:

	2019/20	2020/21	2021/22
	£000	£000	£000
	F'cast	F'cast	F'cast
Balance b/f	**7,397**	**3,188**	**654**
Contributions	37,330	38,076	38,838
Misc. Receipts[1]	7,686	7,840	7,997
Pensions	(38,964)	(39,744)	(40,538)
HMRC Tax	(6,964)	(7,103)	(7,245)
Misc. Payments[2]	(32,870)	(13,128)	(13,390)
Expenses	(2,427)	(2,476)	(2,525)
Net cash in/(out) in year	**(36,209)**	**(16,534)**	**(16,864)**
Withdrawals from Fund Managers	10,000	14,000	17,000
Income Distribution	0	0	0
Special Contributions*	22,000	0	0
Balance c/f	**3,188**	**654**	**790**

[1] Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges
[2] Includes Transfers out, Lump Sums, Death Grants, Refunds, Investments

4.7 Deficit Recovery payments for the three years following 2019/20 will become evident after the 2019 actuarial valuation process.

5. Forward Plan

5.1 The Rolling Forward Plan for the Pension Fund Committee is 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 or 0207 641 7062

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Tri-Borough Risk Management Scoring Matrix
Appendix 2 – Pension Fund Risk Register Review at October 2019
Appendix 3 – Pension Fund Committee Forward Plan: 2019/20

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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.

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Pension Fund Risk Register - Administration Risk													
Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed
				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**	01/10/2019
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**	01/10/2019
Admin	3		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.	2	**12**	01/10/2019
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. TREAT 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**	01/10/2019
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. 5) Internal Audits during 2018/19 showed satisfactory assurance with recommendations implemented during the year.	1	**10**	01/10/2019
Admin	6		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**	01/10/2019
Admin	7		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. 3) Staff have had more time to work on the implementation of GDPR	1	**8**	01/10/2019
Admin	8		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**	01/10/2019
Admin	9		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**	01/10/2019
Admin	10		Poor reconciliation process leads to incorrect contributions.	2	1	1	4	3	**12**	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. 3) Contributions reconciliation is now undertaken by the pensions team following the end of the BT contract.	2	**8**	01/10/2019

Admin	11		Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	1	2	4	7	2	**14**	TREAT 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**	01/10/2019
Admin	12		Bank reconciliations no longer carried out by BT, this is undertaken by Pensions Finance team. Income processing from the bank has been brought in house.	2	2	2	6	3	**18**	TREAT 1) Staff working with HCC and the Tri-Borough Pensions have a solution in place to ensure bank reconciliations and income is posted promptly and accurately.	1	**6**	01/10/2019
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**	01/10/2019
Admin	14		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**	01/10/2019
Admin	15		Failure to identify GMP liability leads to ongoing costs for the pension fund.	3	2	1	6	2	**12**	TREAT 1) GMP to be identified as a Project as part of the Service Specification between the Fund and Surrey County Council.	1	**6**	01/10/2019
Admin	16		Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	1	1	1	3	3	**9**	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**	01/10/2019
Admin	17		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. 3) 2018/19 return is being compiled	1	**5**	01/10/2019
Admin	18		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**	01/10/2019
Admin	19		Lack of productivity leads to impaired performance.	2	2	1	5	2	**10**	TREAT 1) Regular appraisals with focused objectives for pension fund and admin staff.	1	**5**	01/10/2019
Admin	20		Rise in ill health retirements impact employer organisations.	2	2	1	5	2	**10**	TREAT 1) Engage with actuary re assumptions in contribution rates.	1	**5**	01/10/2019
Admin	21		Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	2	2	1	5	2	**10**	TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	**5**	01/10/2019

Pension Fund Risk Register - Investment Risk													
Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed
				Fund	Employers	Reputation	Total						
Governance	1	↑	That the London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious	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) A permanent CEO has been in place since March 2019, which was followed by the appointment of CIO who commenced in September 2019. As of October 2019 the CIO has resigned from the LCIV and they will begin the process of recruiting a replacement.	3	**36**	01/10/2019
Investment	2	↑	Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union, lack of any trade deal struck by 31 October 2019 and the economic after effects.	4	4	1	9	3	**27**	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. 4) The UK is currently still part of the EU, however with no further extension currently in place the UK is due to leave on 31 October 2019.	3	**27**	01/10/2019
Funding	3	↓	Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	3	**33**	The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is going down	2	**22**	01/10/2019
Investment	4	↑	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**	01/10/2019
Funding	5	↔	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**	01/10/2019
Funding	6	↔	Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	4	4	2	10	2	**20**	1) 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) No evidence in 2018/19 of members transferring out to DC schemes.	2	**20**	01/10/2019

Funding	7	⇔	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**	01/10/2019
Funding	8	⇔	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**	01/10/2019
Investment	9	⇔	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**	01/10/2019
Governance	10	⇔	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	3	**18**	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. 3) Uncertainty surrounding new MHCLG pooling guidance.	3	**18**	01/10/2019
Operational	11	↑	Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in September 2019, how this will effect the Pension Fund going forward is currently unknown.	3	2	4	9	2	**18**	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. 4) Following a carbon review of the Pension Fund investments, the Fund may consider investing in low carbon assets.	2	**18**	01/10/2019
Investment	12	↑	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**	01/10/2019

Governance	13		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**	1) 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) LCIV have recently appointed a new CEO, however CIO resigned during September 2019 therefore a recruitment process will need to take place to find a replacement.	2	**16**	01/10/2019
Funding	14		Impact of economic and political decisions on the Pension Fund's employer workforce.	5	2	1	8	2	**16**	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**	01/10/2019
Operational	15		Inaccurate information in public domain leads to damage to reputation and loss of confidence	1	1	3	5	3	**15**	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.	3	**15**	01/10/2019
Funding	16		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**	01/10/2019
Funding	17		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**	01/10/2019
Governance	18		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**	01/10/2019
Governance	19		Changes to LGPS Regulations	3	2	1	6	3	**18**	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**	01/10/2019

Funding	20		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**	01/10/2019
Funding	21		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**	01/10/2019
Financial	22		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**	01/10/2019
Operational	23		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. 5) Implementation of GDPR	1	**11**	01/10/2019
Governance	24		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**	01/10/2019
Funding	25		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 or guarantees in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds.	1	**11**	01/10/2019
Regulation	26	NEW	A change in government may result in new wealth sharing policies which could negatively impact the value of the pension fund assets.	5	5	1	11	2	**22**	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	**11**	01/10/2019
Governance	27		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**	01/10/2019
Governance	28		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**	01/10/2019

Operational	29		Financial failure of third party supplier results in service impairment and financial loss	5	4	1	10	2	**20**	TREAT - 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**	01/10/2019
Investment	30		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**	01/10/2019
Operational	31		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**	01/10/2019
Investment	32		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 take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.	1	**10**	01/10/2019
Governance	33		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. Officers maintain their CPD by attending training events and conferences.	1	**10**	01/10/2019
Governance	34		Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests	3	3	4	10	2	**20**	TREAT - 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**	01/10/2019
Funding	35		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**	01/10/2019
Governance	36		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**	01/10/2019

Financial	37		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**	01/10/2019
Regulation	38		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**	01/10/2019
Governance	39		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**	TREAT - 1) Ensure that an cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	**9**	01/10/2019
Regulation	40		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**	01/10/2019
Operational	41		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**	TREAT - Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	1	**7**	01/10/2019
Funding	42		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**	01/10/2019

Appendix 3

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

Area of work	Oct 2019	Jan 2020	Mar 2020	Jun 2020
Standing Items	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan	Pension Board minutes Quarterly Performance Reports Quarterly Fund Financial Management Update Pensions Administration Key Performance Indicators Forward Plan
Governance	Training Plan Progress on compliance with TPR Code of Practice London CIV governance update SAB Good Governance Custody contract review	London CIV governance review	Investment Strategy Statement Review Briefing on Triennial Valuation	Pension Fund Annual Report and Accounts 2019/20 Review of Governance Compliance Statement Business Plan Pension Fund Costs 2019/20
Investments	Pooling and CIV update Investment Strategy Review Update on fixed income tender Carbon Review UK Equity Manager review	MiFID II annual review	Pooling and CIV update Investment Strategy Review	Pooling and CIV update Annual report to Scheme Advisory Board re pooling arrangements

Area of work	Oct 2019	Jan 2020	Mar 2020	Jun 2020
	Draft Actuarial valuation results			
Administration	Update on Hampshire Project. Impact on Pension Administration going Forward. Pension Board Recruitment	Hampshire Project. First Months Issues for Pension Administration. Pension Administration Strategy (PAS) – update Initial Audits		

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 October 2019**
Classification:	**General Release**
Title:	**Investment Consultant Aims and Objectives**
Wards Affected:	**None**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. Executive Summary

1.1 This paper provides the Pension Fund Committee with a summary of:

a. The requirements of the Competition and Markets Authority (CMA) for the Pension Fund to establish aims and objectives for its investment consultant.

b. Some suggested aims and objectives for the Fund's consultant, Deloitte.

2. Recommendations

2.1 The Committee is requested to note and comment on the report with a view to formalising and agreeing aims and objectives for the Pension Fund's investment consultant, Deloitte.

3. CMA Findings

3.1 After conducting an extensive review into the pension fund consultancy and fiduciary management industry, the CMA produced a report, detailing a number of recommendations to improve pension fund governance, with a number concerns expressed around fees and conflicts of interest.

3.2 The key remedies suggested in the report are as follows:

- Remedy 1: Mandatory competitive tendering for first adoption of fiduciary management.
- Remedy 2: Mandatory warnings when selling fiduciary management.
- Remedy 3: Enhanced trustee guidance on the competitive tender process.
- Remedy 4: Requirement to report disaggregated fees to existing customers.
- Remedy 5: Minimum requirements for fee disclosures for prospective clients.
- Remedy 6: Standardised methodology to report past performance.
- Remedy 7: Trustees to set strategic objectives and firms to periodically report against them.
- Remedy 8: Basic standards for reporting performance of recommended asset management "products" and "funds".

3.3 Whilst a number of these are either not relevant to the City of Westminster Pension Fund, either because they are the responsibility of the firms, or we do not outsource fiduciary responsibilities, Remedy 7 still applies to LGPS Funds and is something currently not in place.

3.4 After consultation, the CMA investment consultancy and Fiduciary Management Market Investigation Order 2019 will come into effect in December 2019, by which time all Pension Funds will be required to have formally set aims and objectives for their investment consultants.

4. Setting Aims and Objectives

4.1 The Pensions Regulator (tPR) welcomed the review by the CMA and produced guidance on setting aims and objectives. The regulator's view is that it is good practice for Pension Funds, Including LGPS, to be setting aims and objectives for investment consultants and advisors in order to achieve better outcomes and manage areas of underperformance.

4.2 As the Pension Fund investment consultancy mandate is considerably all encompassing, the aims and objectives need to be fully comprehensive. Below are some suggested areas broken down into sub categories for the Committee to debate:

1. Assistance in achieving the Fund's objectives:

a) Any proposed changes in investment strategy or investment managers has a clear rationale linked to the Fund's objectives with specific reference to improving the efficiency of the investment strategy in terms of risk adjusted returns.

b) All advice considers funding implications and the ability of the Fund to meet its long-term objectives.

c) The investment consultant has an appropriate framework in place to recognise opportunities to reduce risk.

d) The investment consultant has contributed to the Fund's cashflow management process ensuring that the Fund's benefit obligations are met in a cost efficient manner.

e) The investment consultant undertakes specific tasks such as the selection of new managers and asset liability studies as commissioned.

f) The investment consultant has complied with prevailing legislation, the constraints imposed by the Investment Strategy Statement, the detailed Investment Management Agreements and the policy agreed with the Committee when considering the investment of the Fund's assets.

2. Governance and Costs

a) Assist the Committee to implement the Fund's investments on a more competitive fee basis, through negotiation and periodic benchmarking of fees.

b) Cost implications, both in terms of investment management expenses and implementation costs, are considered as part of investment strategy advice.

c) Where the investment consultant has provided support on implementation activity, including activity required to meet Fund benefits, these transactions have been carried out in a cost effective manner.

d) The investment consultant has demonstrated an understanding and appreciation of governance requirements, in particular, the investment consultant has avoided complexity where simpler, more cost effective solutions may be available.

e) The investment consultant has ensured that investments are in accordance with the current regulatory and compliance requirements relevant for the LGPS.

f) The investment consultant has taken into account the necessity for all investment funds within the portfolio, with few exceptions, to utilise one of the pools.

3. Proactivity/Keeping informed

a) Advise the Committee on appropriate new investment opportunities.

b) Recognition of the dynamism of investment markets, recognising opportunities to crystallise gains or emerging risks which require immediate attention.

c) The investment consultant has kept the Committee up to date with regulatory developments and additional compliance requirements.

d) The investment consultant has highlighted areas that the Committee may wish to focus on in the future.

e) The investment consultant should be generally available for consultation on fund investment matters.

4. Monitoring

a) The investment consultant provides insightful monitoring focused on the reasoning behind performance.

b) The Committee has been kept abreast of investment market developments and their implications for the Fund's investment strategy.

c) Monitoring is integrated with funding and risk.

d) Particular focus on the continued merits of active management. The investment consultant considers the value added by active management on a net of fees basis.

5. Delivery

a) The investment consultant has formed a strong working relationship with the Committee, Council Officers and other key stakeholders.

b) Reports and educational material are pitched at the right level, given the Committee's understanding.

c) Provides training/explanation which aids understanding and improves the Committee's governance.

d) Meeting papers are provided in a timely fashion, with all required detail and accuracy.

e) The investment consultant works within agreed budgets and is transparent with regard to advisory costs, itemising additional work with fees in advance.

f) The investment consultant works collaboratively with the scheme's actuary and other advisors or third parties including the global custodian.

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

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BACKGROUND PAPERS: None
APPENDICES: None

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 October 2019**
Classification:	**General Release – Appendix Not for Publication**
Title:	**London CIV Progress Report to MHCLG**
Wards Affected:	**None**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 At the request of the Ministry for Housing, Communities and Local Government (MHCLG), the London CIV (LCIV) has prepared a pooling progress report as at September 2019, detailing an indicative projection of shareholder member pooling intentions, transition costs and savings over the next four years.

2. RECOMMENDATIONS

2.1 The Pension Fund Committee is asked to note the London CIV pooling progress report.

3. BACKGROUND

3.1 The London CIV pooling progress report has been prepared based on the data provided by the 32 local authorities within London and, in preparing cost and saving projections, a number of assumptions have been applied to this data. The estimated savings passed on to member shareholders by March 2023 is projected to be circa £60m.

3.2 As at 31 March 2019, the LCIV had achieved a 48% pooling level across London's total of £38bn assets under management, with a projected LCIV pooling level of 68% by 31 March 2023. Of the £18bn held in pooled assets, £8bn is invested directly through the LCIV and £10bn invested in passive. The City of Westminster Pension Fund had 66% of assets pooled as at 31 March 2019 and this is anticipated to reach 73% by 31 March 2023.

3.3 The LCIV's cumulative total costs including annual running costs, service provider fees, transition and set up costs is expected to reach £81m by 31 March 2023, with cumulative savings of £109m anticipated to be generated during this period. By 31 March 2023 the total savings generated by the LCIV net of costs is estimated to be £60m.

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

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BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 - LCIV Pooling Progress Report

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 October 2019**
Classification:	**General Release – Appendices Not for Publication**
Title:	**LCIV Pensions Recharge and Guarantee Agreement**
Wards Affected:	**None**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 The purpose of this report is to present the situation with regard to the London Collective Investment Vehicle's (LCIV) pensions recharge and guarantee of liability, currently held by the City of London Corporation as the Local Government Pension Scheme (LGPS) Administering Authority for the LCIV as an external employer.

2. RECOMMENDATIONS

2.1 The Pensions Committee is recommended to approve the signing of the Pensions Recharge and Guarantee of Liability Agreement.

3. BACKGROUND

3.1 The current LGPS pensions arrangements for LCIV staff were established in 2015 as part of the arrangements to set up the LCIV. It took some time for the LCIV to put the arrangements in place because of the need for Secretary of State approval for the LCIV to be granted admitted body status in the City of London Corporation LGPS Scheme.

3.2 Lawyers advised that the contractual provisions in the LCIV Shareholder Agreement for shareholders to share pensions liabilities were not sufficient in the case of the LGPS scheme and therefore the Corporation would require a separate guarantee agreement document.

3.3 The Corporation originally agreed to admit the LCIV on condition that the other 31 shareholders (London Local Authorities as shareholders in the LCIV) enter into a multi-part guarantee agreement.

4 CURRENT ARRANGEMENTS

4.1 It is currently the case that LCIV staff earning <£120k are entitled to join the LCIV LGPS scheme. Standard provisions concerning the guarantee of LGPS liabilities are contained within the LCIV Shareholder Agreement, but regulatory requirements require a formal recharge and guarantee document to be signed by all 32 London local authority shareholders.

4.2 The LCIV is an employer member (admitted body) of the City of London LGPS scheme, and it is the City of London that requires a liability guarantee to be shared amongst all 32 London boroughs.

5 REMUNERATION REVIEW

5.1 Achieving a consensus amongst the 32 London local authorities to signing the Pensions Recharge and Guarantee of Liability Agreement has caused some difficulty and, as a result, a remuneration review was carried out by the LCIV Board.

5.2 The outcome of this is that the LCIV Board is minded to recommend closing the LGPS scheme to new staff entrants. As a result of this, in order to remain competitive in the employment market, LCIV might be required to increase salary levels alongside provision of an alternative DC pension scheme but the open status of the LCIV defined benefit pension scheme will switch to closed (pending full shareholder agreement), thus reducing future DB pensions liabilities and financial uncertainty.

5.3 In order to commence the closure process, the LCIV requested a feedback form, returned by officers on 16 September 2019, and the LCIV Board made a final decision to close the LGPS scheme for future staff on 2 October 2019. However, the LCIV resolved that it will close the LGPS scheme for new members only when the LCIV receives all 32 signed guarantees from its shareholders.

5.4 The Remuneration Review paper is attached as appendix 1.

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

Phil Triggs pensionfund@westminster.gov.uk or 0207 641 4136

BACKGROUND PAPERS: None

APPENDICES:
Appendix 1 – LCIV Remuneration Review

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 October 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** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. Executive Summary

1.1 This report presents the performance of the Pension Fund's investments to 30 June 2019, together with an update of the funding position as at 31 December 2018.

1.2 The Fund underperformed the benchmark net of fees by 0.3% over the quarter to 30 June 2019 and the estimated funding level as at 31 December 2018 was 94.5%. Therefore, the funding position remains stable subject to market volatility. An updated funding level will be provided once the triennial actuarial valuation has taken place.

1.3 Also attached is the fund account and net assets statement as at 30 September 2019, the net assets available to fund benefits has increased by £57m from 31 March 2019 (£1.418bn) to £1.475bn as at 30 September 2019.

2. Recommendation

2.1 The Committee is asked to note the performance of the investments, funding position and the fund account and net assets statement.

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 to 30 June 2019 and estimated funding level to 31 December 2018. The investment performance report (Appendix 1) has been prepared by Deloitte, the Fund's investment adviser.

3.3 The investment performance report shows that over the quarter to 30 June 2019, the market value of the assets increased by £67m to £1,476m, largely as a result of positive returns within the equity markets. The Fund marginally underperformed the benchmark net of fees by 0.3% over the quarter. All mandates provided a positive return during this period. However, Majedie, Longview and Aberdeen Standard underperformed their benchmarks net of fees by 2.9%, 2.6% and 0.5% respectively.

3.4 Over the year the Fund underperformed its benchmark net of fees by 1.7%, largely as a result of negative performance within the Majedie portfolio. However, over the longer three-year period to 30 June 2019, the Fund outperformed the benchmark net of fees by 0.9%, with Aberdeen Standard and Baillie Gifford being the major contributors. Both Majedie and Longview underperformed their benchmarks net of fees by 2.4% and 0.5% respectively during this period.

3.5 The advisors continue to rate the fund managers favourably, with the exception of Longview and Majedie. In Longview's case, the retirement of the Chief Executive, Ramzi Rishani, in December 2018 is still a major concern. In addition, the advisors have also removed the Majedie UK Equity strategy from their rated manager list, following poor performance and changes to key management personnel.

3.6 Advisors have also expressed ongoing concern about resignations and vacancies at senior management level within the London Collective Investment Vehicle (LCIV). During the first quarter of 2019, Mike O'Donnell was appointed as the LCIV's Chief Executive Officer, followed by the appointment of Mark Thompson as Chief Investment Officer (CIO). Following the commencement of his role as CIO during September 2019, Mark Thompson has announced his resignation from the position, citing that he could not commit to the overwhelming demands of the role. The

LCIV will be looking to arrange interim cover for the post followed by a permanent recruitment process.

3.7 Majedie is currently still looking to hire a UK Small Cap manager, following the decision to replace Richard Staveley in January 2019. At company level, LGIM continued the CEO handover as Michelle Scrimgeour was appointed during July 2019 and will replace outgoing Mark Zinkula as CEO of LGIM (UK) who retired from the business in August. Michelle has over 30 years' experience at asset management firms, including the CEO position at Columbia Threadneedle and the Chief Risk Officer role at M&G Investments.

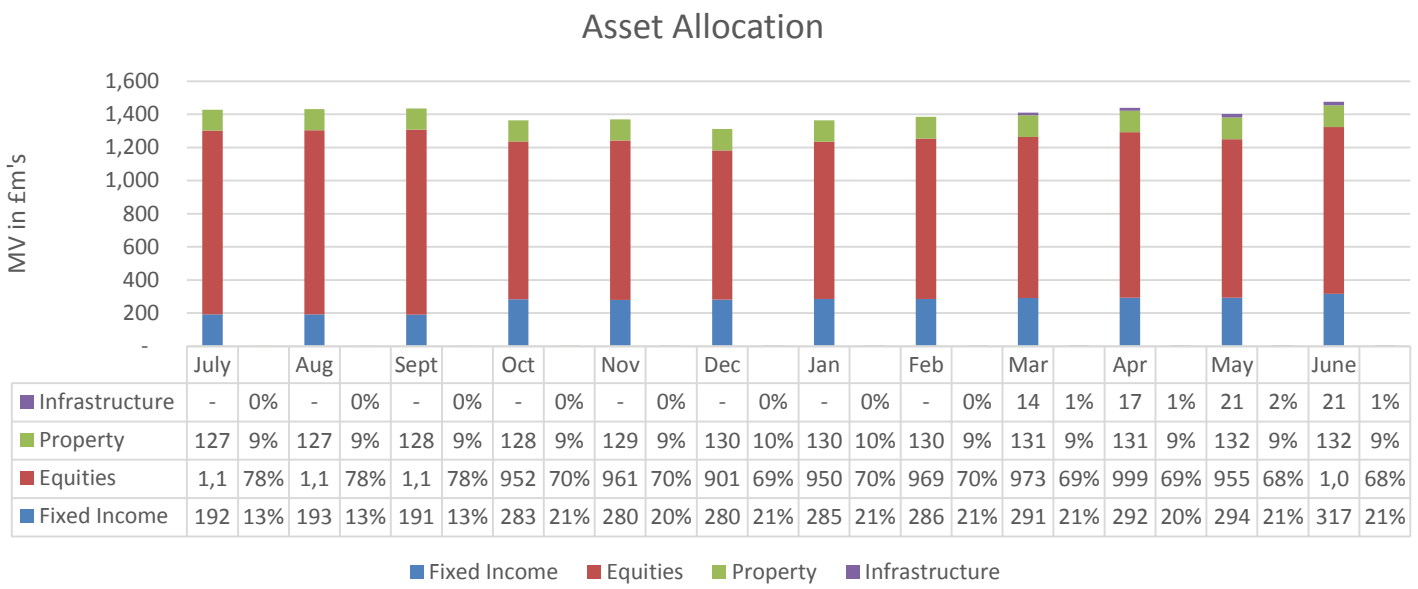
3.8 Over the quarter, Hermes granted Chris Matthew, Fund Director, extended leave, citing family reasons. However, he will continue to provide advice and counsel to the Hermes team. The Deputy Fund Manager, Mark Beattie, announced he would be leaving during July 2019 with Hermes currently in the process of recruiting a replacement. Russell Black was appointed as Interim Fund Manager, having worked within the property team for over 15 years.

3.9 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 up to 31 December 2018.

3.10 However, the position is an improvement on the 31 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. An up-to-date initial funding level is included as an agenda item to this meeting.

4. Asset Allocation and Summary of Changes

4.1 The chart below shows the changes in asset allocation of the Fund from 1 July 2018 to 30 June 2019. Asset allocations may vary due to changes in market value.



	July		Aug		Sept		Oct		Nov		Dec		Jan		Feb		Mar		Apr		May		June	
Infrastructure	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	14	1%	17	1%	21	2%	21	1%
Property	127	9%	127	9%	128	9%	128	9%	129	9%	130	10%	130	10%	130	9%	131	9%	131	9%	132	9%	132	9%
Equities	1,1	78%	1,1	78%	1,1	78%	952	70%	961	70%	901	69%	950	70%	969	70%	973	69%	999	69%	955	68%	1,0	68%
Fixed Income	192	13%	193	13%	191	13%	283	21%	280	20%	280	21%	285	21%	286	21%	291	21%	292	20%	294	21%	317	21%

*Fixed Income includes bonds and Multi Asset Credit

4.2 The Westminster Pension Fund target asset allocation is 65% of assets within equities, 20% in fixed income, 5% within infrastructure and 10% within property.

4.3 During August 2018, the Pension Fund Committee elected to further diversify the Fund in to a Multi Asset Credit (MAC) portfolio by selecting CQS as a fixed income manager via the London CIV platform. The LCIV CQS MAC fund offers diversification in a wide variety of different fixed income securities that are resilient at different stages of the economic cycle. A £91m transfer of assets from Longview to the CQS MAC portfolio took place on 30 October 2018.

4.4 In December 2018, following a manager selection process, the Pension Fund Committee selected Pantheon Asset Management as the Fund's Infrastructure Manager. The remainder of the portfolio held with Longview will be sold and £70m transitioned in to the Pantheon Global Infrastructure Fund III. The first drawdown took place on 20 March 2019, with £14m in cash held within the global custodian transferred to Pantheon.

4.5 On 16 April 2019 a further Pantheon drawdown took place, with £2.2m transitioned from the Longview equity fund in to the Pantheon Global Infrastructure fund. During May 2019, an additional £3.4m was

transferred from the Longview portfolio to Pantheon following another capital call notice.

4.6 During June 2019 £22m in deficit recovery receipts was received, £20m of this was invested within the Insight Buy and Maintain bond fund.

4.7 The value of pension fund investments transferred to the LCIV as at 30 June 2019 was £696 million. This represents 47% of Westminster's investment assets. A further £337 million continues to benefit from reduced management fees, Legal and General having reduced their fees to match those available through the LCIV.

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

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

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Deloitte Investment Report, Quarter Ending 30 June 2019
Appendix 2: Barnett Waddingham Funding Update as at 31 December 2018
Appendix 3: Fund Account and Net Assets Statement as at 30 September 2019

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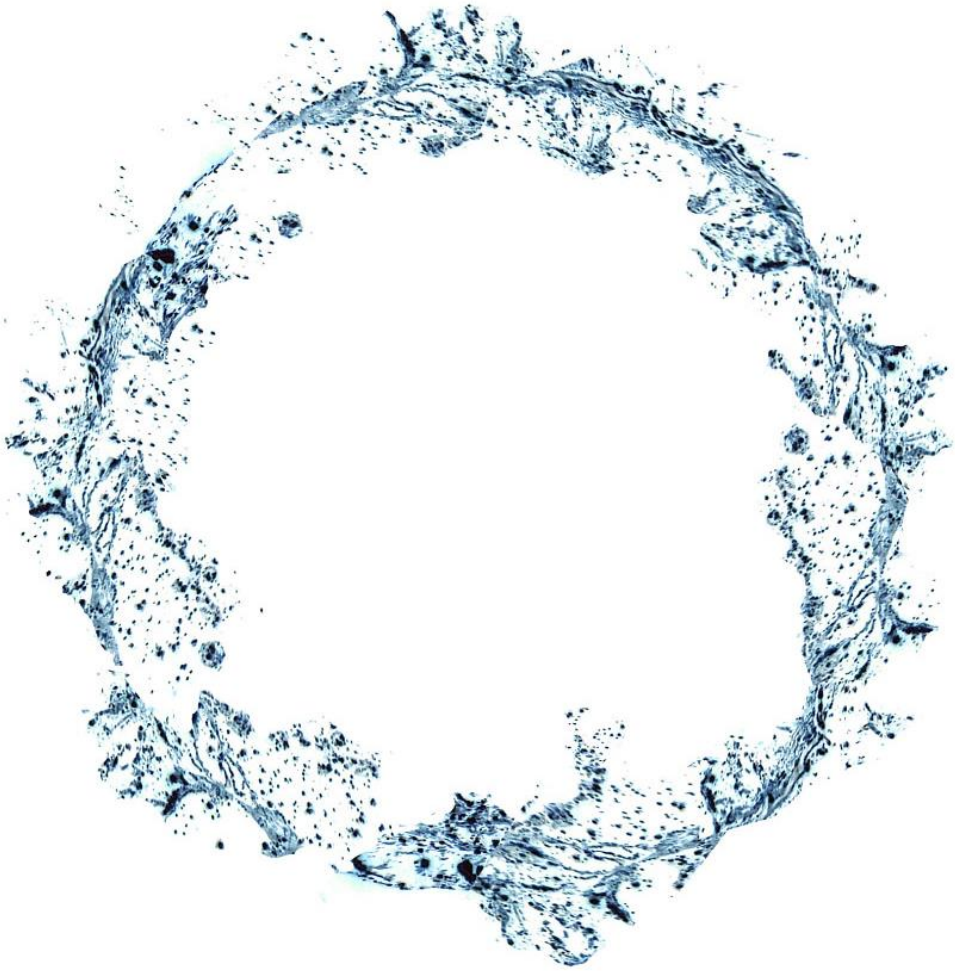
Deloitte.



City of Westminster Pension Fund

Investment Performance Report to 30 June 2019

Deloitte Total Reward and Benefits Limited
September 2019

Contents

1 Market Background

Three and twelve months to 30 June 2019

Following a strong first 3 months of the year, global equity markets made further gains in the second quarter of 2019. The ongoing trade dispute between the US and China weighed on markets for much of the quarter with increasing signs that the resulting uncertainty was contributing to a slowdown in the global economy. Markets rallied in June however, as the Fed and ECB signalled their intention to loosen monetary policy in the hope of prolonging the already lengthy global economic recovery.

UK equities made gains over the quarter to 30 June 2019 with the FTSE All Share Index delivering a positive return of 3.3%. The extension of the Brexit deadline to 31 October 2019 was well received given that it removed the immediate threat of a potential cliff-edge, no deal exit that had been looming over UK businesses in the lead up to the previous quarter end. While the delay has offered some respite to UK businesses and investors, Brexit remains a key issue that will undoubtedly influence future market returns. In an environment of political uncertainty, and a deteriorating economic outlook, we expect that the depreciation of sterling will have been a key driver behind positive performance over the second quarter.

The FTSE 100 Index increased by 3.3% while the FTSE 250 gained 2.9%, as gains were broadly shared across larger international companies and smaller domestic focused companies alike. However, there was a wide dispersion in performance at the sector level, with Technology stocks returning 9.3%, while the Telecommunications sector fell 8.1%.

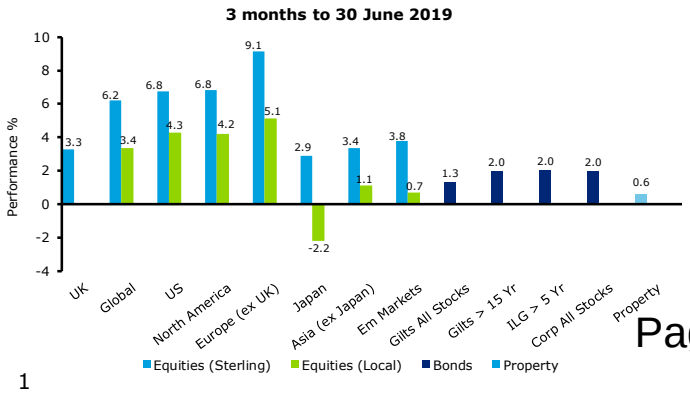
Global markets as a whole performed broadly in line with UK equities in local currency terms (3.4%) but outperformed in sterling terms (6.2%) due to the depreciation of sterling. Currency hedging will therefore have been detrimental to returns over the quarter. All regions reported gains, except for Japan which returned -2.2% with the country's all important manufacturing sector struggling in the face of trade tensions and the slowdown in China, a key trading partner. The best performing region was Europe (ex UK) which returned 5.1% over the quarter, as measured in local currency terms, no doubt benefitting from the ECB's intentions to add further monetary stimulus.

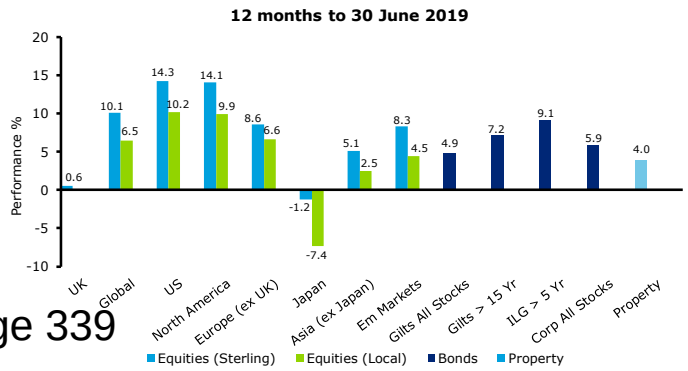
Nominal gilt yields fell across the curve, especially at medium durations, as investors sought the relative safe haven of gilts as concerns over the strength of the UK and global economy grew. The All Stocks Gilts Index delivered a positive return of 1.3% over the quarter. Real yields also fell with the Over 5 Year Index-Linked Gilts Index delivering a return of 2.0% over the same period. Credit spreads tightened slightly over the quarter which led to outperformance of equivalent gilts, with the iBoxx All Stocks Non Gilt Index returning 2.0%.

Over the 12 months to 30 June 2019, the FTSE All Share Index delivered a modest return of 0.6% as the rebound in the first half of 2019 broadly offset the sharp fall at the end of 2018. There was a wide dispersion in returns at the sector level. Technology was the best performer returning 23.4%, whilst Telecommunications was the poorest performing sector delivering a negative return of -22.4%. Global equities significantly outperformed UK equities in both local terms (6.5%) and sterling terms (10.1%) following strong performance from US stocks in particular. The S&P 500 Index actually had its best first half of a year since 1997 helped by the expectation of rate cuts.

UK nominal gilts achieved positive returns over the 12 months to 30 June 2019 as nominal gilt yields fell across the curve, with the most significant falls between 5 and 20 years as growth expectations were reset. The All Stocks Gilts Index returned 4.9% and the Over 15 Year Gilts Index returned 7.2% over the year. UK index-linked gilts delivered positive returns as real yields also fell across the curve with the Over 5 Year Index-Linked Gilts Index returning 9.1%. Spreads on corporate bonds were broadly unchanged, as credit spreads first widened in late 2018 and then narrowed in early 2019. The iBoxx All Stocks Non Gilt Index delivered a return of 5.9%.

The MSCI UK All Property Index returned 0.6% over the 3 months to 30 June 2019 and 4.0% over the 12 months to 30 June 2019 as the property market has continued to cool over recent quarters in light of Brexit uncertainty and a slowing UK economy.





2 Total Fund

2.1 Investment Performance to 30 June 2019

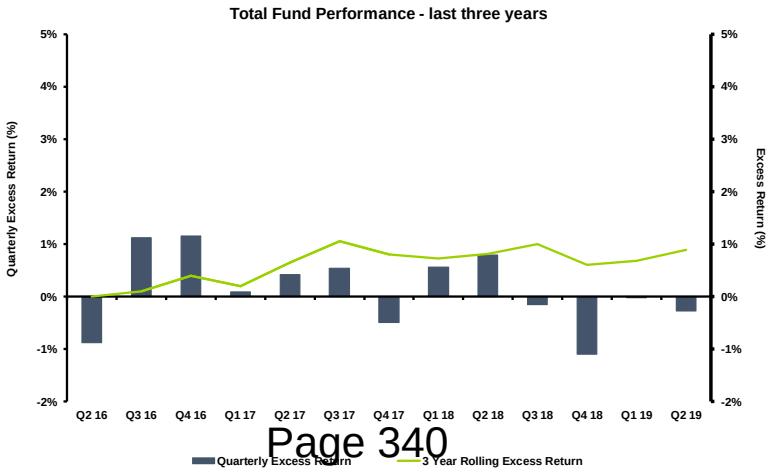
The following table summarises the performance of the Fund's managers.

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]	
LCIV[3]	UK Equity	0.6	0.4	3.3	-5.9	-6.5	0.6	7.2	6.6	9.0	10.4	9.8	9.6
LGIM	Global Equity	3.3	3.3	3.3	5.6	5.6	5.5	11.5	11.5	11.5	11.1	11.1	11.1
LCIV[3]	Global Equity	7.7	7.7	6.1	9.5	9.1	9.7	18.7	18.4	13.5	15.2	14.9	12.5
Longview	Global Equity	4.1	3.9	6.5	11.6	10.9	10.3	13.8	13.1	13.6	14.1	13.4	12.5
Insight[2]	Buy and Maintain	2.2	2.2	1.6	6.5	6.4	4.7	n/a	n/a	n/a	6.4	6.3	5.4
LCIV[3]	Multi Asset Credit	1.9	1.7	1.2	n/a	n/a	n/a	n/a	n/a	n/a	2.8	2.4	3.4
Hermes	Property	0.8	0.7	0.7	5.2	4.8	4.2	8.0	7.6	6.9	9.6	9.2	8.3
Aberdeen Standard	Property	1.4	1.3	1.8	6.3	5.8	6.9	8.2	7.7	3.9	8.6	8.1	6.6
Pantheon[4]	Global Infrastructure	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	4.2	4.2	3.5
Total		**3.2**	**3.1**	**3.4**	**4.0**	**3.7**	**5.4**	**10.4**	**10.1**	**9.2**	**n/a**	**n/a**	**n/a**

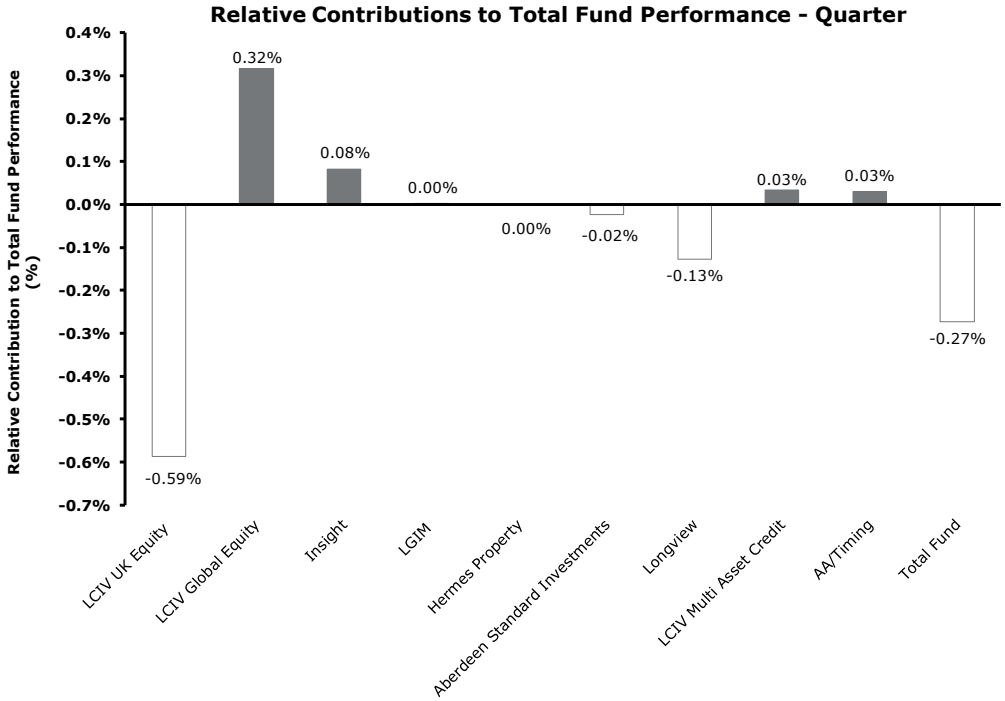
Source: Northern Trust
[1]Estimated by Deloitte when manager data is not available. See appendix 1 for more detail on manager fees and since inception dates
[2]Insight Buy and Maintain Fund was incepted on 9 April 2018. Since inception returns and benchmark returns reflect a combination of Insight Buy & Maintain Fund returns and benchmark returns from date of inception to 30 June 2019, and Insight IM (Core) Fund returns and benchmark returns from inception date 30 September 2011 until inception of the Buy and Maintain Fund
[3]Quarter and year performance figures estimated using London CIV quarterly reports. Longer term performance has been provided by Northern Trust. LCIV UK Equity Fund is managed by Majedie and was incepted on 18 May 2017. LCIV Global Equity Fund is managed by Baillie Gifford and was incepted on 11 April 2016. LCIV Multi Asset Credit Fund is managed by CQS and was incepted on 31 October 2018.
[4]Pantheon Global Infrastructure Fund III was incepted on 15 April 2019. Returns and benchmark returns from the date of inception until the end of the quarter have been included in the calculation of the Total Fund performance over the quarter.

The Fund delivered a positive return of 3.1% on a net of fees basis over the quarter to 30 June 2019, underperforming its benchmark by 0.3%. Each mandate provided positive absolute returns over the quarter as markets continued to rise, although Majedie and Longview underperformed their benchmarks. Over the year, the Fund underperformed its benchmark by 1.7%, largely driven by negative performance from Majedie. The Fund underperformed its benchmark by 1.7% over the 12 month period to 30 June 2019 on a net of fees basis. However, the Fund outperformed its benchmark by 0.9% p.a. over the longer three-year period on a net of fees basis.

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.

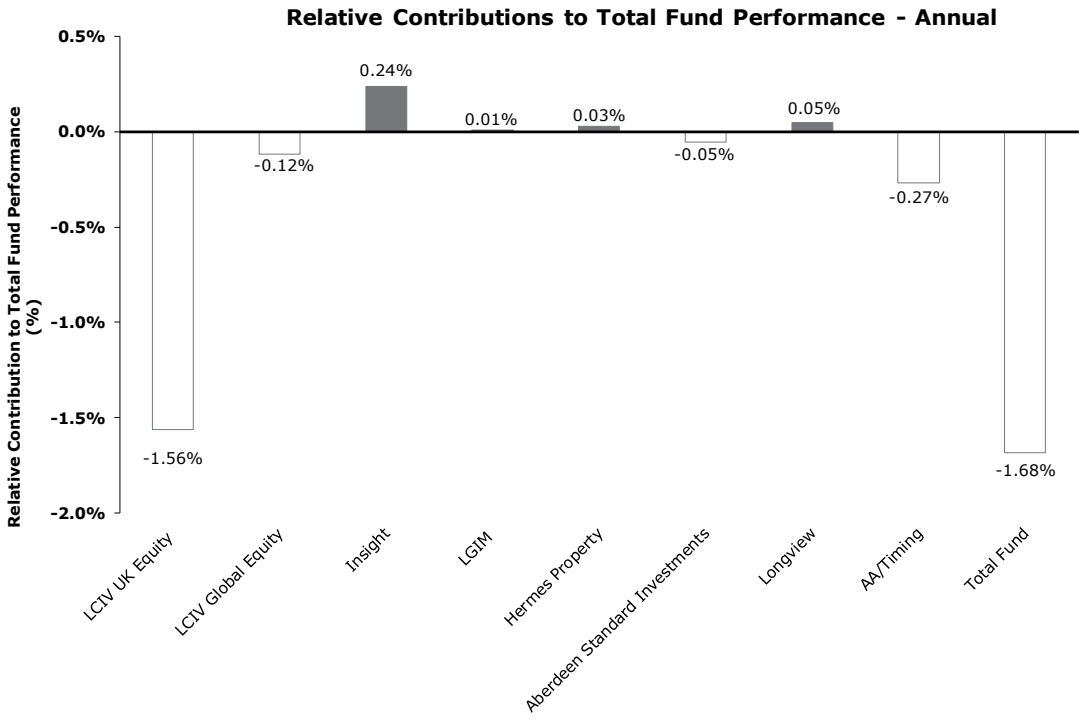


2.2 Attribution of Performance to 30 June 2019



The Fund underperformed its composite benchmark by 0.3% over the second quarter of 2019 on a net of fees basis. This was primarily driven by the underperformance of the LCIV UK Equity Fund relative to its FTSE benchmark return, as well as relative underperformance by Longview. This was partially offset by the LCIV Global Equity Fund and Insight both outperforming their respective benchmarks over the quarter.

The Fund underperformed its benchmark by 1.7% over the year to 30 June 2019. The LCIV UK Equity Fund was again the main detractor to relative performance over the period. The negative contribution from the "AA/Timing" bar reflects the impact of holding investments in Longview over the first two quarters of 2019, with the benchmark allocation not allowing for any allocation to Longview whilst the global equity fund underperformed its benchmark over this period. Underperfomance over the year was partially offset by the Insight Buy and Maintain Fund.



2.3 Asset Allocation as at 30 June 2019

The table below shows the assets held by manager and asset class as at 30 June 2019.

Manager	Asset Class	End Mar 2019 (£m)	End Jun 2019 (£m)	End Mar 2019 (%)	End Jun 2019 (%)	Benchmark Allocation (%)
LCIV	UK Equity	293.0	296.5	20.8	20.1	22.5
LGIM	Global Equity (Passive)	326.0	336.8	23.1	22.8	22.5
LCIV	Global Equity	284.0	305.9	20.2	20.7	20.0
Longview	Global Equity	70.0	66.7	5.0	4.5	0.0
	Total Equity	**973.0**	**1,005.9**	**69.1**	**68.1**	**65.0**
Insight	Buy and Maintain	199.4	223.8	14.2	15.2	13.5
LCIV	Multi Asset Credit	91.6	93.2	6.5	6.3	6.5
	Total Bonds	**291.0**	**317.0**	**20.7**	**21.5**	**20.0**
Hermes	Property	66.0	66.5	4.7	4.5	5.0
Aberdeen Standard	Property	64.7	65.6	4.6	4.4	5.0
	Total Property	**130.7**	**132.1**	**9.3**	**8.9**	**10.0**
Pantheon	Global Infrastructure	14.2	20.9	1.0	1.4	5.0
	Total Infrastructure Equity	**14.2**	**20.9**	**1.0**	**1.4**	**5.0**
Total		**1,408.9**	**1,476.0**	**100**	**100**	**100**

Source: Northern Trust
Figures may not sum due to rounding

Over the quarter to 30 June 2019, the market value of the assets increased by c. £67.1m following positive absolute performance from each mandate in the portfolio.

As at the end of the second quarter of 2019, the Fund was overweight 3.1% to equities relative to the strategic benchmark however this is expected to reduce at Pantheon draws down capital, funded from the remaining Longview allocation. The Fund was underweight to property by 1.1% and 1.5% overweight to bonds relative to the benchmark allocation as at 30 June 2019.

Pantheon issued drawdown requests of $2.7m and $4.3m to be paid by 16 April 2019 and 13 May 2019 respectively, this represents 7.7% of capital commitments to the infrastructure fund. As at quarter end, 28.2% of the Fund's commitment to the Pantheon Global Infrastructure III Fund has been drawn down. This has fallen to c. 24% after quarter end following an equalisation payment from the fund.

The Fund received a contribution of £20m over the second quarter of 2019 through a forward funding agreement. At the last Committee Meeting, the decision was taken to invest this amount in the Insight Buy and Maintain Fund in order to remove a proportion of risk from the portfolio. This was invested in June.

2.4 Yield analysis as at 30 June 2019

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 June 2019
LCIV	UK Equity	4.10%**
LGIM	Global Equity (Passive)	0.25%*
LCIV	Global Equity	1.20%**
Longview	Global Equity	2.33%
Insight	Buy and Maintain	2.41%
LCIV	Multi Asset Credit	5.51%**
Hermes Property	Property	3.30%
Aberdeen Standard Investments	Long Lease Property	4.11%
	Total	**2.31%**

**Yield and benchmark yield (2.8%) as at 31 December 2018. Benchmark yield represents the income that would be distributed.*
***LCIV funds' 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.*

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	LCIV UK Equity	Further turnover within the core investment team Re-opening the UK Equity products with no clear limits on the value of assets that they would take on	2
LGIM	Global Equity (Passive)	Major deviation from benchmark returns Significant loss of assets under management	1
Baillie Gifford	LCIV Global Equity	Loss of key personnel Change in investment approach Lack of control in growth of assets under management	1
Longview	Global Equity	Loss of key personnel Change in investment approach Lack of control in growth of assets under management	2
Insight	Buy and Maintain	Departure of any of the senior members of the investment team	1
CQS	LCIV Multi Asset Credit	Significant changes to the investment team responsible for the fund	1
Hermes	Property	Significant growth in the value of assets invested in the fund Changes to the team managing the mandate	1
Aberdeen Standard Investments	Property	Richard Marshall leaving the business or ceasing to be actively involved in the fund without having gone through an appropriate hand-over A build up within the fund of holdings with remaining lease lengths around 10 years	1
Pantheon	Global Infrastructure	Significant changes to the investment team responsible for the fund	1

3.1 London CIV

Business

As at 30 June 2019, the assets under management within the 14 sub-funds of the London CIV was £8,793m, an increase of £590m over the quarter via two new London Boroughs investing in the MAC Sub-fund and one new London Borough investing in the Global Bonds Sub-fund client list. The total assets under oversight, including passive investments held outside the CIV platform, increased by £1.1bn over the quarter to £19.1bn.

LCIV informed LLA's in July that CQS, the manager of the LCIV MAC Fund, had been placed "on watch". This follows LCIV concerns regarding CQS' strategy and high staff turnover, as well as LCIV citing relative underperformance, increasing leverage and downplay of macro risks as other minor concerns.

Personnel

During the quarter, Mark Thompson was appointed as permanent Chief Investment Officer (CIO). Mark will begin the role in September, taking over from interim CIO Michael Pratten who had taken on the role earlier in the quarter. Michael will continue to lead the investment team until Mark joins, and will work with Mark when he joins to ensure a smooth handover of responsibilities.

Mark joins with over thirty years of experience. Mark held the role of CIO at HSBC Bank UK Pension Scheme for over seven years and has over 20 years of experience at Prudential/M&G Investments in several senior investment positions.

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

Majedie had total assets under management of £11.6bn as at 30 June 2019, a decrease of £0.8bn over the quarter.

Personnel

Majedie is still in the process of looking to hire a UK Small Cap manager, following the decision to replace Richard Staveley in January 2019, with James de Uphaugh and Emily Barnard running the sleeve in the meantime.

Over the quarter to 30 June 2019, Yuri Khodjamirian, co-manager of UK Income, announced he is leaving Majedie to return to scientific academia. Majedie therefore took the decision to make changes to their UK strategies:

- Imran Sattar will replace Matthew Smith on the UK Equity strategy, with Imran retaining his existing UK Focus portfolio responsibilities;
- Mike Totton will replace Matthew Smith on the UK Focus strategy, Mike will also become co-manager of the UK Income Strategy, alongside Mark Wharrior; and
- Matthew Smith will remain lead manager of the Tortoise Fund, providing sole focus on this strategy.

In addition, Dan Ekstein joined Majedie over the quarter. Dan was previously head of European Food Retail Research at UBS.

Deloitte view – We have recently removed Majedie's UK Equity strategy from our rated manager list following a run of poor performance and changes in key personnel, as per the Majedie UK Equity Fund Review paper. As such, going forward, we will not be recommending the Majedie UK Equity strategy to clients.

3.3 LGIM

Business

As at 31 December 2018, Legal & General Investment Management ("LGIM") had total assets under management ("AuM") of £1,015bn, an increase of £30bn since 30 June 2018.

During the second quarter, LGIM launched a number of new funds in both the fixed income and equity index sustainable investing space. Within fixed income, LGIM launched pooled maturing buy and maintain credit funds with five different duration options. Within sustainable investment, LGIM added a suite of new equity funds to its "Future World" range as it continues to promote and build out its range of ESG-focused funds. The new funds launched included regional and global equity index funds which track a range of ESG focused alternative indices, including a clean water index fund.

Personnel

At a firm level, LGIM (UK) continued the CEO handover as Michelle Scrimgeour was appointed in July 2019 and has come in to replace outgoing Mark Zinkula who retires from the business in August. Michelle joins from Columbia Threadneedle where she held the role of CEO with responsibility for the EMEA (Europe, Middle East and Africa) region. Michelle has over 30 years' experience at asset management firms and before Threadneedle she was Chief Risk Officer at M&G Investments. LGIM believes that she is suitable for the role of CEO due to her successful track record in growing a large global asset management business and her particular focus on creating scalable operations.

At the Index Team level, there were no personnel changes made over the second quarter of 2019.

Deloitte View - We continue to rate Legal & General positively for its passive and LDI capabilities. While there has been a degree of senior staff turnover recently, we do not have any concerns at this stage, but we will continue to monitor future turnover and updates of LGIM's succession plan.

3.4 Baillie Gifford

Business

Baillie Gifford held c. £207.1bn of total assets under management as at 30 June 2019, representing an increase of c. £13.4bn over the quarter.

Personnel

There have been no significant team or personnel changes over the quarter to 30 June 2019.

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

3.5 Longview

Business

Longview held assets under management of c. £22.5bn as at 30 June 2019.

Net inflows into Longview totaled c. £1.9bn over the second quarter of 2019, largely driven by one new investor funding two new accounts with Longview, with the remainder of the increase in assets under management as a result of positive performance over the quarter.

Personnel

There have been no significant team or personnel changes over the quarter to 30 June 2019.

Deloitte view – The departure of Ramzi Rishani at the end of December 2018 means that both of Longview's founding partners are no longer involved in the business. This is a significant departure given Ramzi's previous 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.

3.6 Insight

Business

As at 30 June 2019, Insight held assets under management of c. £664bn, representing an increase of c. £16bn over the quarter. The Insight Buy and Maintain Fund's assets under management remained at c. £2.3bn over the second quarter of 2019.

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 CQS – Multi Asset Credit

Business

As at 30 June 2019, CQS held assets under management of c. $17.7bn, a decrease of c. $0.3bn over the quarter. The Credit Multi Asset Fund managed c. $7.2bn on behalf of its clients as at the end of the second quarter of 2019.

Personnel

There were no specific team/personnel changes to the Credit Multi Asset Fund team over the quarter.

Deloitte View - We continue to rate CQS positively for its multi asset capabilities.

3.8 Hermes

Business

As at 30 June 2019, Hermes held total assets under management of c. £36.0bn, an increase of c. £2.5bn over the quarter. Within the HPUT, total assets under management remained relatively constant at c. £1.6bn over the quarter.

Personnel

Over the quarter, Hermes made several announcements concerning personnel. Chris Matthews, Fund Director, was granted an extension to his leave in relation to ill health within his family. Chris will continue to provide advice and counsel to the Hermes team and Hermes expects a return when his personal circumstances allow, although the timescale of this is uncertain.

Mark Beattie, Deputy Fund Manager, announced that he would be leaving at the end of July 2019 to start his own property advisory business, after receiving backing from a private investor. Hermes are currently in the process of replacing Mark.

Also, Russell Black was appointed Interim Fund Manager. Russell has been part of the Hermes Property team for over 15 years and has an in-depth knowledge of the portfolio having been involved in all acquisitions and sales since joining.

Deloitte view – We are monitoring the personnel changes, including the appointment of a new deputy Fund Manager.

3.9 Aberdeen Standard Investments – Long Lease Property

Business

The Long Lease Property Fund's assets under management remained unchanged at c. £2.5bn over the second quarter of 2019. The Fund had a queue of investor commitments of c. £216m as at 30 June 2019, the fall in deal volume in the market primarily as a result of Brexit is making it more difficult for ASI to find attractive opportunities to invest in.

Personnel

There were no significant team or personnel changes over the second quarter of 2019.

Deloitte View – We continue to rate Aberdeen Standard Investments positively for its long lease property capabilities.

3.10 Pantheon

Business

As at 31 March 2019, Pantheon's total assets under management stood at $46.3bn. The Global Infrastructure III Fund held $2.2bn in assets under management following the fund's final close in March 2019.

As at 1 August 2019, the Global Infrastructure III Fund has completed 19 deals, with $840m in closed or committed deals. This represents a 38% commitment level.

Personnel

There were no specific team/personnel changes to the Global Infrastructure III Fund team over the quarter.

Deloitte View - We continue to rate Pantheon positively for its global infrastructure capabilities.

4 London CIV

4.1 Investment Performance to 30 June 2019

As at 30 June 2019, the assets under management within the 14 sub-funds of the London CIV was £8,793m. The total assets under oversight (which includes passive investment held outside of the CIV platform) increased by c. £1.1bn to c. £19.1bn over the quarter. The table below provides an overview of the sub-funds currently available on the London CIV platform.

Sub-fund	Asset Class	Manager	Total AuM as at 31 March 2018 (£m)	Total AuM as at 30 June 2019 (£m)	Number of LCIV clients	Inception Date
LCIV UK Equity	UK Equity	Majedie	418	417	2	18/05/17
LCIV Global Equity Alpha	Global Equity	Allianz Global Investors	119	128	1	02/12/15
LCIV Global Alpha Growth	Global Equity	Baillie Gifford	2,470	2,689	13	11/04/16
LCIV Global Equity	Global Equity	Newton	606	639	3	22/05/17
LCIV Global Equity	Global Equity	Longview Partners	751	809	5	17/07/17
LCIV Equity Income	Global Equity	Epoch Investment Partners	240	250	2	08/11/17
LCIV Emerging Market Equity	Global Equity	Henderson Global Investors	381	402	6	11/01/18
LCIV Sustainable Equity Fund	Global Equity	RBC Global Asset Management (UK)	282	303	2	18/04/18
LCIV Global Total Return	Diversified growth fund	Pyrford	317	320	5	17/06/16
LCIV Diversified Growth	Diversified growth fund	Baillie Gifford	665	672	8	15/02/16
LCIV Absolute Return	Diversified growth fund	Ruffer	889	869	10	21/06/16
LCIV Real Return	Diversified growth fund	Newton	190	184	2	16/12/16
LCIV MAC	Fixed Income	CQS	700	842	12	31/05/18
LCIV Global Bond	Fixed Income	PIMCO	174	269	3	30/11/18
Total			**8,203**	**8,793**		

Source: London CIV
Figures may not sum due to rounding

Over the quarter to 30 June 2019, the MAC Fund (managed by CQS) added two new London Boroughs to its client list and the Global Bond Fund (managed by PIMCO) added one new London Borough to its client list. No new sub-funds were launched over the quarter.

LCIV informed LLA's in July that CQS, the manager of the LCIV MAC Fund, had been placed "on watch". This follows LCIV concerns regarding CQS' strategy and high staff turnover, as well as LCIV citing relative underperformance, increasing leverage and downplay of macro risks as other minor concerns.

5 LCIV – UK Equity

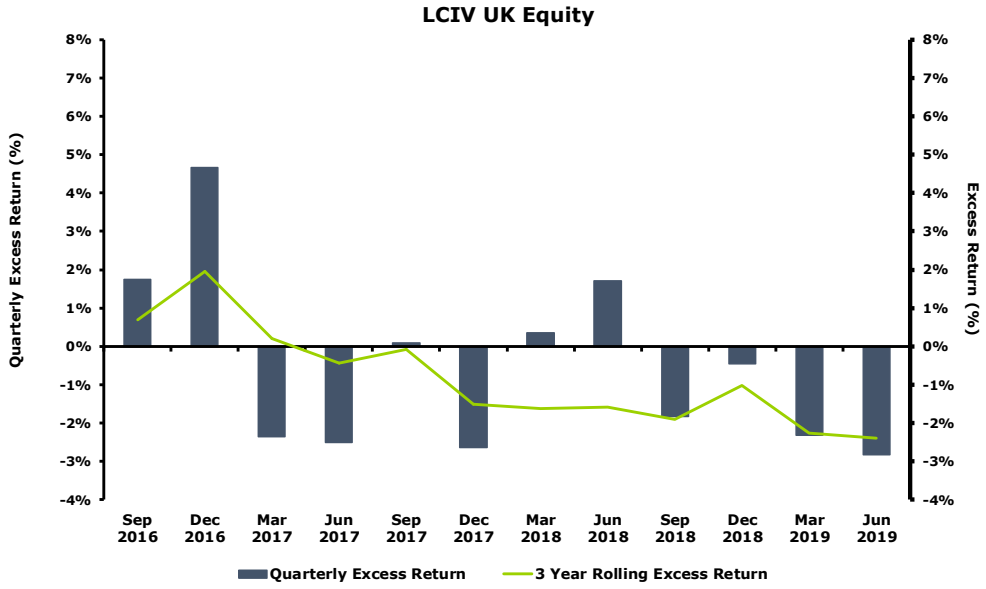
Majedie was appointed to manage an active UK equity mandate from 31 May 2006, held as a sub-fund under the London CIV platform from 18 May 2017. The manager's remuneration is a combination of a fixed fee based on the value of assets and a performance related fee which is payable when the excess return 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.

5.1 Active UK Equity – Investment Performance to 30 June 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie - Gross of fees	0.6	-5.9	7.2	10.4
Net of fees[1]	0.4	-6.5	6.6	9.8
MSCI AC World Index	3.3	0.6	9.0	9.6
Relative (on a net basis)	-2.9	-7.1	-2.4	0.2

Source: Northern Trust
Inception date taken as 31 May 2006
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees

Over the quarter to 30 June 2019, Majedie underperformed its benchmark by 2.9%, returning 0.4% on a net of fees basis. Over the longer 12 month and three year periods, the Fund has underperformed its benchmark by 7.1% and 2.4% p.a. respectively on a net of fees basis.



Underperformance over the quarter can be partly attributed to stock specific issues, with regulatory intervention and pricing issues particularly impacting Centrica and competitive pricing combined with underinvestment causing a drag on profits at Saga. Another driver of poor relative performance over the second quarter of 2019 was the large demand for classic defensive stocks which the UK Equity Fund does not have exposure to.

Over the year to 30 June 2019, the Strategy underperformed the FTSE based benchmark over all four quarters. The Small Cap holding provided the largest negative contribution to performance over the year. The Small Cap exposure has continued to be reduced, with 6% of the portfolio allocated to the sleeve as at the end of the second quarter in comparison to 10% exposure as at the end of March.

Over the year, two large index constituents which are not held, Diageo and AstraZeneca, provided strong contributions to index return and therefore stood as headwinds for the Strategy. Also, apparent low economic sensitivity to the UK equity market over a period of strong market resurgence was detrimental to relative performance over the first quarter of 2019.

5.2 Performance Analysis

The top 10 holdings in the UK Equity strategy account for c. 44.8% of the fund and are detailed below.

Top 10 holdings as at 30 June 2019	Proportion of Majedie Fund
BP	7.8%
Royal Dutch Shell	7.5%
Majedie UK Smaller Companies	5.9%
Tesco	5.3%
GlaxoSmithKline	5.0%
Pearson	3.3%
Orange	2.7%
HSBC	2.5%
WM Morrison	2.5%
Electrocomponents	2.4%
Total	**44.8%**

Source: London CIV
Figures may not sum due to rounding

The tables below show the top 5 and bottom 5 contributors to performance over the quarter to 30 June 2019.

Top 5 contributors as at 30 June 2019	Contribution (bps)
Royal Dutch Shell	+0.59
Barrick Gold	+0.34
Electrocomponents	+0.27
Gold Fields	+0.20
Daily Mail	+0.20

Top 5 detractors as at 30 June 2019	Contribution (bps)
Saga	-0.49
Centrica	-0.36
Marks & Spencer	-0.29
Dixons	-0.24
Ensco Rowan	-0.23

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 June 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
LGIM - Gross of fees	3.3	5.6	11.5	11.1
Net of fees[1]	3.3	5.6	11.5	11.1
FTSE World (GBP Hedged) Index	3.3	5.5	11.5	11.1
Relative (net of fees)	0.0	0.1	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 performed in-line with its benchmark over the quarter to 30 June 2019. The fund marginally outperformed its benchmark over the one year period to 30 June 2019 and successfully tracked its benchmark over the three year period.

7 LCIV – Global Equity

Baillie Gifford was appointed to manage an active Global Equity mandate from 18 March 2014, held as a sub-fund under the London CIV platform from 11 April 2016. 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.

7.1 Global Equity – Investment performance to 30 June 2019

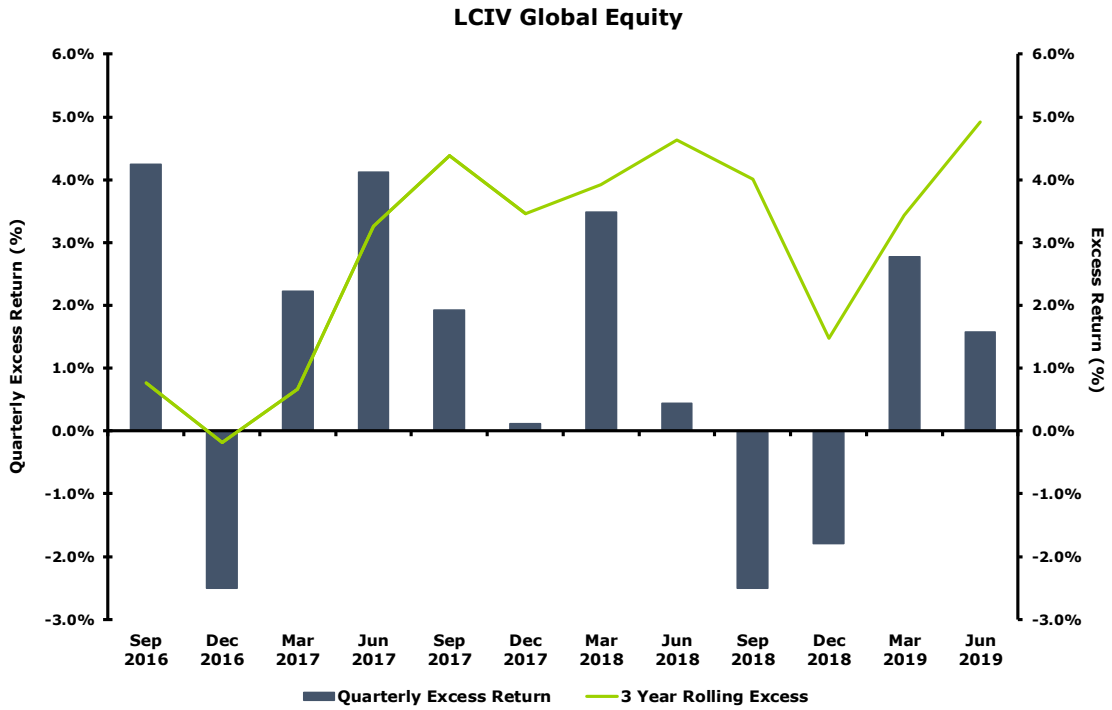
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Baillie Gifford – Gross of fees	7.7	9.5	18.7	15.2
Net of fees[1]	7.7	9.1	18.4	14.9
MSCI AC World Index	6.1	9.7	13.5	12.5
Relative (net of fees)	1.6	-0.6	4.9	2.4

Source: Northern Trust
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees
Inception date taken as 18 March 2014

The LCIV Global Equity Alpha Fund, managed by Baillie Gifford, outperformed its benchmark by 1.6% on a net of fees basis over the second quarter of 2019. Over the year to 30 June 2019, the fund underperformed its benchmark by 0.6%.

Positive performance over the second quarter of 2019 was primarily driven by the fund's relatively large holdings in IT and financials stocks, particularly within the US and Continental European market where the potential for reduced interest rates has increased the probability of another incidence of quantitative easing.

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 4.9% p.a. over the three year period to 30 June 2019.



7.2 Performance Analysis

The top 10 holdings in the portfolio account for c. 27.4% of the fund and are detailed below.

Top 10 holdings as at 30 June 2019	Proportion of Baillie Gifford Fund
Naspers	3.8%
Prudential	3.6%
Amazon	3.4%
Alibaba	2.8%
Anthem	2.5%
AIA	2.5%
MasterCard	2.4%
Moody's	2.3%
VISA	2.1%
SAP	2.0%
Total	**27.4%**

Source: London CIV
Figures may not sum due to rounding

The tables below show the top 5 and bottom 5 contributors to performance over the quarter to 30 June 2019.

Top 5 contributors as at 30 June 2019	Contribution (%)
SAP	+0.39
Prudential	+0.39
Shopify	+0.34
MasterCard	+0.34
Marketaxess	+0.33

Apache was one of the largest detractors to performance over the quarter, despite being one of the highest contributors to positive performance over the first quarter of 2019. Apache's share price was negatively impacted by increased volatility in oil price as a result of the oil tanker attack in the Gulf of Oman which occurred over the quarter.

Top 5 detractors as at 30 June 2019	Contribution
Baidu	-0.24
Apache	-0.23
Alibaba	-0.17
Waters	-0.16
Tesla	-0.14

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 June 2019

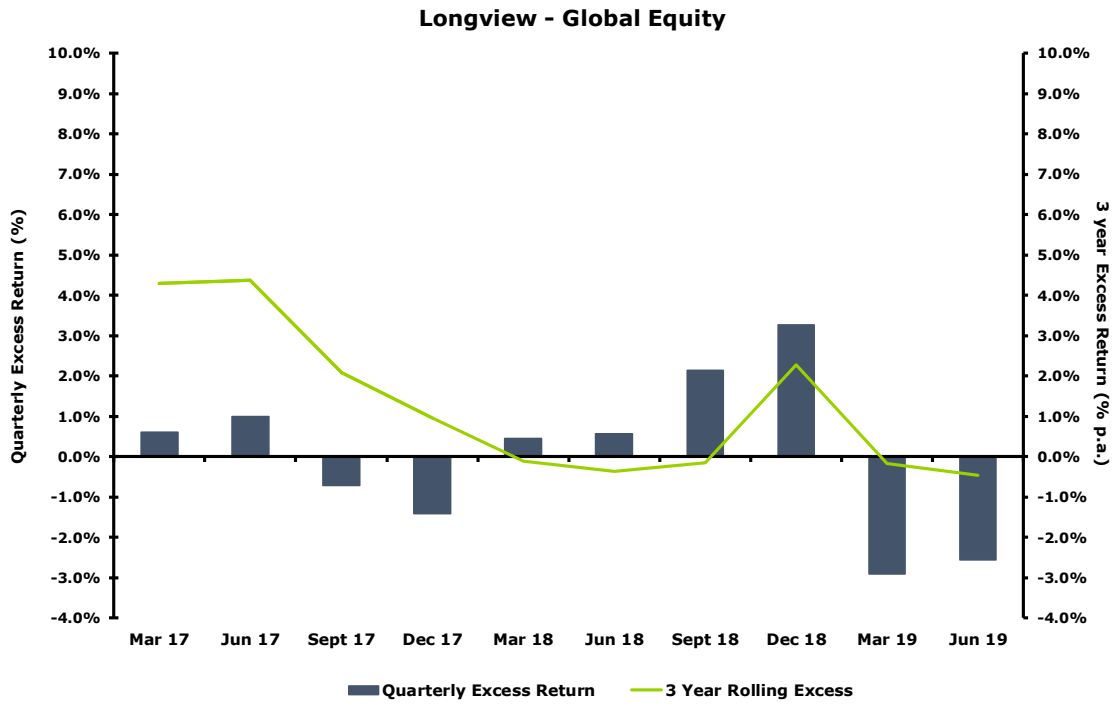
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Longview - Gross of fees	4.1	11.6	13.8	14.1
Net of fees[1]	3.9	10.9	13.1	13.4
MSCI World Index	6.5	10.3	13.6	12.5
Relative (on a net basis)	-2.6	0.6	-0.5	0.9

Source: Northern Trust
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees
Inception date 15 January 2015

Over the quarter to 30 June 2019, Longview underperformed its benchmark by 2.6% on a net of fees basis. Over the one year period, the fund has outperformed its benchmark by 0.6%, whilst over the longer three year period the fund has underperformed its benchmark by 0.5% p.a. on a net of fees basis.

Underperformance over the second quarter of 2019 was largely due to Longview's under-exposure to cyclical and interest rate sensitive stocks, relative to the benchmark. Longview holds the belief that, with interest rates continuing to fall, such stocks will underperform in the long term due to lower expected earnings. However, over recent periods, these stocks have performed well as a result of short term pressure and the increased likelihood of quantitative easing taking place in the future.

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 second quarter of 2019.

Top 5 contributors as at 30 June 2019	Contribution
Allergan	+0.44
Henry Schein	+0.42
AON	+0.41
Charter Communications	+0.41
Willis Tower Watson	+0.25

Over the three months to 30 June 2019, Allergan provided the largest contribution to performance following an agreed bid for the sale of the company to Abbvie.

The largest detractors to performance were State Street and BNY Mellon, both companies are currently suffering as a result of falling interest rates and falling custody fees. Specifically, given State Street's and BNY Mellon's sensitivity to interest rates, the current inverted yield curve is the worst case scenario for these stocks.

Top 5 detractors as at 30 June 2019	Contribution
State Street	-0.75
BNY Mellon	-0.64
WW Grainger	-0.55
Whitbread	-0.38
Lloyds	-0.37

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 June 2019

	Last Quarter (%)	Last Year (%)	Since Inception (% p.a.)
Insight Non Gilts - Gross of fees	2.2	6.5	6.4
Net of fees[1]	2.2	6.4	6.3
iBoxx £ Non-Gilt 1-15 Yrs Index	1.6	4.7	5.4
Relative (on a net basis)	0.6	1.7	0.9

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 second quarter of 2019, the Insight Buy and Maintain Fund outperformed its temporary iBoxx non-gilt benchmark by 0.6% on a net of fees basis. Over the year to 30 June 2019, the Fund has outperformed its benchmark by 1.7%.

9.2 Performance Analysis

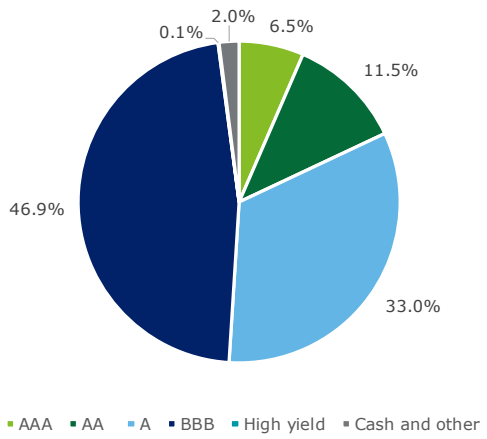
The table below summarises the Buy and Maintain portfolio's key characteristics as at 30 June 2019.

	30 June 2019	31 March 2019
Yield (%)	2.4	2.6
No. of issuers	204	199
Modified duration (years)	8.3	8.3
Spread duration (years)	8.1	8.0
Government spread (bps)	149	154
Swaps spread (bps)	141	140
Largest issuer (%)	1.2	1.2
10 largest issuers (%)	10.9	11.0

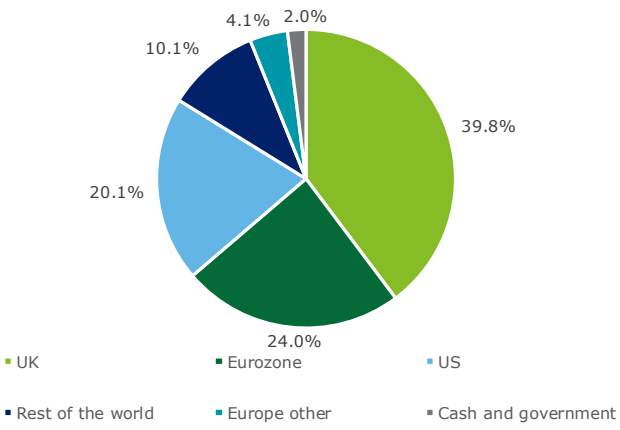
Source: Insight

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

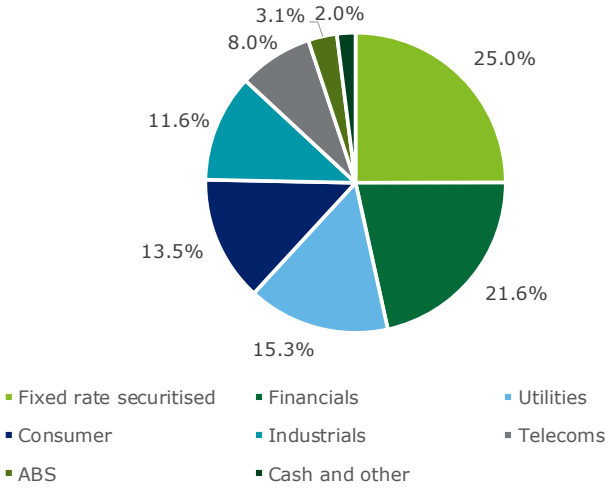
As at 30 June 2019, the fund's investment grade holdings made up c. 97.9% of the portfolio, with the fund predominantly invested in BBB and A rated bonds.



The graph below shows the split of the Buy and Maintain portfolio by country as at 30 June 2019.



The graph below shows the split of the Buy and Maintain portfolio by sector as at 30 June 2019.



The table below shows the top 10 issuers by market value as at 30 June 2019.

Issuer name	Rating*	Holding (%)
Centre Parcs	BBB	1.24
Prudential Plc	BBB	1.22
BNP Paribas	A/AA	1.16
Electricite De France	A	1.12
Channel Link	BBB	1.10
Citigroup	A/BBB	1.04
Pfizer	AA	1.03
HSBC	A	1.02
Deutsche Telecom	BBB	1.01
General Electric	BBB	1.01

**Ratings provided by Insight*
Dual ratings are present due to ratings being at the individual holdings level and not the issuer level

10 LCIV – Multi Asset Credit

CQS was appointed to manage a multi asset credit mandate, under the London CIV platform, in October 2018 with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. An annual fee covers the manager's and the London CIV platform management fees.

10.1 Multi Asset Credit – Investment Performance to 30 June 2019

	Last Quarter (%)	Since Inception (% p.a.)
CQS – MAC – Gross of fees	1.9	2.8
Net of fees[1]	1.7	2.4
3 Month Libor + 4%	1.2	3.4
Relative (on a net basis)	0.5	-1.5

Source: CQS
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees
Inception date taken as 30 October 2018

The LCIV Credit Multi Asset Fund, managed by CQS, outperformed its benchmark by 0.5% over the quarter to 30 June 2019 on a net of fees basis.

The fund's significant allocation to Loans (over 50%) was a key driver of returns over the quarter, contributing 0.7%.

The decision to increase exposure to high yield, particularly in the US where CQS sees strong opportunities in onshore energy and secondary bond purchases, was accountable for almost 0.5% of absolute performance over the quarter.

10.2 Portfolio Analysis

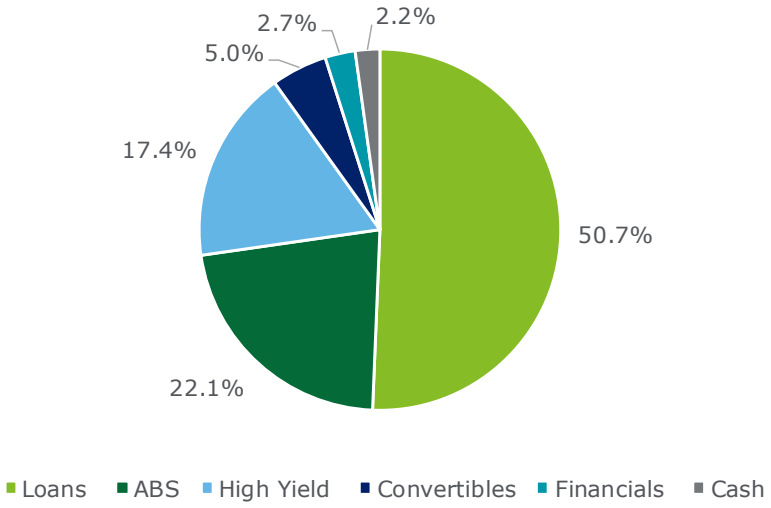
The table below summarises the Multi Asset Credit portfolio's key characteristics as at 30 June 2019.

	30 June 2019	31 Mar 2019
Weighted Average Bond Rating	B+	B+
Long Bond Equivalent Exposure with Public Rating (%)	85.7	85.0
Investment with Public Rating (%)	84.4	84.0
Yield to Maturity (%)	5.5	5.4
Spread Duration	4.2	4.1
Interest Rate Duration	1.7	1.4

Source: CQS

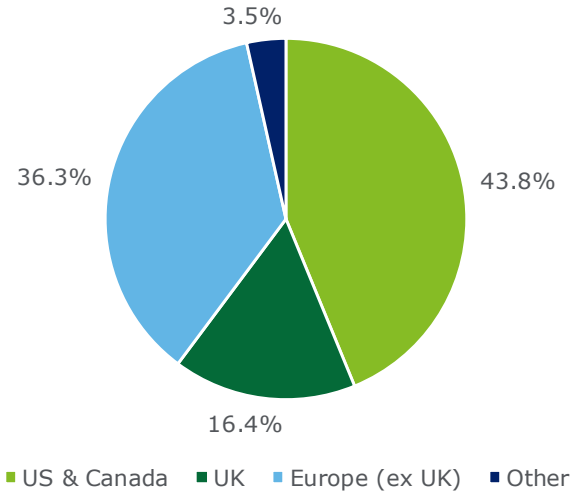
10.3 Asset Allocation

The asset allocation split of the Multi Asset Credit Fund as at 30 June 2019 is shown below.



10.4 Country Allocation

The graph below shows the regional split of the CQS Multi Asset Credit Fund as at 30 June 2019.



11 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.

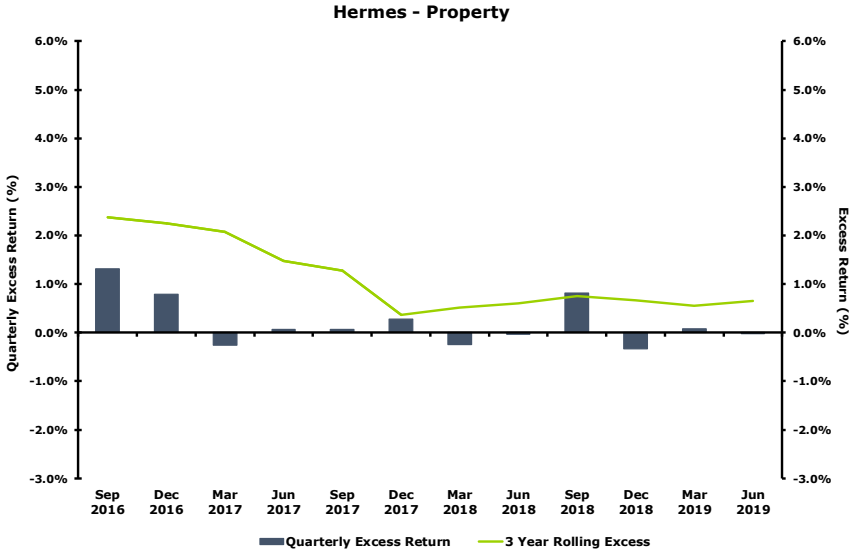
11.1 Property – Investment Performance to 30 June 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Hermes - Gross of fees	0.8	5.2	8.0	9.6
Net of fees[1]	0.7	4.8	7.6	9.2
Benchmark	0.7	4.2	6.9	8.3
Relative (on a net basis)	0.0	0.6	0.7	0.9

Source: Hermes
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees
Inception date is taken as 26 October 2010

Hermes performed in line with its IPD-based benchmark over the quarter to 30 June 2019 on a net of fees basis, returning 0.7% in absolute terms. The strategy outperformed its benchmark by 0.6% and 0.7% p.a. on a net of fees basis over the one year and three year periods to 30 June 2019 respectively. The fund remains above its target since inception, to outperform the benchmark by 0.5% p.a., outperforming its benchmark by 0.9% p.a. over this period.

The Trust's Industrial sector assets provided the largest contribution to performance over the second quarter of 2019. However, the Trust's allocation to the Office sector proved detrimental to performance over the quarter. Unit shops, shopping centres and retail warehouses also detracted from performance, with poor investor sentiment and weak occupier demand in the retail sector continuing to have an effect on valuations.



11.2 Activity

In June 2019, HPUT sold the Jury's Inn Hotel in Liverpool for £45.5m. This reflects a net initial yield of 4.5% with HPUT taking advantage of the current strong demand and high liquidity for inflation linked assets to provide a reasonable level of premium and liquidity to the Trust.

At the end of April 2019, HPUT successfully completed the letting of its Soho Square first floor office in London to Meet in Place Ltd for a lease term of 10 years at £410,000 p.a. (£84 per sq. ft.). Recently, the Manager completed a CAT A+ refurbishment of the third floor of the Soho Square building to include a reception, board rooms, kitchen/break-out area and 24 desks. In May 2019, the Manager agreed terms with a new tenant to take over this unit. These Soho Square units were previously one of the largest contributors to voids in the portfolio.

In May 2019, the Manager completed a new letting on the vacant Tunbridge Wells 5th floor office to InterQuest Group Ltd. The lease has been agreed on a 10 year term, with a break on the 5th anniversary, at a rent of £110,000 per annum (£27.50 per sq. ft.).

Three industrial lettings were also completed over the second quarter of 2019:

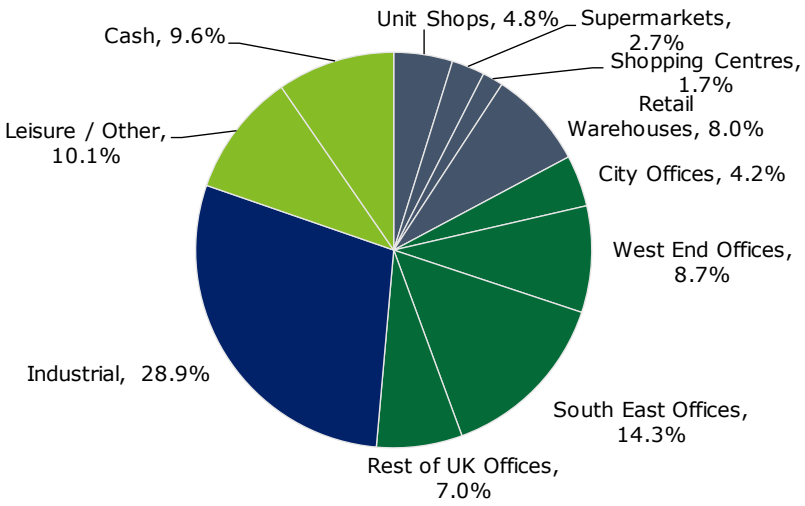
- Fairway Trading Estate, Heathrow: During Q2 2019, the Manager completed the letting of the unit 8 to Hermes Parcelnet on a 5-year lease at a rent of £146,500 per annum (£13 per sq. ft.).

- Nexus Park, Newbury: In May 2019, the Manager completed the letting of unit 4 to Beninca Automation Ltd for a 12-year lease with break at year 7 at a rent of £108,000 per annum after incentives.

- Belleknowes Industrial Estate, Inverkeithing: Over the second quarter of 2019, the Manager completed the lettings of 3 vacant units accounting for c. 20,000 sq. ft to Pict Offshore Limited and AIC Heating UK Ltd. Both lease terms are on a 10 year basis with tenant breaks at 3 and 5 years accounting for a total rental income per annum of £111,000 after tenant incentives.

11.3 Portfolio Summary as at 30 June 2019

The Hermes Property Unit Trust invests across retail, offices, industrials and other sectors, with the split as at 30 June 2019 shown below.



The table below shows the top 10 directly held assets in the fund as at 30 June 2019, representing c. 31.7% of the fund.

Asset	Sub-sector	Value (£m)
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	84.5
8/10 Great George Street, London SW1	Offices	64.7
Polar Park, Bath Road, Heathrow	Industrial	54.9
Broken Wharf House, London	Leisure/Other	53.1
Horndon Industrial Park, West Horndon CM13	Industrials	49.6
27 Soho Square, London W1	Offices	46.3
Sainsbury's, Beaconsfield	Supermarket	42.9
Round Foundry & Marshalls Mill, Leeds	Offices	40.5
Camden Works, London	Offices	38.7
Hythe House, Hammersmith	Offices	36.7
Total		**511.8**

Source: Hermes

12 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.

12.1 Long Lease Property – Investment Performance to 30 June 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Aberdeen Standard - Gross of fees	1.4	6.3	8.2	8.6
Net of fees[1]	1.3	5.8	7.7	8.1
Benchmark	1.8	6.9	3.9	6.6
Relative (on a net basis)	-0.5	-1.1	3.8	1.5

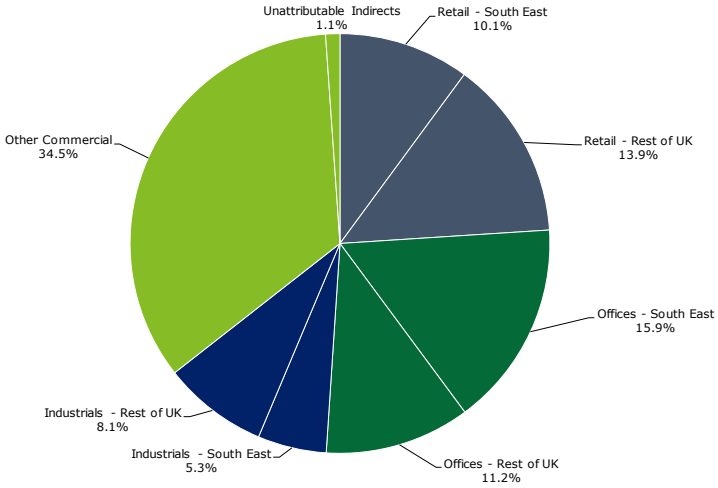
Source: Aberdeen Standard Investments
[1]Estimated by Deloitte. See appendix 1 for more detail on manager fees
Since inception: 14 June 2013

The ASI Long Lease Property Fund delivered a return of 1.3% on a net of fees basis over the second quarter of 2019, underperforming the FTSE Gilt All Stocks Index +2% benchmark by 0.5%.

The UK property market continued to slow over the second quarter of 2019 as Brexit uncertainty continued to weigh on the UK economy. Returns were driven by income as capital growth remained negative, and the IPD UK property benchmark returned a total return of only 0.6%. The negative capital growth continues to be driven by the retail sector which continues to face headwinds from online shopping. The Fund's outperformance was attributable to the continued demand for the long lease sector, which has a focus on secure tenants and long term income. The Fund also benefitted from its underweight exposure to retail.

12.2 Portfolio Holdings

The sector allocation in the Long Lease Property Fund as at 30 June 2019 is shown in the graph below.



Over the quarter to 30 June 2019, the Fund's allocation to the office sector decreased by 0.3% to 27.1%. The allocation to the retail and other commercial sectors both decreased by 0.3% over the quarter to 24.0% and 34.5% respectively over the quarter.

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

Tenant	% Net Income
Tesco	8.2
Whitbread	6.1
Marston's	4.8
Sainsbury's	4.7
Asda	4.2
Salford University	3.8
QVC	3.8
Save the Children	3.7
Lloyds Bank	3.7
Park Holidays UK Limited	3.5
Total	**46.5 ***

*Total may not equal sum of values due to rounding

As at 30 June 2019, the top 10 tenants contributed 46.5% of the total net income into the Fund. The supermarket sector continues to make up a significant proportion of the Fund, with Tesco, Sainsbury's and Asda contributing 17.1% to total net rental income at the end of the quarter.

The unexpired lease term decreased from 26.1 years as at 31 March 2019 to 25.9 years as at 30 June 2019. The proportion of income with fixed, CPI or RPI rental increases remained at 90.7% over the quarter.

12.3 Sales and Purchases

Whilst demand remained fairly robust for long lease property, the supply of suitable available assets has reduced, which combined with Brexit uncertainty, has significantly reduced deal volumes in the long lease sector, and no full transactions were completed for the Fund over the second quarter of 2019. The Fund did renegotiate a small lease on a Sainsbury's local supermarket in Napier University, Edinburgh, extending the lease by 5 years and removing the tenant's break clause in exchange for 9 months free rent.

13 Pantheon – Global Infrastructure Fund III

Pantheon was appointed to manage a global infrastructure mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 8% p.a. The manager has an annual management fee and performance fee.

13.1 Global Infrastructure - Investment Performance to 30 June 2019

Capital Calls and Distributions
Westminster committed $91.5m to Pantheon in February 2019.

- Over the quarter, Pantheon issued two capital calls:
  - $2.7m for payment by 16 April 2019, representing c. 3.0% of Westminster's total commitment; and
  - $4.3m for payment by 13 May 2019, representing c. 4.7% of Westminster's total commitment.
- Following quarter end, Pantheon issued two distributions and one capital call:
  - $5.3m was distributed back to Westminster on 24 July 2019 due to the equalisation of new partners into the fund, representing c. 5.8% of Westminster's total commitment; and
  - A net capital call of $0.9m for payment by 20 August 2019, representing c. 1.0% of Westminster's total commitment. This was comprised of a $1.1m capital call and a $0.1m distribution. (Note that totals do not sum due to rounding).

The remaining unfunded commitment at the end of August was $70m, with the Fund's total contribution at $21.6m.

Activity
Following quarter end, the fund added two new investments to its portfolio:

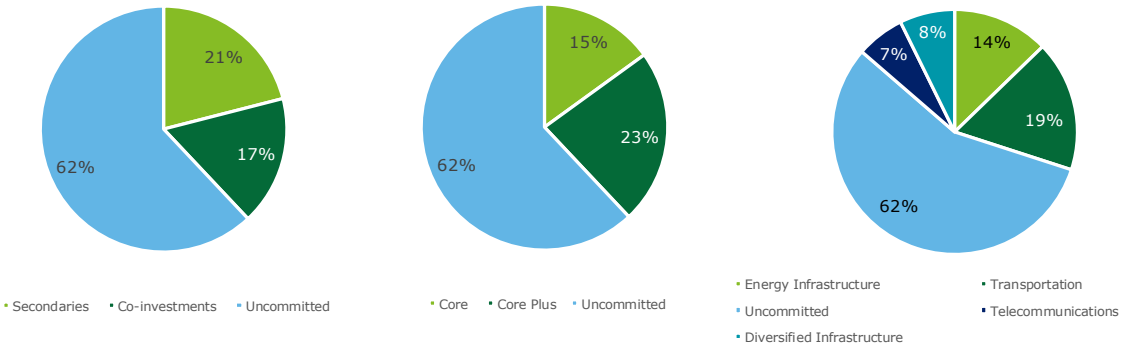
- Project Gemini – a secondary investment in a European transportation company; and
- Project Kookaburra – a secondary investment in a Diversified Infrastructure project within Europe.

In addition, PGIF3 is currently in the process of closing two further deals, Project Saber and Project Sullivan. Project Saber is a co-investment in a North American telecommunications company and Project Sullivan is a secondary investment in a global diversified infrastructure portfolio.

Pipeline
Pantheon currently has a healthy investment pipeline of infrastructure opportunities, with near-term deals representing c. $4.6bn of potential investments across secondary investments and co-investments.

13.2 Asset Allocation

The charts below show the current diversification by strategy, stage and sector in PGIF3 as at 30 June 2019.



The target geographic diversification is 30-50% North America, 40-60% Europe and 3-15% Asia and others. The PGIF3 also aims to be 15-20% energy infrastructure (midstream), 20-30% energy infrastructure (power/utility), 20-30% transportation, 10-20% PPP/social infrastructure and 10-20% other.

13.3 Investments Held

The table below shows a list of the investments held by PGIF3 as at 30 June 2019.

Project Name	Geography	Sector	Type	Deal Size ($m)	Commitment Date
Roger	Europe	Energy Infrastructure	Secondary	28	12/2017
Prime	North America	Transportation	Co-investment	12	01/2018
Rioja	Europe	Energy Infrastructure	Co-investment	32	05/2018
Chase	Europe	Transportation	Co-investment	23	06/2018
Ribera	Europe	Energy Infrastructure	Co-investment	33	07/2018
Infinity	North America	Energy Infrastructure	Co-investment	31	08/2018
Lancaster	Europe	Light Rail	Co-investment	41	09/2018
Inti	Europe	Energy Infrastructure	Secondary	23	12/2018
Megabyte	North America	Telecom	Secondary	54	12/2018
Starlight	Europe	Telecom	Co-investment	34	12/2018
Fairway	Global	Energy Infrastructure	Secondary	58	12/2019
Persea	Europe	Energy Infrastructure	Co-investment	33	04/2019
Springbank	North America	Transportation	Secondary	60	05/2019
Cadence	North America	Energy Infrastructure	Co-investment	66	05/2019
Gemini	Europe	Transportation	Secondary	65	07/2019
Kookaburra	Europe	Diversified Infrastructure	Secondary	58	07/2019
Saber	North America	Telecom	Co-investment	67	In closing
Sullivan	Global	Diversified Infrastructure	Secondary	122	In closing

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.)
Majedie	UK Equity	22.5	FTSE All-Share Index	+2.0 p.a. (net of fees)	31/05/06	**60bps base fees**
LGIM	Global Equity	22.5	FTSE World GBP Hedged	Passive	01/11/12	**13bps base fees**
Baillie Gifford	Global Equity	20.0	MSCI AC World Index	+2.0 p.a. (net of fees)	18/03/14	**36bps base fee**
Longview	Global Equity	0.0	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	13.5	Insight Custom Benchmark	n/a	12/04/18	**9.5bps base fees**
CQS	Multi Asset Credit	6.5	3 Month Libor	+ 4% p.a. (net of fees)	30/10/18	**53bps base fees**
Hermes	Property	5.0	IPD UK PPFI Balanced PUT Index	+0.5 p.a. (net of fees)	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 fees)	14/06/13	**50bps on first £25m, 40bps on next £25m, 30bps thereafter**
Pantheon	Global Infrastructure	5.0	3 month Libor	+ 8% p.a. (net of fees)	15/04/19	**85bps base fee with a 10% performance fee over 8% return hurdle, 100% catch-up**
	Total	**100.0**				

Appendix 2 – Manager Ratings

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

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

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

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

Appendix 3 – Risk warnings & Disclosures

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

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

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

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Appendix 4 – MiFID II Cost Summary

On 3 January 2018, the Markets in Financial Instruments Directive II ("MiFID II") was introduced. A key component of this legislation is for fund managers to disclose all costs incurred, with the view to increasing transparency. MiFID II Costs and Charges disclosures are performed annually and will be provided during the first quarterly report of each year. A summary over the year to 31 March 2019 can be found below:

CLIENT NAME: Westminster City Council Pension Fund

Reporting Period: 1st April 2018- 31st March 2019

Value of Scheme as at 31st March 2019: £1,408,903,289.12

Aggregation of all Costs and Charges incurred during the reporting period:

Cost Category	Amount (£)	% of investment
Investment services and/or ancillary services	113,045	0.01
Third Party payments received by the Investment Firm	-	-
Investment product costs	4,758,000	0.36
Total costs and charges	**4,871,045**	**0.37**

Totals may not sum due to rounding.

Cumulative effect of costs and charges on return

The illustration below uses Reduction in Yield (RIY) methodology to show impact of the total costs you have incurred on the return of your investment. The amounts shown are the cumulative costs of investment services and products.

	Amount (£)	Percentage (%)
Cumulative effect of costs and charges on return	5,172,370	0.39

Annual performance figures sourced from Northern Trust. LCIV UK Equity Fund and LCIV Global Equity Fund performance figures estimated using London CIV quarterly reports.

Description of the illustration.

The following is an example of the cumulative effect of costs over time:

An investment portfolio with a beginning value of £1,331m, gaining an annual return of 10%, and subject to a fee of 0.4% per annum (calculated and paid monthly), would grow to £3,331m after 10 years.

In comparison, an investment portfolio with a beginning value of £1,331m, gaining an annual return of 10% but not subject to any fees would grow to £3,453m after 10 years.

The annualised returns over a 10-year period would be 10.0% (gross of fees) and 9.6% (net of fees).

Therefore the cumulative impact of costs (fees) on investment return (reduction in yield) would be 0.40% per annum.

Deloitte.

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.

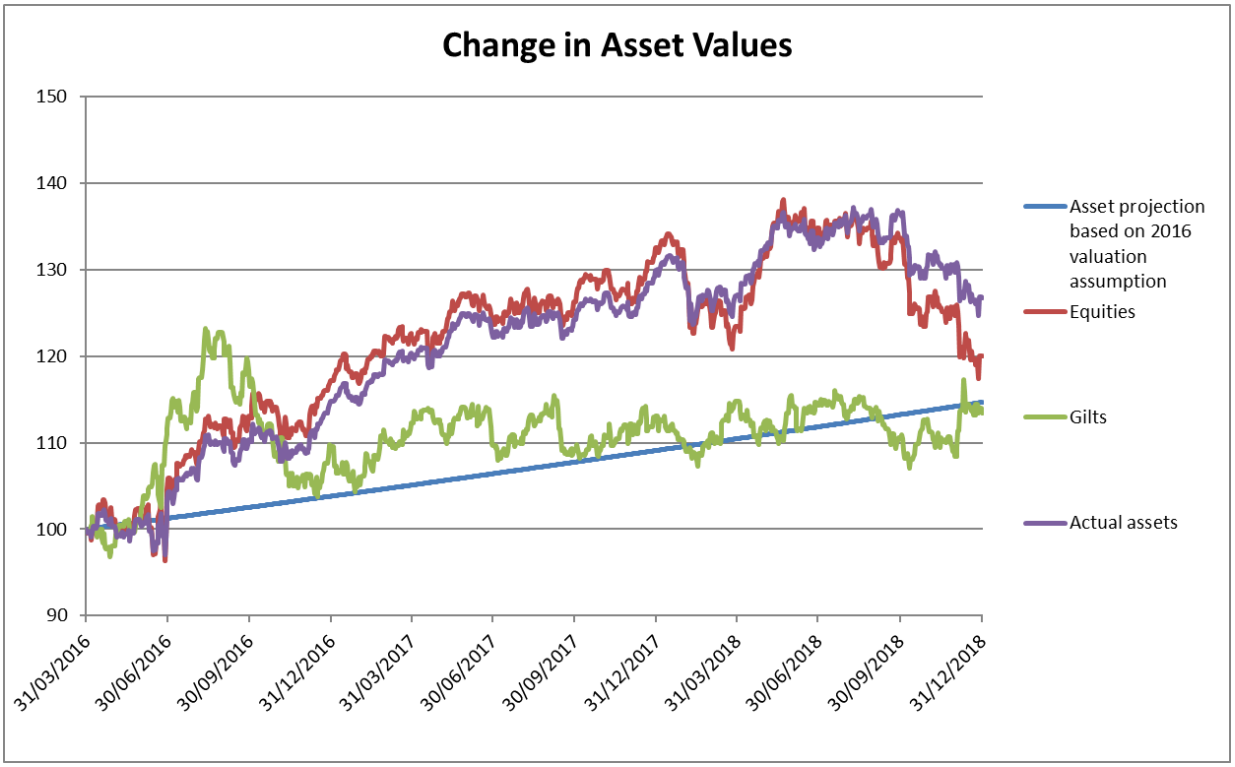
Assets

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%

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.

Matthew Paton FFA
Actuary
Barnett Waddingham LLP

Appendix 1 Financial position since previous valuation

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

The results shown below are calculated on the ongoing basis.

Please note that the results shown below are sensitive to the underlying assumptions. For example, increasing the discount rate assumption by 0.5% will increase the funding level by about 9%, and increasing the CPI inflation assumption by 0.5% will reduce the funding level by about 8%.

Smoothed Valuation date	Assets £000s	Liabilities £000s	Surplus / Deficit £000s	Funding level %	CARE ongoing cost (% of payroll)	Past service ctbn	Total ctbn (% of payroll)	Discount rate	Return required to restore funding level (p.a.)
31 Mar 2016	1,056,747	1,320,797	(264,050)	80%	16.9%	12.2%	29.1%	5.1%	6.1%
30 Apr 2016	1,069,289	1,336,329	(267,040)	80%	17.2%	12.6%	29.8%	5.0%	6.0%
31 May 2016	1,088,792	1,362,238	(273,446)	80%	17.8%	12.8%	30.6%	4.9%	5.9%
30 Jun 2016	1,103,684	1,384,191	(280,507)	80%	18.2%	13.0%	31.2%	4.8%	5.9%
31 Jul 2016	1,121,960	1,404,739	(282,779)	80%	18.6%	13.1%	31.7%	4.8%	5.8%
31 Aug 2016	1,133,402	1,421,201	(287,799)	80%	18.9%	13.3%	32.2%	4.8%	5.9%
30 Sep 2016	1,150,014	1,437,793	(287,779)	80%	19.3%	13.3%	32.6%	4.9%	5.9%
31 Oct 2016	1,172,816	1,449,639	(276,823)	81%	19.5%	12.7%	32.2%	4.9%	5.9%
30 Nov 2016	1,185,339	1,456,544	(271,205)	81%	19.5%	12.5%	32.0%	5.0%	6.0%
31 Dec 2016	1,206,192	1,462,515	(256,323)	82%	19.6%	11.8%	31.4%	5.1%	6.0%
31 Jan 2017	1,217,761	1,466,703	(248,942)	83%	19.5%	11.5%	31.0%	5.1%	6.0%
28 Feb 2017	1,237,696	1,476,212	(238,516)	84%	19.7%	11.1%	30.8%	5.1%	5.9%
31 Mar 2017	1,261,355	1,485,068	(223,713)	85%	19.8%	10.4%	30.2%	5.0%	5.8%
30 Apr 2017	1,272,195	1,484,924	(212,729)	86%	19.7%	9.6%	29.3%	5.0%	5.8%
31 May 2017	1,291,739	1,484,738	(192,999)	87%	19.6%	8.7%	28.3%	5.0%	5.7%
30 Jun 2017	1,297,593	1,481,802	(184,209)	88%	19.4%	8.4%	27.8%	5.0%	5.7%
31 Jul 2017	1,305,713	1,480,613	(174,900)	88%	19.2%	8.0%	27.2%	5.0%	5.7%
31 Aug 2017	1,309,876	1,477,979	(168,103)	89%	19.1%	7.7%	26.8%	5.1%	5.7%
30 Sep 2017	1,313,109	1,477,681	(164,572)	89%	19.0%	7.6%	26.6%	5.1%	5.7%
31 Oct 2017	1,328,003	1,482,309	(154,306)	90%	19.0%	7.1%	26.1%	5.1%	5.6%
30 Nov 2017	1,325,817	1,479,561	(153,744)	90%	18.8%	7.2%	26.0%	5.1%	5.7%
31 Dec 2017	1,330,352	1,476,578	(146,226)	90%	18.6%	6.8%	25.4%	5.1%	5.7%
31 Jan 2018	1,341,968	1,475,210	(133,242)	91%	18.5%	6.3%	24.8%	5.1%	5.6%
28 Feb 2018	1,358,573	1,478,129	(119,556)	92%	18.5%	5.6%	24.1%	5.1%	5.6%
31 Mar 2018	1,379,889	1,481,363	(101,474)	93%	18.5%	4.8%	23.3%	5.1%	5.5%
30 Apr 2018	1,383,869	1,481,851	(97,982)	93%	18.4%	4.6%	23.0%	5.1%	5.4%
31 May 2018	1,392,524	1,488,835	(96,311)	94%	18.4%	4.6%	23.0%	5.1%	5.4%
30 Jun 2018	1,394,788	1,493,108	(98,320)	93%	18.4%	4.7%	23.1%	5.1%	5.4%
31 Jul 2018	1,409,340	1,489,981	(80,641)	95%	18.2%	3.9%	22.1%	5.1%	5.4%
31 Aug 2018	1,406,781	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.

Fund Account

2018/19 £'000		Notes	2019/20 £'000
	Dealings with members, employers and others directly involved in the fund		
	Contributions		
(45,363)	From Employers	6	(34,527)
(8,982)	From Members	6	(4,064)
(6,897)	Individual Transfers in from Other Pension Funds		(2,412)
(61,242)			(41,003)
	Benefits		
45,610	Pensions	7	24,200
7,464	Commutation, Lump Sum Retirement and Death Benefits	7	3,731
-	VSP Tax Paid		423
	Payments to and on Account of Leavers		
4,919	Individual Transfers Out to Other Pension Funds		4,359
-	Bulk transfers		-
196	Refunds to Members Leaving Service		203
58,189			32,916

2018/19 £'000		Notes	2019/20 £'000
(3,053)	**Net (Additions)/Withdrawals from Dealings with Members**		(8,087)
5,823	**Management Expenses**	8	455
2,770	Net (additions)/withdrawals including management expenses		(7,632)
	Returns on Investments		
(12,194)	Investment Income	9	(6,119)
(48)	Other Income		(18)
-	Taxes on Income (Irrecoverable Withholding Tax)		-
(12,242)			(6,137)
(72,884)	**(Profit) and loss on disposal of investments and changes in the market value of investments**	11	(43,324)
(85,126)	**Net return on investments**		(49,462)

(82,356)	**Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year**	(57,093)
(1,335,976)	**Opening Net Assets of the Scheme**	(1,418,332)
(1,418,332)	**Closing Net Assets of the Scheme**	(1,475,425)

Net Assets Statement

2018/19		Notes	2019/20
£'000			£'000
	Investment assets		
-	Bonds	15	-
150	Equities		150
1,402,288	Pooled Investment Vehicles		1,461,424
-	Derivative Contracts:		-
-	Futures		-
-	Forward Foreign Exchange		-
-	Other Investment Balances:		-
120	Income Due		118
-	Debtors		-
5,802	Cash Deposits		15,987
1,408,360			1,477,679
	Investment Liabilities		
	Derivative Contracts:		
-	Futures	13	-
-	Forward Foreign Exchange	13	-
-			-

2018/19		Notes	2019/20
£'000			£'000
-	Amounts payable for purchases of investments	11	-
1,408,360	**Net Value of Investment Assets**	10	1,477,679
11,293	**Current Assets**	18	3,411
(1,321)	**Current Liabilities**	19	(5,665)
1,418,332	Net Assets of the Fund Available to Fund Benefits at the Period End		1,475,425

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 October 2019**
Classification:	**General Release**
Title:	**Governance of the LGPS – Good Governance Report**
Wards Affected:	**None**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 The purpose of this report is to present the LGPS Good Governance Report which was commissioned by the LGPS Scheme Advisory Board (SAB).

2. RECOMMENDATIONS

2.1 The Pension Fund Committee is recommended to consider the contents of this report.

3 BACKGROUND

3.1 The LGPS SAB is established under the Public Service Pensions Act 2013 to advise the Secretary of State for Ministry of Housing, Communities and Local Government on the development of the Local Government Pension Scheme (LGPS). Recently, the SAB has been looking at arrangements and structures of the LGPS funds with a view to identifying if any improvements can be made to the governance process.

3.2 In February 2019, the SAB commissioned Hymans Robertson to facilitate a consultation on good governance structures for the LGPS. The study considered how best to accommodate LGPS functions within the democratically

accountable local authority framework in a way that ensures that conflicts of interest are addressed and managed appropriately.

3.3 Fund officers contributed to the consultation survey in support of governance improvements, whilst outlining that the costs of setting up separate entities could be considerable, particularly in the light of recent pooling implementation costs that have also been borne by the Fund.

3.4 It is the SAB's aim that the LGPS will remain appropriately resourced and able to deliver its statutory functions.

3.5 At the end of July 2019 the Hymans Robertson report was published by the SAB.

4 The Good Governance in the LGPS Report.

4.1 The report considered four governance models based on various criteria, including standards, consistency, conflict management, clarity of roles and responsibility, and cost.

4.2 The four models were:

Model 1: Improved Practices

This model would seek to modify the existing LGPS regulation and introduce additional guidance that would improve the independence of the management of the fund.

Model 2: Greater Ringfencing

Model 2 would put a greater distance between the Fund and administering authority when compared with Model 1. The budgeting process, resourcing the Fund and discretionary pay policies would be examples of areas of responsibility that would be considered independently from one another, with independent management structures in place.

Model 3: A Joint Committee

A Joint Committee model would see a separate committee set up that would have responsibility for LGPS functions. The committee would comprise of representatives from both the host administering authority and the non-administering authorities in the Fund.

Model 4: New Local Authority

The introduction of a democratically accountable entity that would be subject to the provisions of the Local Government Act 1972.

5 Next Steps

5.1 The Scheme Advisory Board has invited Hymans Robertson to assist in taking forward the next stage of the good governance project. Two working groups will be established, one to focus on defining good governance outcomes and the guidance needed to clearly set them out, and the other to focus on options for the independent assessment of outcomes and mechanisms to improve the delivery of those outcomes.

5.2 Both working groups will comprise a wide range of scheme stakeholders to ensure a full range of views and options are considered. The SAB aims for an options report to be ready for consideration in November 2019.

5.3 Any proposals agreed by the SAB following the November 2019 meeting would be subject to further consultation with funds, before being put to MHCLG. These proposals will be presented to the Committee for comment when published.

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

Phil Triggs ptriggs@westminster.gov.uk **or 0207 641 4136**

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Good Governance in the LGPS, Hymans Robertson

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HYMANS ROBERTSON

Good governance in the LGPS

July 2019

Addressee

This report is addressed to our client, the Scheme Advisory Board for the Local Government Pension Scheme in England and Wales (SAB).

This Report has been prepared for the benefit of our client, the SAB. As this Report has not been prepared for a third party, no reliance by any third party may be placed on the Report. It follows that there is no duty or liability by Hymans Robertson LLP (or its members, partners, officers, employees and agents) to any party other than the SAB. If this report is shared with any third party, it must be shared in its entirety.

Thanks to contributors

We are indebted to all those who responded to the survey and engaged in interviews and events that helped inform this report. We are grateful to you for being generous with your time and expertise, for your confidence in sharing your experiences openly and for responding so constructively and creatively.

Your views on current best practice, areas for improvement and creative and practical ideas for further strengthening governance in the LGPS are reflected in the proposals we present to SAB here.

We hope that your contribution will help further strengthen and future-proof governance in the LGPS.

Contents

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Executive summary

Governance in the LGPS is evolving to accommodate new developments in the last decade, including oversight by The Pensions Regulator, introduction of Local Pension Boards, increasing complexity in scheme benefits and administration, local government funding cuts and pooling of LGPS investments which has changed the role of local pensions committees and the way LGPS administering authorities work with one another.

The SAB commissioned this report to examine the effectiveness of current LGPS governance models and to consider alternatives or enhancements to existing models which can strengthen LGPS governance going forward.

Given the unique nature of the LGPS, guaranteed by administering authorities and funded to a large degree by tax-payers, a criterion specified by SAB is that any models considered must maintain strong links to local democratic accountability.

Process

We engaged extensively with all stakeholder groups and all fund types via an online survey (140 respondents), one-to-one conversations through interviews and seminars (153 respondents), speaking engagements, a workshop with the Association of Local Authority Treasurers (ALATS), and discussion with the CIPFA Pensions Panel and the Society of County Treasurers (SCT).

We focussed on the following criteria for assessing governance arrangements; Standards, Consistency, Representation, Conflict Management, Clarity of Roles and Responsibilities and Cost. We were asked by SAB to consider how existing and alternative governance models fared against these criteria.

We considered four governance models:

- **Model 1:** improved practice
- **Model 2:** Model 1 plus greater ring-fencing
- **Model 3:** joint committee; and
- **Model 4:** separate Local Authority body.

These models were described in qualitative terms with the recognition that some of the characteristics attributed to one model could also be replicated in another model and that the final solution may draw on the features of more than one model.

Results and themes from survey responses

The online survey responses indicated a first preference for governance Model 2 (greater ring-fencing) followed by support for Model 1 (improved practice). Respondents recognised that governance models along these lines may need independent monitoring to add bite and ensure consistency of application. »

140 respondents to our online survey

one-to-one conversations

153 attendees at interviews and seminars

discussions with CIFPA and SCT

Respondents favour developing a set of standards that all funds are required to achieve...

Model 2 was also the clear preference in additional surveys at the PLSA conference in May* and other events (*Models 1 and 2 between them had more than 70% support).

Few respondents supported Model 3 (joint committee) citing no benefits over existing arrangements and considerable added complexity as the main reasons. Some respondents could see value in Model 4 (separate LA body), including one trade union for whom a version of this was the favoured model. However, for most this value was outweighed by concern about weakening relationships with councils who are key sponsors of the scheme and a belief that establishing this model would incur disproportionate cost to any benefits that could be delivered.

Through the written responses, interviews and other engagement, many stakeholders pointed out that their existing models provided many of the features and benefits of Models 1 and 2. Many had found good solutions to some of the challenges faced within the current structure and welcomed the opportunity to share these with peers and learn from others' experiences. This process enabled us to identify

i. Some best practice within current governance arrangements that is delivering good outcomes and may have potential for wider application across the LGPS; and

ii. Additional ideas for further strengthening governance within the current regulatory framework.

We have included these in the report.

Conclusions

- It is clear from survey responses that governance structure is not the only determinant of good governance. Funds with similar governance models deliver different results and good examples exist across a range of different set ups.
- Survey respondents were also clear that establishment of new bodies is not required, although this should be facilitated for funds who wish to pursue other arrangements voluntarily. Instead, the focus should be on greater specification of required governance outcomes from within the existing structures, and a process to hold funds to account for this.
- Respondents favour developing a set of standards that all funds are required to achieve, drawing on current best practice and not imposing disproportionate burden on administering authorities or disrupting current practices that deliver good outcomes already.
- Respondents emphasised that independent review is needed to ensure consistency in application of standards.

Key proposals

1. **'Outcomes-based' approach** to LGPS governance with minimum standards rather than a prescribed governance model.

2. **Critical features of the 'outcomes-based' model** should include:
(a) robust conflict management including clarity on roles and responsibilities for decision-making;
(b) assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget;
(c) explanation of policy on employer and scheme member engagement and representation in governance; and
(d) regular independent review of governance – this should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.

3. **Enhanced training requirements** for s151s and s101 committee members (requirements for s101 should be on a par with LPB members).

4. **Update relevant guidance and better sign-posting.** This should include 2014 CIPFA guidance for s151s on LGPS responsibilities and 2008 statutory guidance on governance compliance statements. This guidance pre-dates both TPR involvement in LGPS oversight, local pension boards and LGPS investment pooling.

We also set out suggested actions for implementing these proposals if agreed by SAB.

1. Introduction

Context, purpose and scope

Governance in the LGPS is evolving to accommodate new developments in the last decade, including oversight by The Pensions Regulator, introduction of Local Pension Boards, increasing complexity in the scheme benefits and administration, local government funding cuts and pooling of LGPS investments which has changed the role of local pensions committees and the way LGPS administering authorities work with one another.

The purpose of the survey, undertaken for SAB, was to identify ways of further strengthening LGPS governance in the face of these new challenges, setting a bar for standards that all funds should achieve, drawing on current best practice and not imposing additional unnecessary burden on administering authorities or disrupting current practices that deliver good outcomes already.

Given the unique nature of the LGPS, guaranteed and funded to a large degree by council tax-payers, a critical condition specified by the SAB was that any proposals must maintain strong links to local democratic accountability.

In developing the proposals made in this report, we consulted with many LGPS stakeholders. As expected, there were many different views and suggestions made to improve the governance arrangements in the LGPS. We have reflected many of these views in the body of the report, particularly where a view or proposal was articulated by several parties, and where possible we have indicated why some of these views or suggestions have not been taken forward in the final proposals. The proposals submitted to SAB in this report are those we believe would deliver improved governance at proportionate cost and reflect a consensus across most stakeholders.

We recognise that there are a small number of administering authorities (such as London Pensions Fund Authority and the Environment Agency) with unique arrangements. While we engaged with both of these funds to understand their perspectives and approaches to governance we recognise that some of the potential governance models as set out in the survey may not be appropriate, or even possible, for these bodies.

2. Process

The aim of the work we have undertaken was to deliver proposals to the Scheme Advisory Board that:

- Identify and address any actual or perceived issues within current LGPS governance arrangements, including conflicts for LGPS host authorities;
- Are based on a wide consultation to increase the likelihood of stakeholder support;
- Are proportionate and can be readily implemented; and
- Maintain local democratic accountability.

Process

The process we used is described below:

1. **Fact-find phase:** We carried out interviews based on an open-scripted questionnaire with a diverse range of experienced officers, elected members and other stakeholders in order to identify any issues within current LGPS governance arrangements. The outcome and conclusions were shared with SAB in order to assist in developing the governance models which were consulted on in the online survey.
2. **Online survey:** We conducted a wider consultation in the form of an online survey on the governance models identified by SAB. Input was sought from all relevant parties including s151 officers, s151 officers of non-administering authorities, pension fund officers, elected members, pension board members including scheme member and employer representatives as well as other interested parties and organisations.
3. **Other engagement activities:** In addition to the survey, we engaged stakeholders through other activities such as interviews, seminars and speaking events to capture as wide a view as possible.
4. **Report:** This report sets out the outcomes of our consultation activities including a full analysis of the key issues and proposals for addressing these issues, including commentary on any required legislative or guidance changes were these would realise significant benefits.

Who we consulted

In conducting our wider consultation, we engaged directly with all stakeholder groups and all fund types via:

- Online surveys which were sent to all relevant contacts on SAB's and Hymans Robertson's databases. These were also sent to any individual or organisation that requested them out with the initial mailing lists. In total, 140 responses were received to our online surveys by the closing date.
- One-to-one interviews were carried out with individuals or organisations by request or where further clarification of online responses were sought. Organisations included PSAA, NAO, CIPFA, SLT, Unite and Unison.
- Some organisations, such as CIPFA and PIRC, provided their own written submissions.
- Three seminars were held with open invitations to collate feedback from larger group.

There are 87 [1] funds within the LGPS in England and Wales. We had direct feedback from representatives at 76 of these split across the various designations used by SAB in their annual report (see **Table 1**).

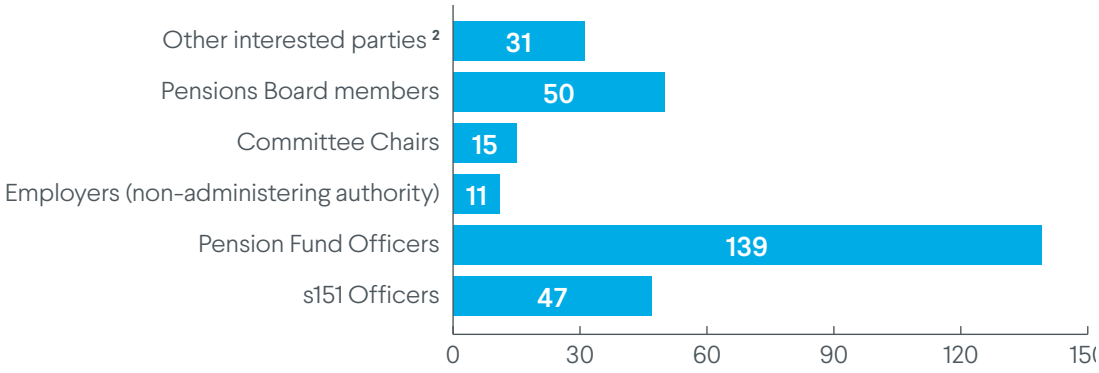
We engaged with a wide variety of stakeholders as set out in **Chart 1** below.

In addition, we have presented and collected feedback at key events over the period including the PLSA conference, CIPFA Pensions Panel, meetings of the Society of County Treasurers, Society of Welsh Treasurers and ALATS. Our findings and proposals reflect feedback from all of these.

Table 1: Respondents from LGPS funds in England and Wales, as designated by SAB annual report

			Interaction through	
	Universe	**Responses**	**Survey**	**Interview**
Unitary Authorities	12	11	24	17
London Boroughs	31	22	20	25
County Councils	27	26	64	55
Welsh Funds	8	8	15	14
Metropolitan Boroughs	6	6	8	17
Other	3	3	2	3
Independent responses			7	22
TOTAL	**87**	**76**	**140**	**153**

Chart 1: Stakeholders we engaged



1 Excluding admission body funds, passenger transport funds and the environment agency closed fund.

2 Including trade union representatives.

3. Survey results

The online survey issued as part of the consultation is set out in **Appendix A**. We sought views on four potential governance models SAB chose to consult on. All were assessed by respondents against criteria agreed with SAB. This was done through a combination of numerical scoring and free form commentary.

A summary of the numerical scores are set out below for each of the four structures:

- **Model 1 (Improved practice)** Introduce guidance or amendments to the LGPS Regulations to enhance the existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas.
- **Model 2 (Greater ringfencing)** Clearer ringfencing of pension fund management from the host authority, including budgets, resourcing and pay policies.
- **Model 3 (Joint committee)** Responsibility for all LGPS functions delegated to a joint committee comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement (IAA) makes joint committee responsible for recommending budget, resourcing and pay policies.
- **Model 4 (New Local Authority Body)** An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act 1972 provisions.

In carrying out the survey, respondents were asked whether each of the models shown would have a positive or negative impact on each of the following criteria:

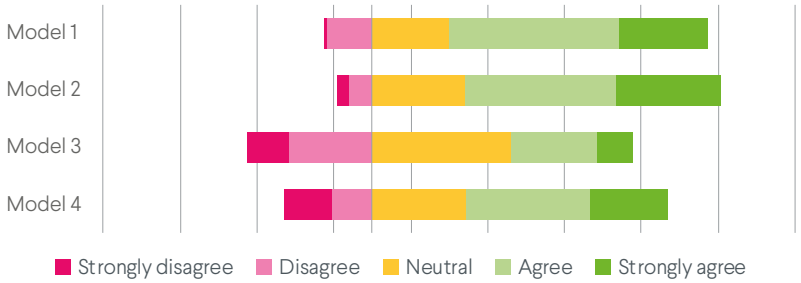
1 **Standards**	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.
2 **Clarity**	The model delivers clarity of accountability and responsibility for each relevant role.
3 **Conflict**	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such as budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).
4 **Consistency**	The model minimises dependence on the professionalism of individuals and existing relationships to deliver statutory responsibilities.
5 **Representation**	The model allows for appropriate involvement in decision-making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).
6 **Cost**	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.

The following charts summarise the extent to which respondents agreed that each model delivered against the six criteria. The further to the right the line appears, the more strongly respondents favoured the model against the criteria.

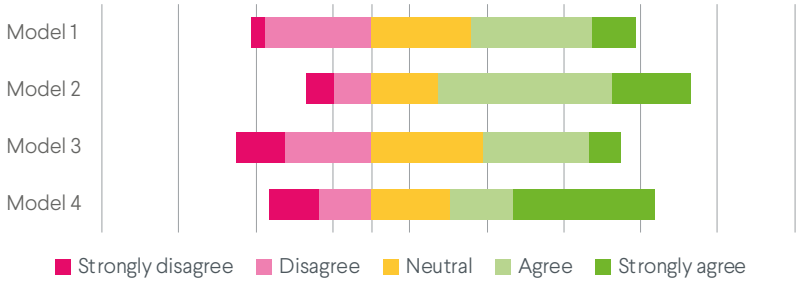
Comments on survey responses

- Across all questions and criteria, respondents gave the highest scores to Model 2, followed closely by Model 1.
- Model 4 scored reasonably well on questions relating to criteria 1 to 4. A minority of respondents supported this model or some variation on it. For example, one of the trade unions favoured a variant of Model 4 with a changed role for local councillors because they believe that it could reduce potential governance conflicts they see in the role of local councillors who must act in the best interests of scheme members and at the same time in the interests of local tax-payers. However, the majority of respondents raised concerns over the question of appropriate involvement in decision making. These respondents felt that democratic accountability may be weakened in this model or the influence of the lead local authority, who is the guarantor of last resort for the fund, would be diluted. The model also scored very poorly on cost or value for money with a majority of respondents feeling that the model would be very expensive and disruptive to implement.
- Model 3 received weakest support overall. Respondents felt that the model would be complex to set up and manage and would deliver no perceived improvements in governance outcomes.
- The sentiment reflected within the commentary in the responses was also strongly in favour of Models 1 and 2, with many respondents identifying features of Models 1 and 2 that are already delivered in their current structure.
- However, responses also recognised that in order to achieve governance improvements through Models 1 and 2, the governance regime needs to include independent monitoring or review of local fund arrangements to ensure that everyone attains a minimum standard and that those beyond that level seek continuous improvement.

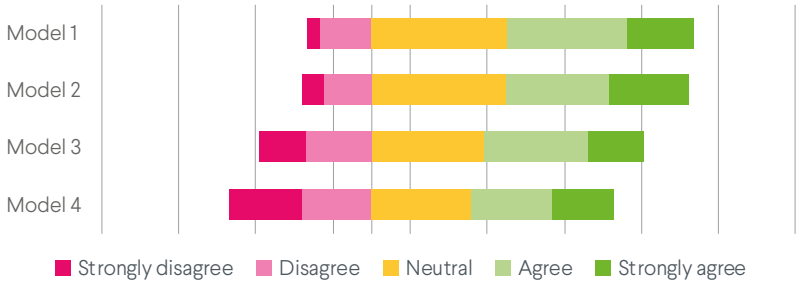
The model enables funds to meet the required standards



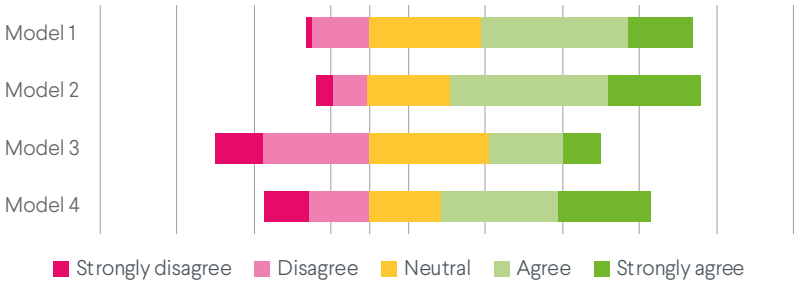
The model minimises conflicts between the pension function and the host local authority



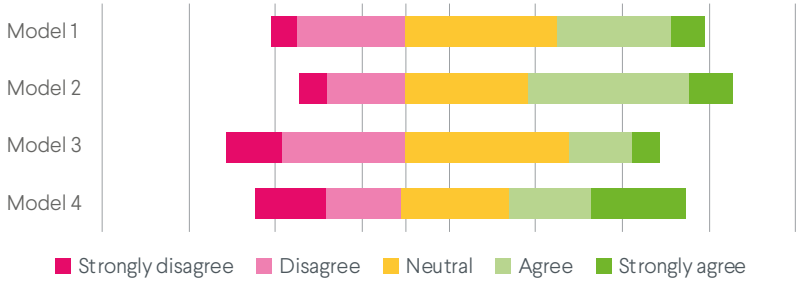
The model allows for appropriate involvement in decision-making for key stakeholder



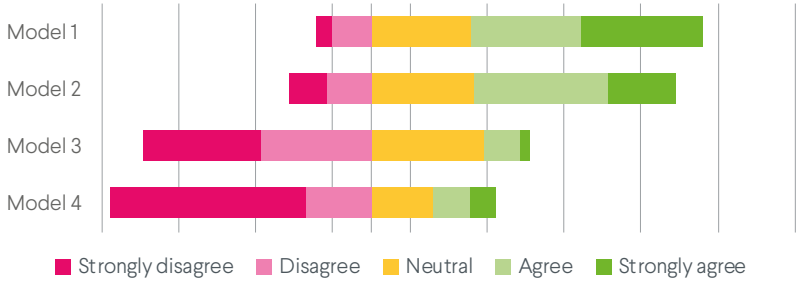
The model delivers clarity of accountability and responsibility for each relevant role

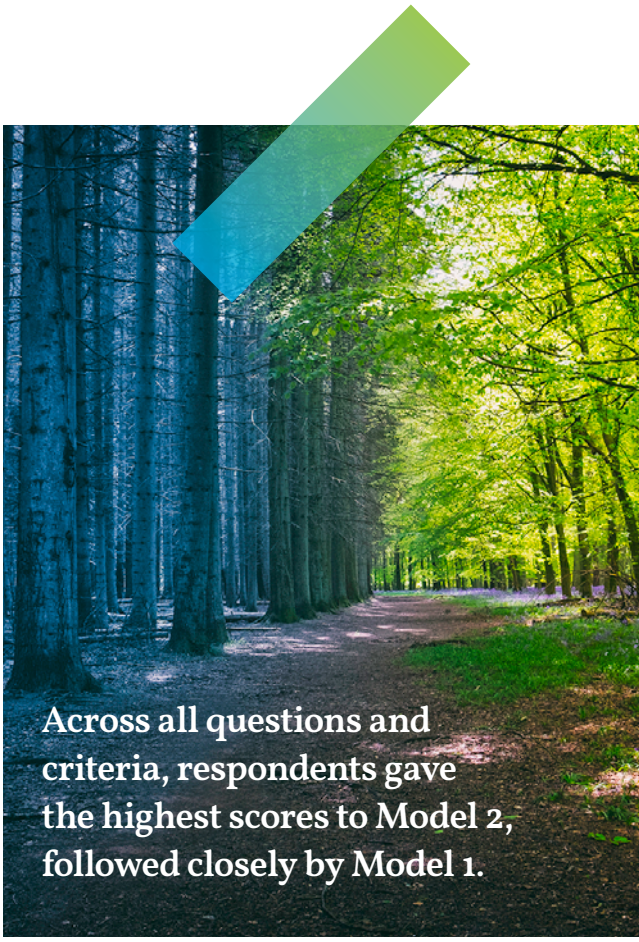


The model minimises dependence on professionalism and relationships to deliver statutory responsibilities



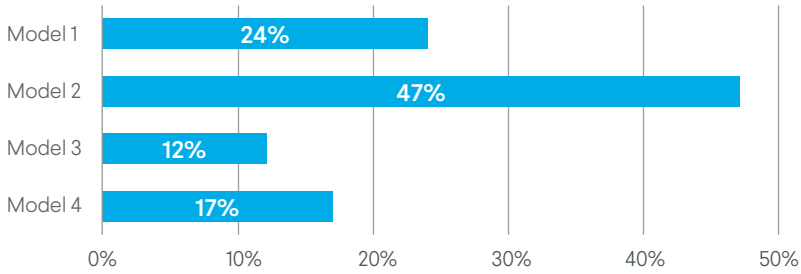
The cost of implementing and running the model is likely to be worthwhile versus benefits delivered





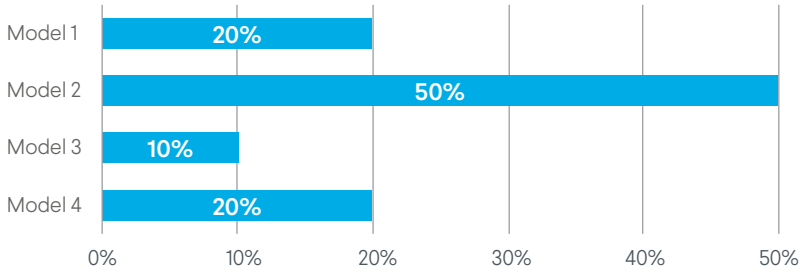
PLSA

Which structural governance model do you prefer from the four models discussed?



Webinar

Which structural governance model do you prefer from the four models discussed?



Additional survey data

In addition to the online survey, we asked attendees at our PLSA session and other events a set of questions on their preferences.

Around 70% of respondents favoured Models 1 or 2.

Very similar results (from a smaller sample size) were recorded at our webinar.

4. Survey themes

The following section reflects some of the views raised during various conversations. Direct quotations reflect a specific point made by an individual which we judged to be representative of views of a number of respondents. Comments not in quotations are our expression of views expressed by a significant number of respondents.

Key:

CC	County Council
Met	Metropolitan
LB	London Borough
TU	Trade Union

Standards

1. There was an almost unanimous view that there should not be a single model of LGPS governance imposed on all funds.

2. The view 'one size does not fit all' was frequently stated by respondents from all categories of respondent.

3. There was a strong view from respondents that members of pension committees should be mandated to have the same level of training as local pension board members.

4. A small minority expressed the view that this would lead to problems getting elected members to sit on pension committees.

5. The fact that pension committee members can change due to elections or being moved around can cause problems with consistency and maintaining knowledge and skills.

   "It is a perversion that LPB members require a higher degree of training than elected members."

   Officer, LB

   "[The] biggest issue is stability at elected member level. Too much turnover."

   Officer, LB

6. Several respondents said that guidance from several sources caused confusion as to which was current, which was relevant and what are 'musts' (mandatory) and 'shoulds' (guidance or best practice):

   "Funds are currently pulled in too many directions by lots of guidance – CIPFA, SAB, TPA etc."

   Officer, CC

   "[Guidance from numerous sources] muddies the waters between what is statutory guidance and what isn't."

   Independent Advisor

7. The idea of extending the existing concept of peer challenge to include pensions was mentioned by some respondents. (Committee Chair CC, s151 CC and officers Met)

Clarity of decision-making

1. Some respondents felt that there was already a clear framework around decision making within their authority but other reported that there was very little clarity around where key decisions were made.

2. Two funds suggested that it was unclear who was responsible for decisions around outsourcing the administration function; was it the pension committee, s151 officer, full council?

3. One fund reported it very difficult for the council's constitution to be updated - the updates required for pooling have still not been made.

4. Greater clarity around decision-making is a good idea: "Some decision-making conventions are lost in the mists of time."

   Officer, CC

Consistency

1. Commentary on Models 1 and 2 recognised that some sort of monitoring, enforcement or independent review would be needed to ensure that the required standards and governance outcomes are delivered.

2. There was strong support for the professionalism of s151 officers and the role they play.

3. A few respondents noted that the work pressures on s151 officers is greater than ever before and worried about their scope to devote the necessary time to the fund.

   "My s151 is incredibly supportive and helpful but I accept s151s at other funds are not as engaged or are engaged in the 'wrong way'".

   Officer, CC

   "Separation would actually push s151s away from the fund, leading to less responsibility and engagement with the fund, leading in turn to less expertise and worse decisions. Better to get s151s more closely involved so they understand the requirements of the LGPS and make better decisions."

   Officer, CC

4. A number of respondents stated that "Statutory/ fiduciary duty clarity would be useful."

Conflicts

1. Most respondents felt that there was acknowledgement of the potential conflict faced by elected members and officers and that those potential conflicts were managed well.

2. However, it was not unusual for respondents to suggest that there needed to be better distinction between the employer and administering authority role.

   "No one in the council understands the difference between the 'council' function and the 'pension' function."

   Officer, LB

   "The make-up of panel/committees is not working – too much political interference."

   LPB Chair

   On conflicts:
   "I don't see abuses. The ability is there for there to be abuse but it doesn't happen."

   Officer, CC

   "LGPS is full of conflict, SIOI committees are beholden to the council who are mainly focused on council tax-payers."

   TU

3. Some pointed out that concentrating on conflicts missed some of the advantages of LGPS funds being part of local authorities.

   "[This review] should address the many advantages and benefits of working for a large, well-run and modern council.

   s151 CC

   "[S151] role involves tensions, not conflicts. Tension can't always be seen as a bad thing."

   Officers, Met

Budgets and resourcing

1. There was a range of approaches when it came to budget setting. In some instances, the budget available to the pension fund was determined as part of the wider council budget setting process with little or no input from pension officers and no role for the pension committee. Other funds reported that budget setting and in-year management of the budget was the responsibility of pension officers and that the local authority's s151 was 'kept informed'.

   "It hadn't occurred to me that the [pension] committee could get involved with budget setting. Guidance on that would be good."

   Officer, LB

   "Potential problems include transparency in the AA of its costs. Recharges of time. Costs recovered by the AA via the PF."

   LPB Chair

2. There was also a split in terms of whether funds had the ability to set their own staffing or whether they were subject to recruitment freezes or downsizing exercises that apply to the main council.

   "[There should be] resourcing such that there is the quality and competence to deliver their statutory duties"

   s151, CC

   One s151 expressed "disbelief that blanket hiring bans and pay policies affected the pensions section. S151's should be flexible enough to understand how to 'spend' resources. If they need to pay differently for pensions to get the right experience/quality."

   s151, CC

   When it comes to budgeting and workplans
   "...the SIOI committee decides including requests for extra resource if required."

   Chair of Committee. CC

Representation

1. Most respondents felt that there was a role for some sort of scheme member presence on pension committees. although there was a difference of opinion about whether this should be a voting role or an observer role. A number of funds suggested that the scheme member role should not be limited to trade union representative. All agreed that the majority representation must lie with the administering authority.

   "Less than 50% of our members are in a union."

   s151, CC

   "Representation is key – members must have a say"

   TU

   "Other employers reps and member reps should have voting rights [on the committee]. That's right and should happen."

   Chair of Committee, CC

   "We are warm towards the idea of an independent advisor/trustee who sits on committees."

   s151, CC

   "We want to improve things for our members in terms of governance, transparency and representation."

   TU

2. There were strong views on both sides about the value that local pension boards bring. Some feeling that they increased bureaucracy without adding value while for others they had become a useful part of the fund's governance arrangements.

   "I welcome the involvement of the Pension Board it adds value, second opinion."

   Chair Committee, CC

   One respondent believed that joint committee and local pension boards "give scheme members and other employers a voice and avoids duplication."

   s151, CC

   "Many administering authorities see boards as threats rather than opportunities. There are still boards who are dictated to. Need administering authorities to release tight control."

   Chair of LPB

3. There were a range of practices in how funds engaged with employers:

   "As s151 of a non-admin authority, I didn't feel engaged in the pension fund, it was something that was dictated to me every few years."

   s151 speaking of their time in a non administering authority

   "Employer liaison is tricky as your participating employers often don't see it as a priority."

   s151, CC

5. Examples of current best practice

It was apparent during our conversations that many funds exhibited excellent examples of good governance but that practices across funds were not consistent. This section captures some of the examples of best practice that we identified.

Regular governance reviews

A number of funds confirmed that they use internal audit to provide assurance on administration and governance matters. Some reported an annual programme of work with different aspects of delivery being assessed each time.

Other funds had commissioned external governance reviews in order to receive an independent assessment of their current arrangements.

Committee membership and effectiveness

A large number of funds stated that they required pension committee members to attain the same level of knowledge and expertise as local pension board members. This was achieved through training policies which set out clearly how the fund will deliver training and assess its effectiveness.

One fund reported how members of the pension committee are required to sign a declaration stating that they will act in the interests of the fund and not be influenced by party political matters. One view is that councils should waive the requirement for political representation on committees to allow the most appropriate members to sit, rather than allocate places according to political party.

Most funds have some sort of scheme member representation on pension committees and a small number allow scheme member representatives to vote.

Independence

A number of funds reported that there was a clear understanding of, and separation between, the functions of the pension fund and the local authority which recognised the specialist nature of the LGPS. This was typically achieved through one or more of the following features:

- A dedicated Head of Pensions role which was at an appropriately senior level within the authority's structure.
- A recognition by elected members serving on the pension committee that, when carrying fund specific business, they were acting on behalf of scheme members and all of the employers in the fund, not simply their own local authority.
- Independent business planning and resourcing decisions made by pension fund officers and signed off by the pension committee and s151. This allows the pension fund to plan and resource appropriately to deliver its strategic objectives.
- Pension fund not subject to same recruitment freezes or restructuring exercises applied at a council level. Some funds reported using market supplements to attract appropriately skilled staff, where a strong business case could be made.

Focus on quality of service to scheme members

Some funds were prepared to 'go the extra mile' in terms of the quality of service delivered to scheme members. This might involve encouraging face-to-face interaction between pensions staff and scheme members (particularly when considering complex or emotive matters), producing a range of communications aimed at active, deferred and pensioner members or holding annual member meetings to raise awareness of current issues.

6. Proposals

The proposals we set out for consideration by SAB are informed by feedback from stakeholders. Many are things which well-run funds already do.

- **Table 1** shows the proposals in summary.
- **Table 2** sets out the rationale for each proposal and, if SAB agrees with proposals, suggested actions to implement.

Table 1: Summary of proposals

1	**'Outcomes-based' approach** to LGPS governance with minimum standards rather than a prescribed governance structure.
2	**Critical features of the 'outcomes-based' model** to include: a. Robust conflict management including clarity on roles and responsibilities for decision making. b. Assurance on sufficiency of administration and other resources (quantity and competency) and appropriate budget. c. Explanation of policy on employer and scheme member engagement and representation in governance. d. Regular independent review of governance - this should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered.
3	**Enhanced training requirements** for s151s and s101 committee members (requirements for s101 should be on a par with LPB members).
4	**Update relevant guidance and better sign-posting.**

Table 2: Rationale for proposals and suggested actions

	Proposal	Why	Suggested actions
1	**'Outcomes-based' approach** to LGPS governance rather than a prescribed governance structure.	We observe (and the survey evidences) that different administering authorities with the same governance structure can have different outcomes in terms of quality and standards of governance. All the governance models in the SAB survey can deliver good or bad governance outcomes. Focussing on the desirable traits and outcomes expected of LGPS governance will enhance governance in a more reliable and cost-effective manner than prescribed changes in structure. Further, we do not believe it is appropriate to impose a 'one size fits all' approach.	i. SAB should consult on: • Desirable features and attributes of LGPS governance arrangements; • The outcomes governance arrangements should be expected to deliver; and • How each administering authority might evidence that its own governance model displays the required attributes. ii. Once identified and agreed through consultation, the desirable features and expected outcomes should be set out in statutory MHCLG guidance (replacing the 2008 CLG guidance).

Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
2	**Critical features of the 'outcomes-based' model** to include: a. Robust conflict management. b. Assurance on sufficiency of administration resources (quantity and competency) and appropriate budget. c. Explanation of policy on employer and scheme member engagement and representation in governance. d. Regular independent review of governance.	The detailed specification of the desirable features and expected outcomes of an 'outcomes-based' model are beyond the scope of this project and should be determined in a second stage of work and through consultation. However, based on responses to the survey we propose a small number of critical elements to ensure this approach is effective. These proposals are shown below under 2(a) – (d).	SAB to consider making these features mandatory but determining other aspects of the detailed specification of features and expected outcomes in a further phase of work (as per Proposal 1).
2a	**Robust conflict management.** Administering authorities should be able to decide locally how they will evidence this requirement including for example: • Published conflicts policy. • Protocols for setting and managing budgets. • Schemes of delegation. • Documented roles and responsibilities of elected members on s101 committees, s151 officers and pension fund officers.	Elected councillors and s151 officers have multiple competing statutory responsibilities, within their roles in the LGPS and in wider council responsibilities. High professional standards and experience help them to navigate. Additional measures specific to their LGPS duties can help reduce conflicts and perception of conflicts. Many administering authorities already have a conflicts policy or alternative arrangements to help reduce the risk of conflicts including, for example, schemes of delegation or well defined and documented roles and responsibilities.	SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.

Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
2b	**Assurance administration and other resource (quantity and competency) sufficient to meet regulatory requirements and budget appropriate.** This will require a transparent approach to setting and managing budgets. Administering authorities should be able to decide locally how they will evidence this requirement including for example: • Benchmarking. • External expert advice. • Internal or external audit. • Review by LPB with appropriate expert advice. Administering authorities may need freedom to use market supplements to attract and retain staff and should not be tied to council staffing policies such as recruitment freezes.	The administrative burden on the LGPS has increased significantly due to increasing complexity (pre- and post-Hutton benefits) and the massive growth in employer numbers. At the same time, there is increased scrutiny from TPR and risk of fines and other regulator interventions. It is critical that pension administration teams are sufficiently well resourced with competent personnel and appropriate administration systems. This aim must be supported by transparent processes for setting appropriate budgets. Pensions administration is a specialist role and, at the current time, it is difficult to attract and retain staff. Many administering authorities already have pay and recruitment policies relevant to the needs of their pension functions rather than being tied to the general policies of the council.	SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.
2c	**Explain policy on employer and member engagement and representation in governance.** At the current time, employer and member representation (with or without voting rights) should be encouraged but not compelled. Decisions on the approach to member representation should remain a local matter but administering authorities should explain their approach.	Most administering authorities have non-administering authority employer and scheme member representatives. Non-administering authority employers are often chosen to represent certain employer constituencies (e.g. academies, FE, charities and housing associations). In some cases, scheme member representatives have voting rights. »	SAB to consider making these features mandatory but determining other aspects of the detailed specification of features and expected outcomes in a further phase of work (as per Proposal 1).

Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
		Many survey respondents support greater encouragement to include scheme member reps on s101 committees. However, administering authorities prefer some local flexibility on this, including how representatives are selected and whether they have voting rights. Importantly, administering authorities should retain majority voting representation because of the statutory responsibilities they bear.	
2d	**Regular independent review of governance** to assess effectiveness of administering authority's governance arrangements in the context of the desirable features and expected outcomes set out in guidance on an 'outcomes-based' model. This should be based on an enhanced governance compliance statement which should explain how the required outcomes are delivered. Guidance should not prescribe the approach but could set out acceptable methods which may include: i. Internal or external audit assessment; ii. Scrutiny by LPBs; iii. A peer review process.	It is important that any 'outcomes-based' approach is policed. Self-assessment is insufficient. Independent review is required for a more objective assessment. We discovered that some funds do this on a regular basis already using a variety of approaches including internal and external audit and other external experts and advisors.	SAB should consider making this a mandatory feature of any 'outcomes-based' governance model.

Table 2: Rationale for proposals and suggested actions (continued)

	Proposal	Why	Suggested actions
3	**Enhanced training requirements** for s151s and s101 committee members. This is to include all s151 officers, not just those currently with administering authority responsibilities.	**s151s:** Current CIPFA training does not have specific pensions modules. CPD for those at or close to s151 level would be more effective and have impact sooner than changes to exam syllabus, although the latter would also have longer term benefit. Greater understanding of the LGPS amongst the wider s151 community may also reduce perception of conflicts. **s101 committees:** Currently the training requirements for Local Pension Board members (which are statutory) are more onerous than those tor s101 committee members. Survey respondents felt this inconsistency was unacceptable and that s101 training should be on a par with LPB requirements.	i. CIPFA to develop a CPD module for s151 practitioners in the LGPS. ii. SAB / MHCLG statutory guidance to require training for s101s to be on a par with members of Local Pension Boards.
4	**Update relevant guidance and provide better sign-posting.** It would also be helpful to provide greater clarity to officers and elected members on their statutory and fiduciary obligations. As well as sign-posting, there should be clarity on the status of current and future guidance (e.g. statutory and therefore compulsory or best practice)	The main guidance relevant to governance includes: i. CIPFA guidance for s151s in respect of LGPS responsibilities (2014); and ii. CLG's statutory guidance on governance of governance compliance statements (2008). Both pre-date PSPA 2013, involvement of TPR in LGPS governance and investment pooling. Both must be updated.	i. CIPFA to review and update guidance for s151s in respect of LGPS governance. ii. MHCLG to review and update statutory guidance on governance. In particular, this should put greater emphasis on non-investment aspects of governance such as administration. iii. SAB should consider commissioning legal input to give greater clarity on statutory and fiduciary responsibilities of s151 officers and s101 elected members. iv. SAB or MHCLG should provide greater clarity on the status of current and future guidance (e.g. statutory and therefore compulsory or best practice.)

Table 3: Other ideas considered but rejected or out of scope

	Proposal	Reason for non-recommendation
1	**Separate s151 for pension fund.**	• A benefit would be specific focus on LGPS matters and therefore greater depth of understanding. • However, this is unlikely to help reduce conflicts (the pension fund s151 still has fiduciary responsibility to local tax-payers and may report to council s151) and may not be practical for smaller funds with greater resource constraints.
2	**Compulsory benchmarking.**	• Concerns because benchmark data not like for like (e.g. same cost per member but different service); and (ii) risk this drives lowest common denominator results instead of innovation in service delivery • We recognise that benchmarking has a place and would welcome the development of more sophisticated forms of benchmarking that focus on the quality of the service delivered.
3	**Legal separation of pension fund accounts.**	• Requires change in primary legislation. • Pension fund accounts already separated, audited and shown in Pension Fund Annual Report (annual report is a statutory requirement). • It is unclear what additional benefit there is in legal separation of PF accounts form administering authority/council.
4	**Mandating extension of audit to include an opinion on suitability of LGPS governance arrangements.**	• Some funds commission an external (or internal) audit view voluntarily. • NAO has confirmed that this could only be mandated through legal separation of pension fund accounts (see above). • Concerns on some external auditors' lack of LGPS knowledge and lack of continuity due to changing personnel. • Preference to allow flexibility in approach to independent assessment of governance arrangements and their efficacy.
5	**Removing s151 from decisions around admin budgeting due to conflicts.**	• s151 has statutory responsibility.
6	**Merger of funds to facilitate different governance models.**	• Weakened link to local democratic accountability. • Outside of the scope of the project.

Table 4: Suggested follow up work beyond the scope of this report

	Suggested follow up work	Why
1	**SAB to consult on detailed specification of desirable features and expected outcomes from an 'outcomes-based' model.**	• Important to get buy-in and support for the practical details of an 'outcomes-based' governance model.
2	**CIPFA and MHCLG to update existing guidance.**	• Existing guidance is out of date.
3	**Commission legal work to provide greater clarity on statutory versus fiduciary obligations (s151 and s101 committee members).**	• Statutory responsibilities take precedence. • Currently unclear.
4	**SAB to consider a 'Good Administration' review.**	• Survey respondents expressed interest in some work to set out what good administration looks like, examples of current best practice, good approaches to meeting the needs of scheme members and employers, and greater clarity on what standards will be required to satisfy TPR. • This will help administering authorities to be clear what standards they must achieve in order to provide 'assurance' that administration resources are sufficient in quantity and competency, identify any gaps and determine what practical steps they might take to address those gaps.
5	**SAB to consider a review of the role of Pension Boards in LGPS.**	• Very mixed reports on the role and success in working with Pension Boards in the LGPS.

Table 5: 'Outcomes-based' model - concept illustration

	Outcome: examples	How to demonstrate that your governance model complies: examples
1	**Robust conflict management.**	• Conflicts policy. • Scheme of delegation or decision matrix setting out who makes what decisions. • Transparent process for approving budgets. • Documented roles and responsibilities of elected members on s101 committees, s151 officers and pension fund officers.
2	**Assurance administration and other resource (quantity and competency) sufficient to meet regulatory requirements and budget appropriate.**	• Benchmarking. • External expert advice. • Internal or external audit. • Review by LPB with appropriate expert advice. • Process for setting administration budget. • Policies in respect of recruitment and market supplements to attract and retain staff.
3	**Explain policy on employer and member engagement and representation in governance.**	• Set out approach to employer and member engagement e.g. communication plan, AGM, employer liaison and support. • Set out approach to participation of non-administering authority employers in governance of fund e.g. representatives of academies, admitted bodies, FE, charity sector, etc. • Set out approach participation of scheme members in governance (e.g. observers, voting members, how selected, etc.) and rationale for approach.
4	**Regular independent assessment of governance arrangements.**	State method e.g. • Internal or external audit assessment; or • Scrutiny by Local Pension Board; or • External expert / consultant; or • Peer review process. Describe scope and approach e.g. • Reviewing policies, meeting minutes. • Reviewing committee efficacy in decision-making, etc.

Appendix A

Scheme Advisory Board: Good Governance Survey

The following pages replicate the online Good Governance survey on governance models for the LGPS. The survey closed on 31 May 2019.

Introduction

The Scheme Advisory Board has commissioned Hymans Robertson to review LGPS governance structures and practices. This survey is part of a key part of the project and we are keen to collect views from as wide a range of stakeholders as possible. Further details on the scope and background to the project can be found on the SAB website.

To help inform this survey and the options for governance change presented for feedback, views were sought from a representative range of LGPS stakeholders (including pension fund officers, section 151 officers, trade unions and other advisors) in order to understand the issues and challenges that the current LGPS governance arrangements present.

Examples of issues cited by respondents included:

- **Clarity:** There is sometimes lack of clarity over roles and responsibilities.
- **Conflicts:** A number of stakeholders raised the issue of perceived conflicts of interest between the fund and the council, in particular for the section 151 of the administering authority given his or her responsibilities for the financial management of other council functions. It was suggested these could manifest themselves in terms of the strategic decisions taken by the fund in respect of funding (contribution rate decisions) and investment or in respect of allocating resource to the pension fund.
- **Consistency:** It is widely recognised that there are many examples of good practice within the LGPS and that section 151s and pension funds manage these conflicts well. However, it was noted that this good practice largely relies on the professionalism and good will of individuals and the ethos of the authority. There is very little regulation or guidance that would safeguard the situation if such high standards were absent.
- **Representation:** The issue of appropriate representation was raised, in particular for non-administering authorities. Some respondents suggested that there could be improvements in the way administering authorities engage with the other employers in the fund on administration resourcing as well as funding, contributions and investment matters.
- **Standards:** It was also noted that LGPS funds evidence varying levels of compliance with the standards for administration, funding and investment set out in statutory legislation, relevant guidance and the TPR Code of Practice 14.
- **Miscellaneous:** Other issues raised included lack of continuity in committee members; shortage of in-house skills, expertise and subject matter knowledge in investment and funding; and restrictions on recruitment and pay policy for the pensions function.

Please use the box below to provide details of any additional issues which you believe the Board should address as part of this exercise.

Comment box provided.

The criteria

Based on the issues raised by stakeholders, the Board has agreed 6 criteria which will be used to assess any proposed changes to LGPS governance arrangements.

Standards	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.
Conflict	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).
Representation	The model allows for appropriate involvement in decision making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).
Clarity	The model delivers clarity of accountability and responsibility for each relevant role.
Consistency	The model minimises dependence on the professionalism of individuals and existing relationships to deliver statutory responsibilities.
Cost	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.

Please use the box below to provide details of any additional criteria which you believe the Board should consider as part of this exercise.

Comment box provided.

Governance models in this survey

The Scheme Advisory Board would like to hear your views on four governance models set out below.

Option 1 – Improved practice: Introduce guidance or amendments to LGPS Regulations 2013 to enhance the existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas.

Option 2 – Greater ring fencing of the LGPS within existing structures: Clearer ring-fencing of pension fund management from the host authority, including budgets, resourcing and pay policies.

Option 3 – Joint Committee (JC): Responsibility for all LGPS functions delegated to a JC comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement (IAA) makes JC responsible for recommending budget, resourcing and pay policies.

Option 4 - New local authority body – an alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act provisions.

It is recognised that a one size fits all approach may not be appropriate.

Final recommendations by SAB could be variations on the models described here, taking account of your feedback. Any regulation changes needed will be fully assessed before SAB makes final recommendations. We have not provided detailed costing of each of the models presented in the survey. The cost of implementation would in any case vary across different funds, but, generally, the effort and cost to implement increases as we move from Option 1 to Option 4. Detailed costing of any recommendations emerging from this exercise would be undertaken prior to implementation.

In the next section we set out a brief description of each of the options along with the opportunity for you to provide your views on how well each option compares against the agreed criteria.

For brevity the option descriptions have been included on the next two pages, followed by the response form (which was identical for all four options).

Option 1 - Improved practice

Features

- SAB guidance on minimum expected levels of staffing and resourcing;
- SAB guidance on representation on pension committees and expected levels of training for those on pension committees and officers with an LGPS role. Additional guidance could also be considered on the best practice for pension boards.
- Legal clarification on the fiduciary and statutory duties of key individuals within LGPS funds.
- LGPS regulations set out enhanced process for consulting on FSS and ISS to ensure greater voice for the full range of employers in the fund.

Option 2 - Greater ring fencing of the LGPS within existing structures

Features

- The pension fund budget is set at the start of the financial year with reference to its own business plan and service needs.
- Any charges to the fund in respect of support services provided by the host authority, for example legal support, HR and procurement is included in the budget up front.
- Pension fund related expenditure then comes directly from the fund. This removes the common practice whereby pension fund expenditure is paid though the host authority's revenue account to be recharged at a later date.
- The section 151 of the administering authority would retain responsibility for the pensions function but recommendations on budget (including administration resources required to meet TPR standards) would be made by a pension fund officer to the pensions committee which would be responsible for agreeing the budget. (Alternatively, the pension fund could have a separate s151 officer to reduce conflicts currently faced by s151s.*)
- The pension committee would be responsible for agreeing the budget as well as approving any changes to that budget during the financial year.
- The cost of staffing would be met through the fund including any additional costs such as market supplements or redundancy strain.
- Changes to the Audit and Accounting Regulations 2015 could be considered to make the fund accounts legally separate and subject to a separate audit.

In addition to the budget related aspects outlined above further steps could be taken which would give funds greater autonomy over employment policies. The model is analogous to the fund being treated as an internal business unit of the council.

- Staff will continue to be employed by the host council but polices over certain HR matters such as recruitment and the payment of market supplements will be delegated to the pension committee.
- Decisions over other matters pertinent to the fund, for example investment in new administration technology, would also lie with the pension committee.
- Decisions around the structure of the pension function would be for the fund's management team to make with the approval of the pension committee.*

* Further consideration is required as to whether these practices could simply be encouraged by regulatory bodies or whether it is possible and/or desirable to find a mechanism by which these could be mandated.

Option 3 - Use of new structures: Joint Committees (JC)

Features

- The scheme manager function and all LGPS decision making, which currently sits with the administering authority, would be delegated to a section 102 JC. The committee would comprise all the local authorities who currently participate in the fund as employers.
- Consideration could be given to the representation of other employers and scheme members on the JC.
- Assets and liabilities still sit with the existing administering authority.
- Employment of staff and contractual issues dealt with through a lead authority or a wholly owned company. This could be codified within an Inter Authority Agreement (IAA).
- The IAA would stipulate that the budget will be agreed by the JC. s151s of the constituent local authority employers retain a fiduciary duty to the local taxpayer but the IAA would distance them legally from budget setting responsibilities in respect of the pensions function.

Option 4 - New local authority body

Features

An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act provisions.

This might be through a combined authority route or through a public body established by statute.

- The new body must retain a strong link to democratic accountability.
- Employment of staff and contractual issues dealt with by the new body.
- Assets and liabilities transferred to the new body.
- Separate accounts based on CIPFA guidance.
- Funded by an element of the contribution rate and by a levy on constituent authorities.
- Officers in the new body are responsible only for the delivery of the LGPS function.

Please use the voting buttons to indicate to what extent moving from existing arrangements to Option (1, 2, 3 or 4) would achieve each of the criteria.

Standards	The model enables funds to meet good standards of governance across all areas of statutory responsibility including TPR requirements.	Strongly disagree 1 2 3 4 5 Strongly agree
Conflict	The model minimises conflicts between the pension function and the host local authority, including but not limited to s151 officer conflicts (in operational areas such budgets, resourcing, recruitment and pay policies and in strategic areas such as funding and investment policy).	Strongly disagree 1 2 3 4 5 Strongly agree
Representation	The model allows for appropriate involvement in decision making for key stakeholders (including administering authority, non-administering authorities, other employer and member representatives).	Strongly disagree 1 2 3 4 5 Strongly agree
Clarity	The model delivers clarity of accountability and responsibility for each relevant role.	Strongly disagree 1 2 3 4 5 Strongly agree
Consistency	The model minimises dependence on professionalism and relationships to deliver statutory responsibilities.	Strongly disagree 1 2 3 4 5 Strongly agree
Cost	The cost of implementing and running the model is likely to be worthwhile versus benefits delivered.	Strongly disagree 1 2 3 4 5 Strongly agree

Please provide any comments you may have regarding Option 1/2/3/4 in the box below.

Comment box provided.

Finally, respondents were asked:

Are there any alternative governance structures not covered between Option 1 – Option 4 which you believe the Board should consider?

Comment box provided.

Appendix B

Abbreviations

Abbreviations

ALATS	The Association of Local Authorities' Treasurers Societies
CIPFA	The Chartered Institute of Public Finance and Accountancy
CLG	Communities and Local Government (former name of MHCLG)
CPD	Continuous Professional Development
FE	Further Education
JC	Joint Committee formed under s102 of the Local Government Act 1972
LA	Local Authority
LGPS	Local Government Pension Scheme
LPB	Local Pension Board
MHCLG	Ministry of Housing, Communities and Local Government
NAO	National Audit Office
PF	Pension Fund
PIRC	Pensions and Investment Research Consultants Ltd
PLSA	Pension and Lifetime Savings Association
PSPA 2013	Public Service Pensions Act 2013
PSAA	Public Sector Audit Appointments
s101	A committee established under s101 of the Local Government Act 1972
s151	An officer with responsibilities under s151 of the Local Government Act 1972
SAB	Scheme Advisory Board for the Local Government Pension Scheme in England and Wales
SCT	Society of County Treasurers
SLT	Society of London Treasurers
SWT	Society of Welsh Treasurers
TPR	The Pensions Regulator

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**23 October 2019**
Classification:	**General Release**
Title:	**Governance and administration risks in public service pension schemes: an engagement report from The Pensions Regulator**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 This paper provides the Pension Fund Committee with a summary of the Pension Regulator's (tPR) engagement with ten LGPS funds to understand a sample of scheme managers' approaches to a number of key risks and includes their suggested improvements that could be made.

1.2 The engagement took place between October 2018 and July 2019.

2. RECOMMENDATION

2.1 The Committee is recommended to note the report and make appropriate comments.

3. THE ENGAGEMENT REPORT

3.1 The report was based on the following areas of focus:

- Record-keeping
- Internal controls

- Administrators
- Member communication
- Internal dispute resolution procedure (IDRP)
- Local Pension Board
- Employers and contributions
- Cyber security
- Internal fraud and false claims

3.2 Overall, tPR found some areas requiring improvement but commended others where good practice was demonstrated relating to the various risks. The key improvement areas are summarised below.

- Key person risk: While most scheme managers demonstrated good knowledge, many funds have a lack of comprehensive documented policies and procedures.

- Local Pension Board: Engagement levels varied, with concern being raised about the frequency in which some boards meet and their appetite to build their knowledge and understanding.

- Fraud: Some evidence of scheme managers learning from wider events and taking steps to secure scheme assets.

- Employers: Considerable variance in the approaches taken to dealing with the risks surrounding employers, such as receiving contributions and employer insolvency.

3.3 The report can be found at Appendix 1.

4. PROPOSED tPR CODE OF PRACTICE

4.1 Work is now underway to draft and implement a pension scheme Code of Practice for governance, applicable to all public service schemes. There are significant differences between the LGPS, other public sector and private sector schemes. If the combined code is able to filter the variables, then such a Code could be of great benefit.

4.2 The governance within the LGPS, with its layers of delegation, means the answer is not always straightforward. With regard to the LGPS, MHCLG defines administering authorities (e.g., county councils and London Boroughs) as Scheme Managers, but these delegate governance responsibility to a Pensions Committee (Section 101 committee). The question must be asked as to how Local Pensions Boards (part of the governance framework) fit within this definition. Acknowledging the distinct roles will be critical in achieving unambiguous guidance.

4.3 In this regard, officers are engaging with tPR and the Pensions and Lifetime Savings Association (PLSA) to progress the Code of Practice and will report back to the Committee at a later date.

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

Mat Dawson 0207 641 1075

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Governance and administration risks in public service pension schemes: an engagement report

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Code of practice no. 14

Governance and administration of public service pension schemes

The Pensions Regulator

April 2015

The Pensions Regulator

Code of practice no. 14

Governance and administration of public service pension schemes

Presented to Parliament pursuant to Section 91(5) of the Pensions Act 2004
Draft to lie before Parliament for forty days, during which time either House may resolve that the code be not made.

Presented to the Northern Ireland Assembly pursuant to Article 86(5) of the Pensions (Northern Ireland) Order 2005
Draft to lie before the Northern Ireland Assembly for ten days on which the Assembly has sat or thirty calendar days whichever period is the longer, during which time the Assembly may resolve that the code be not made.

12 January 2015

Code of practice no. 14
Governance and administration of public service pension schemes

Any enquiries related to this publication should be sent to us at:
customersupport@tpr.gov.uk

We can produce it in Braille, large print or on audio tape. We can also produce it in other languages.

Contents

Introduction

1. This code of practice is issued by The Pensions Regulator ('the regulator'), the body that regulates occupational and personal pension schemes provided through employers.

2. The regulator's statutory objectives[1] are to:

   - protect the benefits of pension scheme members
   - reduce the risks of calls on the Pension Protection Fund (PPF)
   - promote, and improve understanding of, the good administration of work-based pension schemes
   - maximise compliance with the duties and safeguards of the Pensions Act 2008
   - minimise any adverse impact on the sustainable growth of an employer (in relation to the exercise of the regulator's functions under Part 3 of the Pensions Act 2004 only).

3. The regulator has a number of regulatory tools, including issuing codes of practice, to enable it to meet its statutory objectives.

4. Codes of practice provide practical guidance in relation to the exercise of functions under relevant pensions legislation and set out the standards of conduct and practice expected from those who exercise those functions[2].

Status of codes of practice

5. Codes of practice are not statements of the law and there is no penalty for failing to comply with them. It is not necessary for all the provisions of a code of practice to be followed in every circumstance. Any alternative approach to that appearing in the code of practice will nevertheless need to meet the underlying legal requirements, and a penalty may be imposed if these requirements are not met. When determining whether the legal requirements have been met, a court or tribunal must take any relevant provisions of a code of practice into account[3].

6. If there are grounds to issue an improvement notice[4], the regulator may issue a notice directing a person to take, or refrain from taking, such steps as are specified in the notice. These directions may be worded by reference to a code of practice issued by the regulator[5].

This code of practice

7. The Public Service Pensions Act 2013 (the 2013 Act) introduces the framework for the governance and administration of public service pension schemes and provides an extended regulatory oversight by the regulator.

1 Section 5(1) of the Pensions Act 2004.

2 Section 90A(1), ibid.

3 Section 90A(5), ibid.

4 Where the regulator considers that legal requirements are not being met, or have been contravened in circumstances which make it likely that the breach will continue or be repeated, it may issue an improvement notice under s13 of the Pensions Act 2004.

5 Section 13(3) of the Pensions Act 2004.

8. The regulator is required to issue one or more codes of practice covering specific matters relating to public service pension schemes[6]. This code of practice sets out the legal requirements for public service pension schemes in respect of those specific matters. It contains practical guidance and sets out standards of conduct and practice expected of those who exercise functions in relation to those legal requirements.

9. The practical guidance sections in this code are not intended to prescribe the process for every scenario. They do, however, provide principles, examples and benchmarks against which scheme managers and members of pension boards can consider whether or not they have understood their duties and obligations and are reasonably complying with them.

10. If scheme managers and the members of pension boards are, for any reason, unable to act in accordance with the guidance set out in this code, or an alternative approach that meets the underlying requirements, they should consider their statutory duty under section 70 of the Pensions Act 2004 to assess and if necessary report breaches of the law[7]. For further information, see the section of this code on 'Reporting breaches of the law'.

At whom is this code directed?

11. This code relates to public service pension schemes within the meaning of the Pensions Act 2004[8]. These are schemes established under the 2013 Act, new public body pension schemes and other statutory pension schemes which are connected to those schemes. It does not apply to schemes in the wider public sector, nor to any scheme which is excluded from being a public service pension scheme within the meaning of the Pensions Act 2004.

12. This code is particularly directed at scheme managers and the members of pension boards of public service pension schemes and connected schemes. Scheme managers must comply with various legal requirements relating to the governance, management and administration of public service pension schemes. Pension boards must also comply with certain legal requirements, including assisting scheme managers in relation to securing compliance with scheme regulations and other legislation relating to the governance and administration of the scheme, any requirements of the regulator and with any other matters specified in scheme regulations. The role, responsibilities and duties of pension boards will vary. Where pension boards are not directly responsible for undertaking particular activities, they remain accountable for assisting the scheme manager in securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme, any requirements of the regulator and with any other matters for which they are responsible under the scheme regulations[9].

6
Section 90A(2) of the Pensions Act 2004.

7
Section 70, ibid.

8
Section 318, ibid.

9
Section 5 of the Public Service Pensions Act 2013.

13. In addition, the legal requirement to report breaches of the law under section 70 of the Pensions Act 2004 applies to other persons involved in public service pension schemes, so this code is also directed at them.

14. Scheme managers and pension boards (where relevant) may be able to delegate some activities to others, or outsource them, although they will not be able to delegate their accountability for complying with a legal requirement imposed on them. This code should therefore be followed by anyone to whom activities relating to the legal requirements covered by this code have been delegated or outsourced.

15. Employers participating in public service pension schemes will also find the code a useful source of reference. The role and actions of employers can be critical in enabling scheme managers to meet certain legal requirements[10].

16. Public service pension schemes are established primarily as defined benefit (DB) schemes. Some of these schemes also enable members to make additional voluntary contributions (AVCs) on either a DB basis or to a separate defined contribution (DC) scheme. There are also some DC schemes which are offered as alternatives to the DB schemes. This code applies to any DC scheme which is a public service pension scheme within the meaning of the Pensions Act 2004.

Terms used in this code

17. **The 2013 Act** – the Public Service Pensions Act 2013, which sets out the arrangements for the creation of schemes for the payment of pensions and other benefits. It provides powers to ministers to create such schemes according to a common framework of requirements.

18. **Public service pension schemes**[11] – these are (a) new public service pension schemes set up under section 1 of the 2013 Act (including any scheme which has effect as such a scheme[12]); (b) new public body pension schemes (within the meaning of the 2013 Act) and (c) any statutory pension schemes connected with a scheme described in (a) or (b). Substantially, these are the schemes providing pension benefits for civil servants, the judiciary, local government workers, teachers, health service workers, fire and rescue workers, members of police forces and the armed forces. Except where specified otherwise, the legal requirements and practical guidance set out in this code apply to any kind of public service pension scheme within the meaning of the Pensions Act 2004, whether it is a scheme established under section 1 of the 2013 Act, a new public body scheme or a connected scheme.

10
Employers participating in occupational public service pension schemes are under a statutory duty to report breaches of the law under s70 of the Pensions Act 2004.

11
As defined in s318 of the Pensions Act 2004. Under s318(6) of that Act, a scheme which would otherwise fall within the definition of 'public service pension scheme' in the Pensions Act 2004 does not do so if it is a scheme providing only for injury or compensation benefits (or both), or if it is specified in an order made under that section.

12
Section 28 of the 2013 Act.

19. **Connected scheme** – a scheme established under section 1 of the 2013 Act and another statutory pension scheme, or a new public body pension scheme and another statutory pension scheme are connected if and to the extent that the schemes make provision in relation to persons of the same description. Scheme regulations may specify exceptions[13].

20. **Responsible authority** – the 2013 Act identifies secretaries of state/ ministers, each being the responsible authority for their schemes, who have power to make the scheme regulations for the relevant schemes[14]. The responsible authority may also be the scheme manager[15]. In relation to a public body pension scheme, references in the code to the responsible authority are to be read as references to the public authority which established the scheme.

21. **Scheme regulations** – each new scheme made under section 1 of the 2013 Act has scheme regulations which set out the detail of the membership and benefits to be provided under the scheme[16]. The regulations must identify scheme managers and provide for the establishment of pension boards and scheme advisory boards. These regulations constitute the main rules of the scheme. In addition to the scheme regulations, the rules of a scheme include:

    - certain legislative provisions, to the extent that they override provisions of the scheme regulations, or which have effect in relation to a scheme and are not otherwise reflected in the scheme regulations, and
    - any provision which the scheme regulations do not contain but which the scheme rules must contain if it is to conform with the requirements of Chapter 1 of Part 4 of the Pension Schemes Act 1993 (preservation of benefit under occupational pension schemes)[17].

    Some connected schemes and new public body pension schemes will not be established by regulations, so references in the code to scheme regulations should be read as references to the rules of the scheme in these cases.

22. **Scheme manager** – each public service pension scheme has one or more persons responsible for managing or administering the scheme[18]. Public service pension schemes can have different persons acting as scheme manager for different parts of the pension scheme. For the locally administered schemes[19], the scheme managers may be the local administering authorities or a person representing an authority or police force.

13
Section 4(6) and (7) of the 2013 Act.

14
Section 2 and Schedule 2, ibid.

15
Section 4(3), ibid.

16
Section 3 and Schedule 3, ibid.

17
Section 318(2) of the Pensions Act 2004.

18
Section 4 and s30 of the 2013 Act.

19
Locally administered schemes include the schemes for England, and Wales, and Scotland for local government workers, and England and Wales for fire and rescue workers and members of police forces.

23. **Pension board** – the scheme manager (or each scheme manager) for a scheme has a pension board[20] with responsibility for assisting the scheme manager to comply with the scheme regulations and other legislation relating to the governance and administration of the scheme and any requirements imposed by the regulator. The pension board must also assist the scheme manager with such other matters as the scheme regulations may specify. It will be for scheme regulations and the scheme manager to determine precisely what the pension board's role, responsibilities and duties entail.

24. **Scheme advisory board** – each DB public service pension scheme has a scheme advisory board[21] with responsibility for providing advice on the desirability of changes to the scheme, when requested to do so by the responsible authority (or otherwise, in accordance with scheme regulations). Where there is more than one scheme manager the scheme regulations may also provide for the scheme advisory board to provide advice (on request or otherwise) to the scheme managers or the scheme's pension boards on the effective and efficient administration and management of the scheme or any pension fund of the scheme.

25. **Schemes** – in this code the term 'schemes' is used throughout where actions to comply with a legal requirement, standard or expectation may be carried out by the scheme manager, pension board or by another person(s) including those to whom activities have been delegated or outsourced. The scheme manager or pension board will be ultimately accountable, depending upon to whom the legal obligation applies under the legislation.

26. **Must** – in this code the term 'must' is used where there is a legal requirement.

27. **Should** – in this code the term 'should' is used to refer to practical guidance and the standards expected by the regulator.

How to use this code

28. The code is structured as a reference for scheme managers and pension boards to use to inform their actions in four core areas of scheme governance and administration: governing your scheme, managing risks, administration and resolving issues.

29. Each core section includes practical guidance to help scheme managers and pension boards to discharge their legal duties. The regulator recognises that there may be alternative and justifiable actions or approaches that scheme managers or pension boards may wish to adopt, provided these meet the minimum legal requirements.

30. Schemes will need to consider and apply the practical guidance to suit their own particular characteristics and arrangements.

20
Section 5 and s30(1) of the 2013 Act (in the case of new public body schemes, if the scheme has more than one member).

21
Section 7, ibid. This requirement only applies to schemes set up under s1 of the 2013 Act.

Northern Ireland

31. References to the law that applies in Great Britain should be taken to include corresponding legislation in Northern Ireland. References to HM Treasury directions should be taken to be directions by the Department of Finance and Personnel. The responsible authority for each scheme is the relevant government department[22].

32. The appendix to this code lists the corresponding references to Northern Ireland legislation.

22
Section 2 and Schedule 2 of the Public Service Pensions Act (Northern Ireland) 2014.

Governing your scheme

33. This part of the code covers:

- knowledge and understanding required by pension board members
- conflicts of interest and representation, and
- publishing information about schemes.

Knowledge and understanding required by pension board members

Legal requirements

34. A member of the pension board of a public service pension scheme must be conversant with:

- the rules of the scheme[23], and
- any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

35. A member of a pension board must have knowledge and understanding of:

- the law relating to pensions, and
- any other matters which are prescribed in regulations.

36. The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the pension board[24].

Practical guidance

37. The legislative requirements about knowledge and understanding only apply to pension board members. However, scheme managers should take account of this guidance as it will support them in understanding the legal framework and enable them to help pension board members to meet their legal obligations.

38. Schemes[25] should establish and maintain policies and arrangements for acquiring and retaining knowledge and understanding to support their pension board members. Schemes should designate a person to take responsibility for ensuring that a framework is developed and implemented.

39. However, it is the responsibility of individual pension board members to ensure that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the pension board.

23
See paragraph 21 for the definition of the 'rules of the scheme'.

24
Section 248A of the Pensions Act 2004.

25
See paragraph 25 for the definition of 'schemes'.

Areas of knowledge and understanding required

40. Pension board members must be conversant with their scheme rules, which are primarily found in the scheme regulations[26], and documented administration policies currently in force for their pension scheme[27]. Being 'conversant' means having a working knowledge of the scheme regulations and policies, so that pension board members can use them effectively when carrying out their duties.

41. They must also have knowledge and understanding of the law relating to pensions (and any other matters prescribed in legislation) to the degree appropriate for them to be able to carry out their role, responsibilities and duties.

42. In terms of documented administration policies, specific documents recording policy about administration will vary from scheme to scheme. However, the following are examples of administration policies which the regulator considers to be particularly pertinent and would expect to be documented where relevant to a pension scheme, and with which pension board members must therefore be conversant where applicable[28]. This list is not exhaustive and other documented policies may fall into this category:

    - any scheme-approved policies relating to:
        - conflicts of interest and the register of interests
        - record-keeping
        - internal dispute resolution
        - reporting breaches
        - maintaining contributions to the scheme
        - the appointment of pension board members
    - risk assessments/management and risk register policies for the scheme
    - scheme booklets, announcements and other key member and employer communications, which describe scheme policies and procedures
    - the roles, responsibilities and duties of the scheme manager, pension board and individual pension board members
    - terms of reference, structure and operational policies of the pension board and/or any sub-committee
    - statements of policy about the exercise of discretionary functions

26 See paragraph 21 for the definition of the 'rules of the scheme'.

27 Section 248A(2) of the Pensions Act 2004.

28 Section 248A(2)(b) of the Pensions Act 2004.

- statements of policy about communications with members and scheme employers
- the pension administration strategy, or equivalent[29], and
- any admission body (or equivalent) policies.

43. For pension board members of funded pension schemes, documents which record policy about the administration of the scheme will include those relating to funding and investment matters. For example, where relevant they must be conversant with the statement of investment principles and the funding strategy statement[30].

44. Pension board members must also be conversant with any other documented policies relating to the administration of the scheme. For example, where applicable, they must be conversant with policies relating to:

    - the contribution rate or amount (or the range/variability where there is no one single rate or amount) payable by employers participating in the scheme
    - statements of assurance (for example, assurance reports from administrators)
    - third party contracts and service level agreements
    - stewardship reports from outsourced service providers (for example, those performing outsourced activities such as scheme administration), including about compliance issues
    - scheme annual reports and accounts
    - accounting requirements relevant to the scheme
    - audit reports, including from outsourced service providers, and
    - other scheme-specific governance documents.

45. Where DC or DC AVC options are offered, pension board members should also be familiar with the requirements for the payment of member contributions to the providers, the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.

46. Schemes should prepare and keep an updated list of the documents with which they consider pension board members need to be conversant. This will enable them to effectively carry out their role. They should make sure that both the list and the documents are available in accessible formats.

29
For the local government pension schemes, this might include information about the setting of performance targets or making agreements about levels of performance.

30
Section 248A(2)(b) of the Pensions Act 2004.

Degree of knowledge and understanding required

47. The roles, responsibilities and duties of pension boards and their individual members will vary between pension schemes. Matters for which the pension board is responsible will be set out in scheme regulations[31]. Clear guidance on the roles, responsibilities and duties of pension boards and the members of those boards should be set out in scheme documentation.

48. Schemes should assist individual pension board members to determine the degree of knowledge and understanding that is sufficient for them to effectively carry out their role, responsibilities and duties as a pension board member.

49. Pension board members must have a working knowledge of their scheme regulations and documented administration policies. They should understand their scheme regulations and policies in enough detail to know where they are relevant to an issue and where a particular provision or policy may apply.

50. Pension board members must have knowledge and understanding of the law relating to pensions (and any other prescribed matters) sufficient for them to exercise the functions of their role. Pension board members should be aware of the range and extent of the law relating to pensions which applies to their scheme, and have sufficient understanding of the content and effect of that law to recognise when and how it impacts on their responsibilities and duties.

51. Pension board members should be able to identify and where relevant challenge any failure to comply with:

    - the scheme regulations
    - other legislation relating to the governance and administration of the scheme
    - any requirements imposed by the regulator, or
    - any failure to meet the standards and expectations set out in any relevant codes of practice issued by the regulator.

52. Pension board members' breadth of knowledge and understanding should be sufficient to allow them to understand fully and challenge any information or advice they are given. They should understand how that information or advice impacts on any issue or decision relevant to their responsibilities and duties.

31
Section 5(2) of the 2013 Act.

53. Pension board members of funded pension schemes should ensure that they have the appropriate degree of knowledge and understanding of funding and investment matters relating to their scheme to enable them to effectively carry out their role. This includes having a working knowledge of provisions in their scheme regulations and administration policies that relate to funding and investment, as well as knowledge and understanding of relevant law relating to pensions.

54. All board members should attain appropriate knowledge so that they are able to understand the relevant law in relation to their scheme and role. The degree of knowledge and understanding required of pension board members may vary according to the role of the board member, as well as the expertise of the board member. For example, a board member who is also a pensions law expert (for instance, as a result of their day job) should have a greater level of knowledge than that considered appropriate for board members without this background.

Acquiring, reviewing and updating knowledge and understanding

55. Pension board members should invest sufficient time in their learning and development alongside their other responsibilities and duties. Schemes should provide pension board members with the relevant training and support that they require. Training is an important part of the individual's role and will help to ensure that they have the necessary knowledge and understanding to effectively meet their legal obligations.

56. Newly appointed pension board members should be aware that their responsibilities and duties as a pension board member begin from the date they take up their post. Therefore, they should immediately start to familiarise themselves with the scheme regulations, documents recording policy about the administration of the scheme and relevant pensions law. Schemes should offer pre-appointment training or arrange for mentoring by existing pension board members. This can also ensure that historical and scheme-specific knowledge is retained when pension board members change.

57. Pension board members should undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses. They should use a personalised training plan to document and address these promptly.

58. Learning programmes should be flexible, allowing pension board members to update particular areas of learning where required and to acquire new areas of knowledge in the event of any change. For example, pension board members who take on new responsibilities will need to ensure that they gain appropriate knowledge and understanding relevant to carrying out those new responsibilities.

59. The regulator will provide an e-learning programme to help meet the needs of pension board members, whether or not they have access to other learning. If schemes choose alternative learning programmes they should be confident that those programmes:

- cover the type and degree of knowledge and understanding required
- reflect the legal requirements, and
- are delivered within an appropriate timescale.

Demonstrating knowledge and understanding

60. Schemes should keep appropriate records of the learning activities of individual pension board members and the board as a whole. This will help pension board members to demonstrate steps they have taken to comply with legal requirements and how they have mitigated risks associated with knowledge gaps. A good external learning programme will maintain records of the learning activities of individuals on the programme or of group activities, if these have taken place.

Conflicts of interest and representation

Legal requirements

61. A conflict of interest is a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the pension board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme for which the board is established[32].

62. In relation to the pension board, scheme regulations must include provision requiring the scheme manager to be satisfied:

- that a person to be appointed as a member of the pension board does not have a conflict of interest and
- from time to time, that none of the members of the pension board has a conflict of interest[33].

32 Section 5(5) of the 2013 Act defines a conflict of interest in relation to pension board members and s7(5) of that Act in relation to scheme advisory board members.

33 Section 5(4)(a), ibid.

63. Scheme regulations must require each member or proposed member of a pension board to provide the scheme manager with such information as the scheme manager reasonably requires for the purposes of meeting the requirements referred to above[34].

64. Scheme regulations must include provision requiring the pension board to include employer representatives and member representatives in equal numbers[35].

65. In relation to the scheme advisory board, the regulations must also include provision requiring the responsible authority to be satisfied:

    - that a person to be appointed as a member of the scheme advisory board does not have a conflict of interest and
    - from time to time, that none of the members of the scheme advisory board has a conflict of interest[36].

66. Scheme regulations must require each member of a scheme advisory board to provide the responsible authority with such information as the responsible authority reasonably requires for the purposes of meeting the requirements referred to above[37].

Practical guidance

67. This guidance is to help scheme managers to meet the legal requirement to be satisfied that pension board members do not have any conflicts of interest. The same requirements apply to responsible authorities in relation to scheme advisory boards, (apart from the requirement regarding employer and member representatives), but the regulator does not have specific responsibility for oversight of scheme advisory boards.

68. Actual conflicts of interest are prohibited by the 2013 Act and cannot, therefore, be managed. Only potential conflicts of interest can be managed.

69. A conflict of interest may arise when pension board members:

    - must fulfil their statutory role[38] of assisting the scheme manager in securing compliance with the scheme regulations, other legislation relating to the governance and administration of the scheme and any requirements imposed by the regulator or with any other matter for which they are responsible, whilst
    - having a separate personal interest (financial or otherwise), the nature of which gives rise to a possible conflict with their statutory role.

34
Section 5(4)(b) of the 2013 Act.

35
Section 5(4)(c), ibid.

36
Section 7(4)(a), ibid.

37
Section 7(4)(b), ibid.

38
Section 5(2), ibid.

70. Some, if not all, of the 'Seven principles of public life' (formerly known as the 'Nolan principles')[39] will already apply to people carrying out roles in public service pension schemes, for example through the Ministerial code, Civil Service code or other codes of conduct. These principles should be applied to all pension board members in the exercise of their functions as they require the highest standards of conduct. Schemes should incorporate the principles into any codes of conduct (and across their policies and processes) and other internal standards for pension boards.

71. Other legal requirements relating to conflicts of interest may apply to pension board members and/or scheme advisory board members[40]. The regulator may not have specific responsibility for enforcing all such legal requirements, but it does have a particular role in relation to pension board members and conflicts of interest. While pension board members may be subject to other legal requirements, when exercising functions as a member of a pension board they must meet the specific requirements of the 2013 Act and are expected to satisfy the standards of conduct and practice set out in this code.

72. It is likely that some pension board members will have dual interests, which may include other responsibilities. Scheme managers and pension board members will need to consider all other interests, financial or otherwise, when considering interests which may give rise to a potential or actual conflict. For example, a finance officer appointed as a pension board member can offer their knowledge and make substantial contributions to the operational effectiveness of the scheme, but from time to time they may be involved in a decision or matter which may be, or appear to be, in opposition to another interest. For instance, the pension board may be required to take or scrutinise a decision which involves the use of departmental resources to improve scheme administration, while the finance officer is at the same time tasked, by virtue of their employment, with reducing departmental spending. A finance officer might not be prevented from being a member of a pension board, but the scheme manager must be satisfied that their dual interests are not likely to prejudice the pension board member in the exercise of any particular function.

39
The Committee on Standards in Public Life has set out seven principles of public life which apply to anyone who works as a public office holder or in other sectors delivering public services: **www.gov.uk/government/publications/the-7-principles-of-public-life**.

40
For example, local government legislation applicable to English local authorities contains legal requirements relating to certain people about standards of conduct, conflicts of interest and disclosure of certain interests.

73. Scheme regulations will set out matters for which the pension board is responsible[41]. Schemes[42] should set out clear guidance on the roles, responsibilities and duties of pension boards and the members of those boards in scheme documentation. This should cover, for example, whether they have responsibility for administering or monitoring the administration of the scheme; developing, delivering or overseeing compliance with requirements for governance and/or administration policies; and taking or scrutinising decisions relating to governance and/or administration. Regardless of their remit, potential conflicts of interest affecting pension board members need to be identified, monitored and managed effectively.

74. Schemes should consider potential conflicts of interest in relation to the full scope of roles, responsibilities and duties of pension board members. It is recommended that all those involved in the management or administration of public service pension schemes take professional legal advice when considering issues to do with conflicts of interest.

A three-stage approach to managing potential conflicts of interest

75. Conflicts of interest can inhibit open discussions and result in decisions, actions or inactions which could lead to ineffective governance and administration of the scheme. They may result in pension boards acting improperly, or lead to a perception that they have acted improperly. It is therefore essential that any interests, which have the potential to become conflicts of interest or be perceived as conflicts of interest, are identified and that potential conflicts of interest (including perceived conflicts) are monitored and managed effectively.

76. Schemes should ensure that there is an agreed and documented conflicts policy and procedure, which includes identifying, monitoring and managing potential conflicts of interest. They should keep this under regular review. Policies and procedures should include examples of scenarios giving rise to conflicts of interest, how a conflict might arise specifically in relation to a pension board member and the process that pension board members and scheme managers should follow to address a situation where board members are subject to a potential or actual conflict of interest.

41
Section 5(2) of the 2013 Act.

42
See paragraph 25 for the definition of 'schemes'.

77. Broadly, schemes should consider potential conflicts of interest in three stages:
    - identifying
    - monitoring, and
    - managing.

Identifying potential conflicts

78. Schemes should cultivate a culture of openness and transparency. They should recognise the need for continual consideration of potential conflicts. Disclosure of interests which have the potential to become conflicts of interest should not be ignored. Pension board members should have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest. They should know how to manage potential conflicts.

79. Pension board members, and people who are proposed to be appointed to a pension board, must provide scheme managers with information that they reasonably require to be satisfied that pension board members and proposed members do not have a conflict of interest[43].

80. Schemes should ensure that pension board members are appointed under procedures that require them to disclose any interests, including other responsibilities, which could become conflicts of interest and which may adversely affect their suitability for the role, before they are appointed.

81. All terms of engagement, for example appointment letters, should include a clause requiring disclosure of all interests, including any other responsibilities, which have the potential to become conflicts of interest, as soon as they arise. All interests disclosed should be recorded. See the section of this code on 'Monitoring potential conflicts'.

82. Schemes should take time to consider what important matters or decisions are likely to be considered during, for example, the year ahead and identify and consider any potential or actual conflicts of interest that may arise in the future. Pension board members should be notified as soon as practically possible and mitigations should be put in place to prevent these conflicts from materialising.

43 Section 5(4)(b) of the 2013 Act and scheme regulations.

Monitoring potential conflicts

83. As part of their risk assessment process, schemes should identify, evaluate and manage dual interests which have the potential to become conflicts of interest and pose a risk to the scheme and possibly members, if they are not mitigated. Schemes should evaluate the nature of any dual interests and assess the likely consequences were a conflict of interest to materialise.

84. A register of interests should provide a simple and effective means of recording and monitoring dual interests and responsibilities. Schemes should also capture decisions about how to manage potential conflicts of interest in their risk registers or elsewhere. The register of interests and other relevant documents should be circulated to the pension board for ongoing review and published, for example on a scheme's website.

85. Conflicts of interest should be included as an opening agenda item at board meetings and revisited during the meeting, where necessary. This provides an opportunity for those present to declare any interests, including other responsibilities, which have the potential to become conflicts of interest, and to minute discussions about how they will be managed to prevent an actual conflict arising.

Managing potential conflicts

86. Schemes should establish and operate procedures which ensure that pension boards are not compromised by potentially conflicted members. They should consider and determine the roles and responsibilities of pension boards and individual board members carefully to ensure that conflicts of interest do not arise, nor are perceived to have arisen.

87. A perceived conflict of interest can be as damaging to the reputation of a scheme as an actual conflict of interest. It could result in scheme members and interested parties losing confidence in the way a scheme is governed and administered. Schemes should be open and transparent about the way they manage potential conflicts of interest.

88. When seeking to prevent a potential conflict of interest becoming detrimental to the conduct or decisions of the pension board, schemes should consider obtaining professional legal advice when assessing any option.

Examples of conflicts of interest

89. Below are some examples of potential or actual conflicts of interest which could arise, or be perceived to arise, in relation to public service pension schemes. These will depend on the precise role, responsibilities and duties of a pension board. The examples provided are for illustrative purposes only and are not exhaustive. They should not be relied upon as a substitute for the exercise of judgement based on the principles set out in this code and any legal advice considered appropriate, on a case-by-case basis.

a. Investing to improve scheme administration versus saving money

An employer representative, who may be a Permanent Secretary, finance officer or local councillor, is aware that system X would help to improve standards of record-keeping in the scheme, but it would be costly to implement. The scheme manager, for instance a central government department or local administering authority, would need to meet the costs of the new system at a time when there is internal and external pressure to keep costs down. In order to meet the costs of the new system, the scheme manager would need to find money, perhaps by using a budget that was intended for another purpose. This decision could prove unpopular with taxpayers. A conflict of interest could arise where the employer representative was likely to be prejudiced in the exercise of their functions by virtue of their dual interests.

b. Outsourcing an activity versus keeping an activity in-house

In an extension of the previous example, a member representative, who is also an employee of a participating employer, is aware that system X would help to improve standards of record-keeping in the scheme, but it would mean outsourcing an activity that is currently being undertaken in-house by their employer. The member representative could be conflicted if they were likely to be prejudiced in the exercise of their functions by virtue of their employment.

c. Representing the breadth of employers or membership versus representing narrow interests

An employer representative who happens to be employed by the administering authority and is appointed to the pension board to represent employers generally could be conflicted if they only serve to act in the interests of the administering authority, rather than those of all participating employers. Equally, a member representative, who is also a trade union representative, appointed to the pension board to represent the entire scheme membership could be conflicted if they only act in the interests of their union and union membership, rather than all scheme members.

d. Assisting the scheme manager versus furthering personal interests

i. A pension board member, who is also a scheme adviser, may recommend the services or products of a related party, for which they might derive some form of benefit, resulting in them not providing, or not being seen to provide, independent advice or services

ii. A pension board member who is involved in procuring or tendering for services for a scheme administrator, and who can influence the award of a contract, may be conflicted where they have an interest in a particular supplier, for example, a family member works there.

e) Sharing information with the pension board versus a duty of confidentiality to an employer

An employer representative has access to information by virtue of their employment, which could influence or inform the considerations or decisions of the pension board. They have to consider whether to share this information with the pension board in light of their duty of confidentiality to their employer. Their knowledge of this information will put them in a position of conflict if it is likely to prejudice their ability to carry out their functions as a member of the pension board.

Representation on pension boards

90. While scheme regulations must require pension boards to have an equal number of employer and member representatives[44], there is flexibility to design arrangements which best suit each scheme.

91. Arrangements should be designed with regard to the principles of proportionality, fairness and transparency, and with the aim of ensuring that a pension board has the right balance of skills, experience and representation (for example, of membership categories and categories of employers participating in the scheme). Those responsible for appointing members to a pension board should also consider the mix of skills and experience needed on the pension board in order for the board to operate effectively in light of its particular role, responsibilities and duties.

44
Section 5(4)(c) of the 2013 Act.

Publishing information about schemes

Legal requirements

92. The scheme manager for a public service scheme must publish information about the pension board for the scheme(s) and keep that information up-to-date[45].

93. The information must include:

- who the members of the pension board are
- representation on the board of members of the scheme(s), and
- the matters falling within the pension board's responsibility[46].

Practical guidance

Publication of pension board information

94. Scheme members will want to know that their scheme is being efficiently and effectively managed. Public service pension schemes should have a properly constituted, trained and competent pension board, which is responsible for assisting the scheme manager to comply with the scheme regulations and other legislation relating to the governance and administration of the scheme and requirements imposed by the regulator.

95. Scheme managers must publish the information required about the pension board and keep that information up-to-date[47]. This will ensure that scheme members can easily access information about who the pension board members are, how pension scheme members are represented on the pension board and the responsibilities of the board as a whole.

96. When publishing information about the identity of pension board members, the representation of scheme members and matters for which the board is responsible, schemes[48] should also publish useful related information about the pension board such as:

- the employment and job title (where relevant) and any other relevant position held by each board member
- the pension board appointment process
- who each pension board member represents
- the full terms of reference for the pension board, including details of how it will operate, and
- any specific roles and responsibilities of individual pension board members.

45
Section 6(1) of the 2013 Act.

46
Section 6(2), ibid.

47
Section 6(1), ibid.

48
See paragraph 25 for the definition of 'schemes'.

97. Schemes should also consider publishing information about pension board business, for example board papers, agendas and minutes of meetings (redacted to the extent that they contain confidential information and/or data covered by the Data Protection Act 1998). They should consider any requests for additional information to be published, to encourage scheme member engagement and promote a culture of transparency.

98. Scheme managers must ensure that information published about the pension board is kept up-to-date[49]. Schemes should have policies and processes to monitor all published data on an ongoing basis to ensure it is accurate and complete.

Other legal requirements

99. Scheme managers (or any other person specified in legislation) must comply with any other legal requirements relating to the publication of information about governance and administration. In particular, HM Treasury directions may require the scheme manager or responsible authority of a public service pension scheme to publish scheme information, including information about scheme administration and governance and may specify how and when information is to be published[50].

49
Section 6(1) of the 2013 Act.

50
Section 15, ibid.

Managing risks

100. This part of the code covers the requirement for scheme managers to establish and operate adequate internal controls.

Internal controls

Legal requirements

101. The scheme manager of a public service pension scheme must establish and operate internal controls. These must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.

102. For these purposes 'internal controls' means:

- arrangements and procedures to be followed in the administration and management of the scheme
- systems and arrangements for monitoring that administration and management, and
- arrangements and procedures to be followed for the safe custody and security of the assets of the scheme[51].

Practical guidance

103. Internal controls are systems, arrangements and procedures that are put in place to ensure that pension schemes are being run in accordance with the scheme rules (which for most public service pension schemes are set out in the scheme regulations) and other law. They should include a clear separation of duties, processes for escalation and decision making and documented procedures for assessing and managing risk, reviewing breaches of law and managing contributions to the scheme.

104. Good internal controls are an important characteristic of a well-run scheme and one of the main components of the scheme manager's role in securing the effective governance and administration of the scheme. Internal controls can help protect pension schemes from adverse risks, which could be detrimental to the scheme and members if they are not mitigated.

105. Scheme managers must establish and operate internal controls[52]. These should address significant risks which are likely to have a material impact on the scheme. Scheme managers should employ a risk-based approach and ensure that sufficient time and attention is spent on identifying, evaluating and managing risks and developing and monitoring appropriate controls. They should seek advice, as necessary.

51
Section 249A(5) and s249B of the Pensions Act 2004.

52
Section 249B, ibid.

Identifying risks

106. Before implementing an internal controls framework, schemes[53] should carry out a risk assessment. They should begin by:

- setting the objectives of the scheme
- determining the various functions and activities carried out in the running of the scheme, and
- identifying the main risks associated with those objectives, functions and activities.

107. An effective risk assessment process will help schemes to identify a wide range of internal and external risks, which are critical to the scheme and members. When identifying risks, schemes should refer to relevant sources of information, such as records of internal disputes and legislative breaches, the register of interests, internal and external audit reports and service contracts.

108. Once schemes have identified risks, they should record them in a risk register and review them regularly. Schemes should keep appropriate records to help scheme managers demonstrate steps they have taken to comply, if necessary, with legal requirements.

Evaluating risks and establishing adequate internal controls

109. Not all risks will have the same potential impact on scheme operations and members or the same likelihood of materialising. Schemes should consider both these areas when determining the order of priority for managing risks and focus on those areas where the impact and likelihood of a risk materialising is high.

110. Many pension schemes will already have adequate internal controls in place, some of which may apply to a variety of the functions of the administering authority. Schemes should review their existing arrangements and procedures to determine whether they can prevent and detect errors in scheme operations and help mitigate pension scheme-related risks. For example, schemes could obtain assurance about their existing controls through direct testing or by obtaining reports on controls. Any such review should be appropriate to the outcome of the risk evaluation.

111. Schemes should consider what internal controls are appropriate to mitigate the main risks they have identified and how best to monitor them. For example, the scheme manager(s) for a funded scheme should establish and operate internal controls that regularly assess the effectiveness of investment-related decision making. Scheme managers for all pension schemes should establish and operate internal controls that regularly assess the effectiveness of data management and record-keeping.

53 See paragraph 25 for the definition of 'schemes'.

Managing risks by operating internal controls

112. Schemes should consider a number of issues when designing internal controls to manage risks. The examples provided are for illustrative purposes only and are not exhaustive. They should not be relied upon as a substitute for the exercise of judgement, based on the principles set out in this code and any advice considered appropriate, particularly in light of any problems experienced in the past.

a. How the control is to be implemented and the skills of the person performing the control
For example, schemes should ensure that new employers participating in the scheme understand what member data are required and the process for supplying it. Where employers fail to supply the correct data or do not follow the correct process, schemes should ensure that the employer identifies the cause of the error and that appropriate action is taken to avoid recurrence, for example remedying a systemic error or providing the relevant training.

b. The level of reliance that can be placed on information technology solutions where processes are automated
For example, where scheme administration processes use an automated system, internal or external auditors could audit the system on an annual basis to assess whether it is capable of performing a required function and report any issues that are identified.

c. Whether a control is capable of preventing future recurrence or merely detecting an event that has already happened
For example, schemes should ensure that their systems support the maintenance and retention of good member records. This includes implementing procedures and controls which identify where systems are not fit for purpose, there are gaps in the data, the data are of a poor quality and/or there has been a loss of data.

d. The frequency and timeliness of a control process
For example, schemes should ensure that data are complete. They should undertake a data-cleansing or member-tracing exercise and review this on a regular basis (at least annually or at regular intervals that they consider appropriate for the scheme).

e. How the control will ensure that data are managed securely
For example, schemes should ensure that all staff, including temporary or contract staff, complete information management training before they are given access to sensitive data.

f. The process for flagging errors or control failures, and approval and authorisation controls
For example, schemes should ensure that member communications such as member information booklets are reviewed regularly, particularly where there are changes to the scheme. All relevant parties should be aware of how they should flag errors and the authorisation required before any changes are made to the communications.

Monitoring controls effectively

113. Risk assessment is a continual process and should take account of a changing environment and new and emerging risks, including significant changes in or affecting the scheme and employers who participate in the scheme.

114. For example, where relevant, schemes should put in place systems and processes for making an objective assessment of the strength of an employer's covenant (which should include analysis of their financial position, prospects and ability to pay the necessary employer contributions).

115. An effective risk assessment process will provide a mechanism to detect weaknesses at an early stage. Schemes should periodically review the adequacy of internal controls in:

- mitigating risks
- supporting longer-term strategic aims, for example relating to investments
- identifying success (or otherwise) in achieving agreed objectives, and
- providing a framework against which compliance with the scheme regulations and legislation can be monitored.

116. Internal or external audits and/or quality assurance processes should ensure that adequate internal controls are in place and being operated effectively. Reviews should take place when substantial changes take place, such as changes to pension scheme personnel, implementation of new administration systems or processes, or where a control has been found to be inadequate.

117. A persistent failure to put in place adequate internal controls may be a contributory cause of an administrative breach. Where the effect and wider implications of not having in place adequate internal controls are likely to be 'materially significant', the regulator would expect to receive a whistleblowing report that outlines relevant information relating to the breach. For more information, see the 'Reporting breaches of the law' section of this code.

118. Ultimately, the legal responsibility for establishing and operating adequate internal controls rests with the scheme manager[54]. Scheme regulations or other documents may delegate responsibilities to pension board members or others – for example identifying, evaluating and managing risks, developing and maintaining appropriate controls and providing assurance to the scheme manager about any controls in place. However, accountability for those controls and the governance of policies, procedures and processes will reside with the scheme manager.

Outsourcing services

119. The legal requirements relating to internal controls apply equally where schemes outsource services connected with the running of the scheme. Providers should be required to demonstrate that they will have adequate internal controls in their tenders for delivering services. The requirements should be incorporated in the terms of engagement and contract between the scheme and service provider. Outsourced services may include, for example, the maintenance of records and data, calculation of benefits and investment management services. Where services are outsourced, scheme managers should be satisfied that internal controls associated with those services are adequate and effective.

120. An increasing number of service providers are obtaining independent assurance reports to help demonstrate their ability to deliver quality administration services. Schemes should ask their service providers to demonstrate that they have adequate internal controls relating to the services they provide. It is vital that schemes ensure they receive sufficient assurance from service providers. For example, the information from providers should be sufficiently detailed and comprehensive and the service level agreements should cover all services that are outsourced. Schemes should also consider including provisions in contracts for outsourced services requiring compliance with appropriate standards. This should help to ensure effective administration.

54
Section 249B of the Pensions Act 2004.

Administration

121. This part of the code covers:

- scheme record-keeping
- maintaining contributions, and
- providing information to members.

Scheme record-keeping

Legal requirements

122. Scheme managers must keep records of information relating to:

- member information[55]
- transactions[56], and
- pension board meetings and decisions[57].

123. The legal requirements are set out in the Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014 ('the Record Keeping Regulations').

Practical guidance

124. Failure to maintain complete and accurate records and put in place effective internal controls to achieve this can affect the ability of schemes[58] to carry out basic functions. Poor record-keeping can result in schemes failing to pay benefits in accordance with scheme regulations, processing incorrect transactions and ultimately paying members incorrect benefits. For funded schemes, it may lead to schemes managing investment risks ineffectively. There is also the potential for the maladministration of members' contributions and failure to identify any misappropriation of assets. Schemes should be able to demonstrate to the regulator, where required, that they keep accurate, up-to-date and enduring records to be able to govern and administer their pension scheme efficiently.

125. Scheme managers must establish and operate adequate internal controls[59], which should include processes and systems to support record-keeping requirements and ensure that they are effective at all times.

55 Regulation 4 of the Record Keeping Regulations.

56 Regulation 5, ibid.

57 Regulation 6, ibid.

58 See paragraph 25 for the definition of 'schemes'.

59 Section 249B of the Pensions Act 2004.

Records of member information

126. Scheme managers must ensure that member data across all membership categories specified in the Record Keeping Regulations is complete and accurate[60]. Member data should be subject to regular data evaluation.

127. Scheme managers must keep specific member data[61], which will enable them to uniquely identify a scheme member and calculate benefits correctly. This is particularly important with the establishment of career average revalued earnings (CARE) schemes. Scheme managers must be able to provide members with accurate information regarding their pension benefits (accrued benefits to date and their future projected entitlements) in accordance with legislative requirements[62], as well as pay the right benefits to the right person (including all beneficiaries) at the right time.

128. Schemes should require participating employers to provide them with timely and accurate data in order for the scheme manager to be able to fulfil their legal obligations. Schemes should seek to ensure that processes are established by employers which enable the transmission of complete and accurate data from the outset. Processes will vary from employer to employer, depending on factors such as employee turnover, pay periods, number of employees who are members and the timing and number of payroll processing systems.

129. Schemes should seek to ensure that employers understand the main events which require information about members to be passed from the employer to the scheme and/or another employer, such as when an employee:

- joins or leaves the scheme
- changes their rate of contributions
- changes their name, address or salary
- changes their member status, and
- transfers employment between scheme employers.

130. Schemes should ensure that appropriate procedures and timescales are in place for scheme employers to provide updated information when member data changes, for checking scheme data against employer data and for receiving information which may affect the profile of the scheme. If an employer fails to act according to the procedures set out above, meaning that they and/or scheme managers may not be complying with legal requirements, those under a statutory duty to report breaches of the law to the regulator under section 70 of the Pensions Act 2004 should assess whether there has been a relevant breach and take action as necessary.

60
Section 16 and s30 of the 2013 Act. Regulation 4 of the Record Keeping Regulations specifies member records which must be kept. The Data Protection Act 1998 requires personal data to be accurate and up-to-date.

61
Regulation 4 of the Record Keeping Regulations.

62
Legislative requirements include s14 of the 2013 Act, HM Treasury directions made under that section, and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013.

Records of transactions

131. Schemes should be able to trace the flow of funds into and out of the scheme and reconcile these against expected contributions and scheme costs. In doing so, they will have clear oversight of the core scheme transactions and should be able to mitigate risks swiftly.

132. Scheme managers must keep records of transactions made to and from the scheme and any amount due to the scheme which has been written off[63]. They should be able to demonstrate that they do so.

Records of pension board meetings and decisions

133. Scheme managers must keep records of pension board meetings including any decisions made[64]. Schemes should also keep records of key discussions, which may include topics such as compliance with policies relating to administration of the scheme.

134. Scheme managers must also keep records relating to any decision taken by members of the pension board other than at a pension board meeting, or taken by a committee/sub-committee, which has not been ratified by the pension board. The records must include the date, time and place of the decision and the names of board members participating in that decision[65]. This will ensure that there is a clear and transparent audit trail of the decisions made in relation to the scheme.

Retention of scheme records

135. Schemes should retain records for as long as they are needed. It is likely that data will need to be held for long periods of time and schemes will need to retain some records for a member even after that individual has retired, ensuring that pension benefits can be properly administered over the lifetime of the member and their beneficiaries. Schemes should have in place adequate systems and processes to enable the retention of records for the necessary time periods.

Ongoing monitoring of data

136. Schemes should have policies and processes that monitor data on an ongoing basis to ensure it is accurate and complete, regardless of the volume of scheme transactions. This should be in relation to all membership categories, including pensioner member data where queries may arise once the pension is being paid.

137. Schemes should adopt a proportionate and risk-based approach to monitoring, based on any known or historical issues that may have occurred in relation to the scheme's administration. This is particularly important for the effective administration of CARE pension schemes, which requires schemes to hold significantly more data than needed for final salary schemes.

63 Regulation 5 of the Record Keeping Regulations.

64 Regulation 6, ibid.

65 Ibid.

Data review exercise

138. Schemes should continually review their data and carry out a data review exercise at least annually. This should include an assessment of the accuracy and completeness of the member information data held. Schemes should decide the frequency and nature of the review in light of factors such as the level of data quality, any issues identified and key scheme events.

139. Where the management of scheme data has been outsourced, it is vital that schemes understand and are satisfied that the controls in place will ensure the integrity of scheme member data. They should ensure that the administrator has assessed the risks that poor or deficient member records may present to the scheme and has taken the necessary steps to mitigate them, where applicable.

140. Where there has been a change of administrator or the administration system/platform, schemes should review and cleanse data records and satisfy themselves that all data are complete and accurate.

Data improvement plan

141. Where schemes identify poor quality or missing data, they should put a data improvement plan in place to address these issues. The plan should have specific data improvement measures which schemes can monitor and a defined end date within a reasonable timeframe when the scheme will have complete and accurate data.

Reconciliation of member records

142. Schemes should ensure that member records are reconciled with information held by the employer, for example postal address or electronic address (email address) changes and new starters. Schemes should also ensure that the numbers of scheme members is as expected based on the number of leavers and joiners since the last reconciliation. Schemes should be able to determine those members who are approaching retirement, those who are active members and those who are deferred members.

Data protection and internal controls

143. Schemes must ensure that processes that are created to manage scheme member data meet the requirements of the Data Protection Act 1998 and the data protection principles.

144. Schemes should understand:

- their obligations as data controllers and who the data processors are in relation to the scheme
- the difference between personal data and sensitive personal data (as defined in the Data Protection Act 1998)
- how data are held and how they should respond to data requests from different parties
- the systems which need to be in place to store, move and destroy data, and
- how data protection affects member communications.

Other legal requirements

145. In addition to the requirements set out in the Record Keeping Regulations, there are various other legal requirements that relate to record-keeping in public service pension schemes. Those requirements apply variously to managers, administrators and employers. Not all requirements apply to all public service pension schemes, but some of the key requirements are set out under the following legislation:

- Pensions Act 1995 and 2004
- Pensions Act 2008 and the Employers' Duties (Registration and Compliance) Regulations 2010[66]
- Occupational Pension Schemes (Scheme Administration) Regulations 1996
- Registered Pension Schemes (Provision of Information) Regulations 2006
- Data Protection Act 1998, and
- Freedom of Information Act 2000.

146. Where applicable, schemes should be able to demonstrate that they keep records in accordance with these and any other relevant legal requirements. Schemes should read the relevant legislation and any guidance in conjunction with this code where applicable.

66 See the regulator's guidance about automatic enrolment for more information about record-keeping requirements under this legislation.

Maintaining contributions

Legal requirements

147. Employer contributions must be paid to the scheme in accordance with any requirements in the scheme regulations. Where employer contributions are not paid on or before the date they are due under the scheme and the scheme manager has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, the scheme manager must give a written report of the matter to the regulator as soon as reasonably practicable[67].

148. Where employee contributions are deducted from a member's pay, the amount deducted must be paid to the managers of the scheme at the latest by the 19th day of the month following the deduction, or by the 22nd day if paid electronically (the 'prescribed period')[68], or earlier if required by scheme regulations. References to 'days' means all days. References to 'working days' do not include Saturdays, Sundays or Bank Holidays.

149. Where employee contributions are not paid within the prescribed period, if the scheme manager[69] has reasonable cause to believe that the failure is likely to be of material significance to the regulator in the exercise of any of its functions, they must give notice of the failure to the regulator and the member within a reasonable period after the end of the prescribed period[70]. Where there is a failure to pay employee contributions on an earlier date in accordance with scheme regulations, schemes should also consider their statutory duty under section 70 of the Pensions Act 2004 to assess and if necessary report breaches of the law. For more information about reporting breaches of the law, see this section of the code.

Practical guidance

150. As part of the requirement to establish and operate adequate internal controls, scheme managers should ensure that there are effective procedures and processes in place to identify payment failures that are – and are not – of material significance to the regulator. A 'payment failure' is where contribution payments are not paid to the scheme by the due date(s), or within the prescribed period and a 'materially significant payment failure' refers to a payment failure which is likely to be of material significance to the regulator in the exercise of its functions.

151. Schemes[71] should monitor pension contributions, resolve payment issues and report payment failures, as appropriate, so that the scheme is administered and managed in accordance with the scheme regulations and other legal requirements.

67
Section 70A of the Pensions Act 2004.

68
Section 49(8) of the Pensions Act 1995 and regulation 16 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996.

69
The legal requirement to report late payments of employee contributions is imposed on the 'managers' of a scheme, which the regulator generally takes to be the 'scheme manager' identified in scheme regulations in accordance with the 2013 Act.

70
Section 49(9) of the Pensions Act 1995.

71
See paragraph 25 for the definition of 'schemes'.

152. Adequate procedures and processes are likely to involve:

- developing a record to monitor the payment of contributions
- monitoring the payment of contributions
- managing overdue contributions, and
- reporting materially significant payment failures.

153. These procedures and processes should help scheme managers to meet their statutory duty to report materially significant payment failures to the regulator, as well as ensuring the effective management of scheme contributions and payment of the right pension.

Developing a record for monitoring the payment of contributions

154. There are legislative requirements for managers of DB schemes to keep a schedule of contributions; and for DC schemes, a payment schedule, which allows managers to monitor contributions to their scheme. There are various exemptions from these requirements including for DB and DC schemes which are established by or under an enactment and which are guaranteed by a Minister of the Crown or other public authority, and for DB schemes which are pay-as-you-go schemes[72].

155. Public service pension schemes which meet these exemptions should nonetheless develop a record for monitoring the payment of contributions to the scheme (a contributions monitoring record, which must reflect any requirements in scheme regulations where relevant). Schemes should prepare the contributions monitoring record in consultation with employers.

156. A contributions monitoring record will enable schemes to check whether contributions have been paid on time and in full, and, if they have not, provide a trigger for escalation for schemes to investigate the payment failure and consideration of whether scheme managers need to report to the regulator and, where relevant, members.

157. A contributions monitoring record should include the following information:

- contribution rates
- the date(s) on or before which employer contributions are to be paid to the scheme
- the date by when, or period within which, the employee contributions are to be paid to the scheme
- the rate or amount of interest payable where the payment of contributions is late.

72 Exemptions from the requirement to secure a schedule of contributions in respect of DB schemes under s227 of the Pensions Act 2004 are in regulation 17 of the Occupational Pension Schemes (Scheme Funding) Regulations 2005. Exemptions from the requirement to secure a payment schedule in respect of DC schemes under s87 of the Pensions Act 1995 is in regulation 17 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996.

158. The date when employer contributions must be paid is the date on or before which they are due under the scheme in accordance with the scheme regulations (or other scheme documentation). Schemes should assess the timing of payments against the date specified.

159. While there is a legal requirement for employee contributions to be paid to the scheme by the 19th day of the month following deduction, or by the 22nd day if paid electronically, this does not override any earlier time periods required by the scheme regulations. There are special rules for the first deduction of contributions on automatic enrolment under the Pensions Act 2008[73].

160. A contributions monitoring record should help schemes to identify any employers who are not paying contributions on time and/or in full, support schemes to ensure that contributions are paid and employers to develop and implement new processes, as appropriate. The contributions monitoring record should provide schemes with information to maintain records of money received and will be useful for schemes to ensure that their member records are kept up-to-date.

Monitoring the payment of contributions

161. Schemes should monitor contributions on an ongoing basis for all the membership categories within the scheme. Schemes should regularly check payments due against the contributions monitoring record.

162. Schemes should apply a risk-based and proportionate approach to help identify employers and situations which present a higher risk of payment failures occurring and which are likely to be of material significance and require the scheme manager to intervene.

163. Schemes should be aware of what is to be paid in accordance with the contributions monitoring record or other scheme documentation, which may be used by the pension scheme. Schemes should also have a process in place to identify where payments are late or have been underpaid, overpaid or not paid at all.

164. For schemes to effectively monitor contributions they will require access to certain information. Employers will often provide the payment information that schemes need to monitor contributions at the same time as they send the contributions to the scheme, which may be required under the scheme regulations. Payment information may include:

- the employer and employee contributions due to be paid, which should be specified in the scheme regulations and/or other scheme documentation
- the pensionable pay that contributions are based upon (where required), and
- due date(s) on or before which payment of contributions and other amounts are to be made.

73 Regulation 16 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996.

165. Schemes should have adequate internal controls in place to monitor the sharing of payment information between the employer, pension scheme and member. Where the necessary payment information is not automatically available or provided by employers, schemes should request the additional information they need. Schemes may not need to obtain payment information as a matter of course, only where it is required for effective monitoring.

166. Scheme managers must record and retain information on transactions, including any employer and employee contributions received and payments of pensions and benefits[74], which will support them in their administration and monitoring responsibilities.

167. Where the administration of scheme contributions is outsourced to a service provider, schemes should ensure that there is a process in place to obtain regular information on the payment of contributions to the scheme and a clear procedure in place to enable them to identify and resolve payment failures which may occur.

Managing overdue contributions

168. When schemes identify or are notified of a problem, they should assess whether a payment failure has occurred before taking steps to resolve and, if necessary, report it. During their assessment, schemes should take into account:

- legitimate agreed payments made directly by an employer for scheme purposes, ie where the scheme has agreed that a contributions payment can be made late due to exceptional circumstances
- legitimate agreed payment arrangements made between an employee and employer, ie where the employer has agreed that a contribution payment can be made late due to exceptional circumstances
- contributions paid directly to a pension provider, scheme administrator or investment manager
- any AVCs included with an employer's overall payment.

169. Where schemes identify a payment failure, they should follow a process to resolve issues quickly. This should normally involve the following steps:

a. Investigate any apparent employer failure to pay contributions in accordance with the contributions monitoring record or legal requirements.

b. Contact the employer promptly to alert them to the payment failure and to seek to resolve the overdue payment.

74 Regulation 5 of the Record Keeping Regulations.

c. Discuss it further with the employer as soon as practicable to find out the cause and circumstances of the payment failure.

d. Ask the employer to resolve the payment failure and take steps to avoid a recurrence in the future.

170. Schemes should maintain a record of their investigation and communications between themselves and the employer. Recording this information will help to provide evidence of schemes' effective monitoring processes and could help to demonstrate that the scheme manager has met the legal requirement to establish and operate adequate internal controls. It will also form part of the decision of whether or not to report a payment failure to the regulator and, where relevant, members.

171. The regulator recognises that a monitoring process based on information provided by employers may not be able to confirm deliberate underpayment or non-payment, or fraudulent behaviour by an employer. Schemes should review current processes or develop a new process which is able to detect situations where fraud may be more likely to occur and where additional checks may be appropriate.

172. Ultimately, schemes have flexibility to design their own procedures so that they can obtain overdue payments and rectify administrative errors in the most effective and efficient way for their particular scheme.

Reporting payment failures which are likely to be of material significance to the regulator

173. Scheme managers must report payment failures which are likely to be of material significance to the regulator within a reasonable period, in the case of employee contributions; and as soon as reasonably practicable in the case of employer contributions[75].

174. Where schemes identify a payment failure, they should attempt to recover contributions within 90 days from the due date or prescribed period having passed without full payment of the contribution.

175. While schemes are not expected to undertake a full investigation to establish materiality or investigate whether an employer has behaved fraudulently, schemes should ask the employer:

- the cause and circumstances of the payment failure
- what action the employer has taken as a result of the payment failure, and
- the wider implications or impact of the payment failure.

75 Section 49(9)(b) of the Pensions Act 1995 and s70A of the Pensions Act 2004.

176. When reaching a decision about whether to report, schemes should consider these points together and establish whether they have reasonable cause to report.

177. Having reasonable cause means more than merely having a suspicion that cannot be substantiated. Schemes should investigate the payment failure and use their judgement when deciding whether to report to the regulator.

178. Schemes may choose to take an employer's response to their enquiries at face value if they have no reason to believe it to be untrue or where their risk-based process indicates that there is a low risk of continuing payment failure. Where they receive no response, schemes may infer that an employer is unwilling to pay the contributions due.

179. Examples of payment failures that are likely to be of material significance to the regulator include:

- where schemes have reasonable cause to believe that the employer is neither willing nor able to pay contributions, for example in the event of a business failure or where an employer becomes insolvent and is unable to make pension payments
- where there is a payment failure involving possible dishonesty or a misuse of assets or contributions, for example where schemes have concerns that an employer is retaining and using contributions to manage cash flow difficulties or where schemes have become aware that the employer has transferred contributions elsewhere other than to the pension scheme, which may be misappropriation
- where the information available to schemes may indicate that the employer is knowingly concerned with fraudulently evading their obligation to pay employee contributions
- where schemes become aware that the employer does not have adequate procedures or systems in place to ensure the correct and timely payment of contributions due and the employer does not appear to be taking adequate steps to remedy the situation, for example where there are repetitive and regular payment failures, or
- any event where contributions have been outstanding for 90 days from the due date, unless the payment failure was a one-off or infrequent administrative error that had already been corrected on discovery or is thereafter corrected as soon as possible.

180. Examples of payment failures which are not likely to be of material significance to the regulator include:

- where a payment arrangement is being met by an employer for the recovery of outstanding contributions, or
- where there are infrequent one-off payment failures or administrative errors such as where employees leave or join the scheme and those occasional failures or errors have been corrected within 90 days of the due date.

181. Schemes should identify and report to the regulator, as appropriate, any payment failures that may not be of material significance taken individually, but which could indicate a systemic problem. For example, an employer consistently failing to pay contributions by the due date or within the prescribed period, but paying within 90 days, may be due to inefficient scheme systems and processes. Schemes may also need to report payment failures that occur repeatedly and are likely to be materially significant to the regulator, depending on the circumstances.

182. Reporting payment failures of employer contributions as soon as 'reasonably practicable' means within a reasonable period from the scheme manager having reasonable cause to believe that the payment failure is likely to be of material significance to the regulator. Schemes should also consider whether it may be appropriate to report a payment failure of employer contributions to scheme members.

183. A reasonable period for reporting would be within ten working days from having reasonable cause to believe that the payment failure is likely to be of material significance. This will depend upon the seriousness of the payment failure and impact on the scheme. A written report should be preceded by a telephone call, if appropriate.

184. In the case of an employer failing to pay employee contributions to the pension scheme, if the scheme manager has reasonable cause to believe that the payment failure is likely to be of material significance to the regulator, the failure must be reported to the regulator[76] and members within a reasonable period after the end of the prescribed period[77]. A reasonable period for reporting to the regulator would be within ten working days and to members within 30 days of having reported to the regulator.

185. Reports relating to payment failures of employer contributions must be made in writing (preferably using our Exchange online service)[78]. In exceptional circumstances the scheme manager could make a telephone report.

76
Reporting to the regulator does not affect any responsibility to report to another person or organisation.

77
S49(8) and (9) of the Pensions Act 1995 and regulation 16 of the Occupational Pension Schemes (Scheme Administration) Regulations 1996. Where there is a failure to pay employee contributions on an earlier date in accordance with scheme regulations, schemes should also consider their statutory duty under s70 of the Pensions Act 2004 to assess and if necessary report breaches of the law.

78
Section 70A of the Pensions Act 2004.

186. The regulator has standardised reporting procedures and expectations regarding content, format and channel. For more information, see the section of this code on 'Reporting breaches of the law'.

Providing information to members

Legal requirements

187. The law requires schemes[79] to disclose information about benefits and scheme administration to scheme members and others. This section summarises the legal requirements relating to benefit statements and certain other information which must be provided and should be read alongside the requirements in the 2013 Act, HM Treasury directions[80] and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 ('the Disclosure Regulations 2013'). In addition to these duties, there are other legal requirements relating to the provision of information to members and others under other legislation. See paragraph 211 for further details.

Benefit statements

For active members of DB schemes under the 2013 Act

188. Scheme regulations must require scheme managers to provide an annual benefit information statement to each active member of a DB scheme established under the 2013 Act or new public body scheme[81]. The statement must include a description of the benefits earned by a member in respect of their pensionable service[82].

189. The first statement must be provided no later than 17 months after the scheme regulations establishing the scheme come into force. Subsequent statements must be provided at least annually after that date[83].

190. Statements must also comply with HM Treasury directions in terms of any other information which must be included and the manner in which they must be provided to members[84].

For active, deferred or pension credit members of any DB public service pension scheme under the Disclosure Regulations 2013

191. Managers[85] of a scheme must also provide a benefit statement following a request by an active, deferred or pension credit member of a DB scheme if the information has not been provided to that member in the previous 12 months before that request[86].

79
See paragraph 25 for the definition of 'schemes'.

80
Section 14 of the 2013 Act.

81
Section 14(1) and s30(1) of the 2013 Act.

82
Section 14(2)(a), ibid.

83
Section 14(4) and (5), ibid.

84
Section 14(2)(b) and (6), ibid.

85
The Occupational Pension Schemes (Managers) Regulations 1986 specify who is to be treated as the 'manager' (in certain occupational public service pension schemes) for the purpose of providing information under specified legislation, including the Disclosure Regulations 2013, which may differ from the person who is the 'scheme manager'.

86
Regulation 16 of the Disclosure Regulations 2013.

192. These benefit statements must include information about the amount of benefits by reference to a particular date and how they are calculated[87]. The full details depend on the type of member making the request.

193. The information must be given as soon as practicable but no more than two months after the date the request is made[88].

For members of a DC public service pension scheme under the Disclosure Regulations 2013

194. Managers of a scheme must provide a benefit statement to a member of a DC public service pension scheme, who is not an 'excluded person', within 12 months of the end of the scheme year[89]. An 'excluded person' is a member or beneficiary whose present postal address and email address is not known to the scheme because the correspondence has been returned (in the case of postal correspondence) or has not been delivered (in the case of electronic correspondence)[90].

195. The information which must be provided includes the amount of contributions (before any deductions are made) credited to the member during the immediately preceding scheme year[91], the value of the member's accrued rights under the scheme at a date specified by the managers of the scheme[92] and a statutory money purchase illustration[93]. The full detail of the information that must be provided is set out in the Disclosure Regulations 2013.

Other information about scheme administration

196. Under the Disclosure Regulations 2013, managers of a scheme must provide other information to members and others in certain circumstances (for example, on request). The Regulations set out the information which must be given, the timescales for providing such information and the methods that may be used. Not all information must be provided in respect of all public service pension schemes (there are some exemptions for specified public service schemes or according to the type of benefit offered), but information which scheme managers may need to provide includes:

- basic scheme information
- information about the scheme that has materially altered
- information about the constitution of the scheme
- annual report (this requirement will generally not apply to unfunded DB public service pension schemes and DB schemes for local government workers[94])

87 Regulation 16 and Schedule 5 of the Disclosure Regulations 2013.

88 Regulation 16(3), ibid.

89 Regulation 17, ibid.

90 Regulation 2, ibid.

91 'Scheme year' is defined in Regulation 2, ibid.

92 Regulation 17 and Schedule 6, ibid.

93 Paragraph 6 and Schedule 6, ibid. There are certain exceptions to the requirements to provide this information.

94 Regulation 4, ibid.

- information about funding principles, actuarial valuations and payment schedules (these requirements will generally not apply to unfunded DB public service pension schemes and DB schemes for local government workers[95])
- information about transfer credits
- information about lifestyling (this requirement will not apply in respect of DB benefits in public service pension schemes[96])
- information about accessing benefits, and
- information about benefits in payment.

197. The detail of the information that must be provided to scheme members and others and any exemptions are set out in the Disclosure Regulations 2013. Managers must provide the required information, along with confirmation that members may request further information and the postal and email addresses to which a person should send those requests and enquiries[97].

Who is entitled to information

198. Managers of a scheme must ensure that scheme members and others are given information in accordance with the Disclosure Regulations 2013, unless they are an 'excluded person' (as defined above).

199. The Disclosure Regulations 2013 make provision for scheme members and others to receive information that is relevant to their pension rights and entitlements under the scheme. The categories of people who are entitled to receive information vary according to the different types of information, and there are exemptions where information has already been provided in a specified period. The detail of who is entitled to any particular type of information is set out in the Disclosure Regulations 2013 but may include any of the following ('a relevant person'):

- active members
- deferred members
- pensioner members
- prospective members
- spouses or civil partners of members or prospective members
- other beneficiaries, and
- recognised trade unions.

95 Regulation 4 of the Disclosure Regulations 2013.

96 Regulation 18(1), ibid.

97 Regulation 4(7), ibid.

When basic scheme information must be provided

200. Managers must disclose certain basic information about the scheme and the benefits it provides to a prospective member (if practicable to do so) or a new member[98]. Where the manager has received jobholder information[99] for the member or prospective member they must provide the information within a month of the jobholder information being received[100]. Where they have not received jobholder information, they must provide the information within two months of the date the person became an active member of the scheme[101].

201. Managers must also provide the information on request to a relevant person within two months of the request being made, except where the same information was provided to the same person or trade union in the 12 months before the request[102].

What information must be disclosed on request

202. In addition to the basic scheme information, pension scheme members and other relevant persons are entitled to request certain scheme information or scheme documents including:

- information about the constitution of the pension scheme, and
- information about transfer credits[103].

How benefit statements and other information must be provided

203. Generally, schemes may choose how they provide information to scheme members, including by post, electronically (by email or by making it available on a website) or by any other means permitted by the law. For benefit statements issued under the 2013 Act, HM Treasury directions may specify how the information must be provided. Where schemes wish to provide information required under the Disclosure Regulations 2013 by electronic means there are important steps and safeguards that must first be met[104]. These include:

- scheme members and beneficiaries being provided with the option to opt out of receiving information electronically by giving written notice to the scheme
- managers being satisfied that the electronic communications have been designed:
  - so that the person will be able to access and either store or print the relevant information and
  - taking into account the requirements of disabled people

98 Regulation 6 of the Disclosure Regulations 2013.

99 Specified in regulation 3 of the Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010.

100 Regulation 6(5) of the Disclosure Regulations 2013.

101 Regulation 6(6), ibid.

102 Regulation 6(4) and (7), ibid.

103 Regulations 11, 14 and Parts 1 and 4 of Schedule 3, ibid.

104 Regulation 26, ibid.

- ensuring that members and beneficiaries who were members or beneficiaries of the public service pension scheme on 1 December 2010 (where the scheme had not provided information electronically prior to that date) has been sent a written notice (other than via email or website), informing them that:
  - it is proposed to provide information electronically in the future and
  - scheme members and beneficiaries may opt out of receiving information electronically by sending written notice.

204. Where schemes make information or a document available on a website for the first time, they must give notice (other than via a website) to the recipient[105]. They must ensure that the notice includes:

- a statement advising that the information is available on the website
- the website address
- details of where on the website the information or document can be read, and
- an explanation of how the information or document may be read on the website[106].

205. When any subsequent information is made available on a website, managers of a scheme must give a notice (other than via a website) to recipients informing them that the information is available on the website[107]. This notice will not be required where[108]:

- at least two documents have been given to the recipient by hand or sent to the recipient's last known postal address
- each of those letters asks the recipient to give their electronic (email) address to the scheme and informs the recipient of their right to request (in writing) that information or documents are not to be provided electronically
- a third letter has been given to the recipient by hand or sent to the recipient's last known postal address and includes a statement that further information will be available to read on the website and that no further notifications will be sent to the recipient and
- the managers of the scheme do not know the recipient's email address and have not received a written request that information or documents are not to be provided to the recipient electronically.

105 Regulation 27(1) and (5) of the Disclosure Regulations 2013.

106 Regulation 27(2), ibid.

107 Regulation 27(3) and (5), ibid.

108 Regulation 28, ibid.

206. In some cases, the Disclosure Regulations 2013 specify that information must be made available by one of the following methods[109]:

- available to view free of charge, at a place that is reasonable having regard to the request
- published on a website (in which case the procedure to be followed before making information available on a website does not apply, except that the person or trade union must be notified of certain details)
- given for a charge that does not exceed the expense incurred in preparing, posting and packing the information, or
- publicly available elsewhere.

Practical guidance

207. Schemes should design and deliver communications to scheme members in a way that ensures they are able to engage with their pension provision. Information should be clear and simple to understand as well as being accurate and easily accessible. It is important that members are able to understand their pension arrangements and make informed decisions where required.

208. Schemes should attempt to make contact with their scheme members and, where contact is not possible, schemes should carry out a tracing exercise to locate the member and ensure that their member data are up-to-date.

209. Where a person has made a request for information, schemes should acknowledge receipt if they are unable to provide the information at that stage. Schemes may encounter situations where the time period for providing information takes longer than expected. In these circumstances, schemes should notify the person and let them know when they are likely to receive the information. Scheme managers and managers (where different) must provide information in accordance with the time periods specified in the 2013 Act and Disclosure Regulations 2013.

210. To promote transparency, schemes should make information readily available at all times to ensure that prospective and existing members are able to access information when they require it.

Other legal requirements

211. Managers (or any other person specified in legislation) must comply with other legislation requiring information to be provided to members of public service pension schemes in certain circumstances. Not all requirements apply to all public service pension schemes and some may only arise in limited circumstances.

109 Regulation 29 of the Disclosure Regulations 2013.

Some of the requirements that schemes may need to be aware of are set out in or under the following legislation[110]:

- Occupational Pension Schemes (Contracting-out) Regulations 1996
- Occupational Pension Schemes (Transfer Values) Regulations 1996
- Occupational Pension Schemes (Winding up etc.) Regulations 2005
- Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008 (the requirements of these regulations are covered in the section of this code on 'Internal dispute resolution').

110
The legislation identified in this list is made under section 113 of the Pension Schemes Act 1993. There are other requirements that relate to providing information to members which arise under other legislation and which may be relevant to public service pension schemes (for example, under legislation relating to automatic enrolment and early leavers).

Resolving issues

212. This part covers:

- internal dispute resolution, and
- reporting breaches of the law.

Internal dispute resolution

Legal requirements

213. Scheme managers[111] must make and implement dispute resolution arrangements that comply with the requirements of the law and help resolve pensions disputes between the scheme manager and a person with an interest in the scheme. 'Pension disputes'[112] cover matters relating to the scheme between the managers and one or more people with an interest in the scheme. These exclude 'exempted disputes'.

214. There are certain 'exempted disputes' to which the internal dispute resolution procedure will not apply[113]. This includes disputes where proceedings have commenced in any court or tribunal, or where the Pensions Ombudsman has commenced an investigation into it. Certain other prescribed disputes, for instance medical-related disputes that may arise in relation to police and fire and rescue workers, are also 'exempted disputes'[114].

215. A person has an interest in the scheme if they:

- are a member or surviving non-dependant beneficiary of a deceased member of the scheme
- are a widow, widower, surviving civil partner or surviving dependant of a deceased member of the scheme
- are a prospective member of the scheme
- have ceased to be a member, beneficiary or prospective member or
- claim to be in one of the categories mentioned above and the dispute relates to whether they are such a person.

216. Dispute resolution arrangements may require people with an interest in the scheme to first refer matters in dispute to a 'specified person' in order for that person to consider and give their decision on those matters. The specified person's decision may then be confirmed or replaced by the decision taken by the scheme manager after reconsideration of the matters[115].

111 Legal requirements relating to the internal dispute resolution provisions are imposed on the 'managers' of a scheme, which the regulator generally takes to be the 'scheme manager' identified in scheme regulations in accordance with the 2013 Act.

112 Section 50(3) of the Pensions Act 1995.

113 Section 50(9), ibid.

114 Regulation 4 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008.

115 Section 50(4A) of the Pensions Act 1995.

217. Scheme managers and specified persons (if used as part of a scheme's procedure) must take the decision required on the matters in dispute within a reasonable period of receiving the application. They must notify the applicant of the decision within a reasonable period of having taken it[116].

218. Internal dispute resolution procedures must state the manner in which an application for the resolution of a pension dispute is to be made, the particulars which must be included in such an application and the manner in which any decisions required in relation to such an application are to be reached and given[117]. The procedure must specify a reasonable period within which applications must be made by certain people[118].

219. Scheme managers must provide information about the scheme's dispute resolution procedure as well as information about The Pensions Advisory Service (TPAS) and the Pensions Ombudsman to certain people at certain stages[119].

Practical guidance

220. Scheme members expect their pension scheme to be managed effectively. Where a person with an interest in the scheme is not satisfied with any matter relating to the scheme (for example a decision which affects them), they have the right to ask for that matter to be reviewed.

221. Internal dispute resolution arrangements provide formal procedures and processes for pension scheme disputes to be investigated and decided upon quickly and effectively. They play a key role in the effective governance and administration of a scheme.

222. Schemes[120] can operate a two-stage procedure with a 'specified person' undertaking the first-stage decision. Alternatively, they may adopt a single-stage procedure if they consider that is more appropriate for their scheme.

223. With the exception of certain matters outlined below, the law does not prescribe the detail of the dispute resolution procedure. Schemes should decide on this and ensure it is fit for purpose.

116
Section 50(5) of the Pensions Act 1995.

117
Section 50B(4), ibid.

118
Section 50B(3)(a), ibid.

119
Regulation 6 of, and Part 1 of Schedule 2 to, the Disclosure Regulations 2013 and regulation 2 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures) (Consequential and Miscellaneous Amendments) Regulations 2008.

120
See paragraph 25 for the definition of 'schemes'.

When applications should be submitted

224. Schemes may choose to specify time limits within which the following people must apply for a dispute to be resolved[121]:

- scheme members
- widows, widowers, surviving civil partners or surviving dependants of deceased scheme members
- surviving non-dependant beneficiaries of deceased scheme members, and
- prospective scheme members.

225. If schemes decide to specify time limits, they should publish and make those time limits readily available to ensure that those with an interest in the scheme are aware that they must submit an application within a prescribed time limit.

226. Scheme managers must ensure their scheme's procedure specifies a reasonable period within which applications by the following people must be made[122]:

- a person who has ceased to be within the categories in paragraph 224 above
- a person who claims that they were a person within the categories in paragraph 224 above and has ceased to be such a person, and the dispute relates to whether they are such a person.

227. A reasonable period would be six months beginning immediately after the date on which the person ceased to be, or claims they ceased to be, a person with an interest in the scheme. However, schemes have the flexibility to exercise their judgement and take an application outside a specified time period, if appropriate.

When decisions should be taken

228. Managers and specified persons (where applicable) must decide the matter in dispute within a reasonable period of receiving the application. A reasonable period is within four months of receiving the application. In the case of a two-stage dispute resolution procedure, the reasonable period applies to each stage separately. Where a dispute is referred to scheme managers for a second-stage decision, the reasonable period begins when the managers receive the referral. However, there may be cases where it will be possible to process an application sooner than the reasonable time given. Where this is the case, there should not be a delay in taking the decision.

121 Section 50B(3)(b) of the Pensions Act 1995.

122 Section 50B(3)(a) of the Pensions Act 1995.

229. There may be exceptional circumstances of a particular dispute which may prevent the process being completed within the reasonable time period stated above. For instance, where the dispute involves unusually complex and labour-intensive calculations or research, or delays occur that are outside the control of the scheme manager (or specified person), or because they need to obtain independent evidence.

230. The regulator recognises that the circumstances of each dispute are different and decision times may vary. Schemes should be satisfied that the time taken to reach a decision is appropriate to the situation and be able to demonstrate this, if necessary.

When applicants should be informed of a decision

231. Applicants must be notified of the decision made by a scheme manager and specified person (where applicable) within a reasonable time period after the decision has been made[123]. Schemes should usually notify applicants of the decision no later than 15 working days after the decision has been made. However, there may be cases where it is possible to notify an applicant sooner than the reasonable time given. Where this is the case, there should not be a delay in notifying them of the decision.

232. Schemes should provide the applicant with regular updates on the progress of their investigation. They should notify the applicant where the time period for a decision is expected to be shorter or longer than the reasonable time period and let them know when they are likely to receive an outcome.

Implementing the procedure and processes

233. Scheme regulations or other documents recording policy about the administration of the scheme should specify internal dispute resolution arrangements. Schemes should focus on educating and raising awareness of their internal dispute resolution arrangements and ensuring that they are implemented.

234. Schemes should ensure that the effectiveness of the arrangements is assessed regularly and be satisfied that those following the process are complying with the requirements set, which includes effective decision making. This is particularly important where the arrangements require employers participating in the pension scheme to carry out duties as part of the process, for example where schemes have implemented the two-stage procedure and employers are acting as the specified person for the first stage.

235. Schemes should confirm and communicate their arrangements to members, for example, in the joining booklet. Schemes should make their arrangements accessible to potential applicants, for example by publishing them on a scheme website.

123 Section 50(5) of the Pensions Act 1995.

236. Scheme managers must provide the following information about the procedure and processes the scheme has in place for the internal resolution of disputes to certain people in certain circumstances[124]:

- prospective members, if it is practicable to do so
- any scheme members who have not already been given the information
- certain relevant people who request the information and who have not been given that information in the previous 12 months, and
- members or prospective members when schemes receive jobholder information, or when a jobholder becomes an active member, in connection with automatic enrolment.

237. Scheme managers must also provide the postal or email address and job title of the person to contact in order to make use of the internal dispute arrangements.

238. In addition, scheme managers must provide information about TPAS and the Pensions Ombudsman at certain stages[125]. Upon receiving an application for the resolution of a pension dispute, scheme managers (or the specified person) must make the applicant aware as soon as reasonably practicable that TPAS is available to assist members and beneficiaries of the scheme and provide contact details for TPAS. When notifying the applicant of the decision, scheme managers must also inform the applicant that the Pensions Ombudsman is available to investigate and determine complaints or disputes of fact or law relating to a public service pension scheme and provide the Pension Ombudsman's contact details.

239. Schemes can decide what information they need from applicants to reach a decision on a disputed matter and how applications should be submitted. Schemes should ensure they make the following information available to applicants:

- the procedure and processes to apply for a dispute to be resolved
- the information that an applicant must include
- the process by which any decisions are reached, and
- an acknowledgement once an application has been received.

124 Regulation 6 of, and Part 1 of Schedule 2 to, the Disclosure Regulations 2013.

125 Regulation 2 of the Occupational Pension Schemes (Internal Dispute Resolution Procedures) (Consequential and Miscellaneous Amendments) Regulations 2008.

240. When reviewing an application, scheme managers and specified persons (where relevant) should ensure that they have all the appropriate information to make an informed decision. They should request further information if required. Scheme managers and specified persons should be satisfied that the times taken to reach a decision and notify the applicant are appropriate to the situation and that they have taken the necessary action to meet the reasonable time periods. Scheme managers should be able to demonstrate this to the regulator if required.

Reporting breaches of the law

Legal requirements

241. Certain people are required to report breaches of the law to the regulator where they have reasonable cause to believe that:

- a legal duty[126] which is relevant to the administration of the scheme has not been, or is not being, complied with
- the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions[127].

For further information about reporting late payments of employee or employer contributions, see the section of this code on 'Maintaining contributions'.

242. People who are subject to the reporting requirement ('reporters') for public service pension schemes are:

- scheme managers[128]
- members of pension boards
- any person who is otherwise involved in the administration of a public service pension scheme
- employers[129]: in the case of a multi-employer scheme, any participating employer who becomes aware of a breach should consider their statutory duty to report, regardless of whether the breach relates to, or affects, members who are its employees or those of other employers
- professional advisers[130] including auditors, actuaries, legal advisers and fund managers: not all public service pension schemes are subject to the same legal requirements to appoint professional advisers, but nonetheless the regulator expects that all schemes will have professional advisers, either resulting from other legal requirements or simply as a matter of practice
- any person who is otherwise involved in advising the managers of the scheme in relation to the scheme[131].

243. The report must be made in writing as soon as reasonably practicable[132]. See paragraph 263 for further information about how to report breaches.

126 The reference to a legal duty is to a duty imposed by, or by virtue of, an enactment or rule of law (s70(2)(a) of the Pensions Act 2004).

127 Section 70(2) of the Pensions Act 2004.

128 The legal requirement to report breaches of the law under section 70(1)(a) is imposed on the 'managers' of a scheme, which the regulator generally takes to be the 'scheme manager' identified in scheme regulations in accordance with the 2013 Act.

129 As defined in s318 of the Pensions Act 2004.

130 As defined in s47 of the Pensions Act 1995.

131 Section 70(1) of the Pensions Act 2004.

132 Section 70(2), ibid.

Practical guidance

244. Schemes[133] should be satisfied that those responsible for reporting breaches are made aware of the legal requirements and this guidance. Schemes should provide training for scheme managers and pension board members. All others under the statutory duty to report should ensure they have a sufficient level of knowledge and understanding to fulfil that duty. This means having sufficient familiarity with the legal requirements and procedures and processes for reporting.

Implementing adequate procedures

245. Identifying and assessing a breach of the law is important in reducing risk and providing an early warning of possible malpractice in public service pension schemes. Those people with a responsibility to report breaches, including scheme managers and pension board members, should establish and operate appropriate and effective procedures to ensure that they are able to meet their legal obligations. Procedures should enable people to raise concerns and facilitate the objective consideration of those matters. It is important that procedures allow reporters to decide within an appropriate timescale whether they must report a breach. Reporters should not rely on waiting for others to report.

246. Procedures should include the following features:

- a process for obtaining clarification of the law around the suspected breach where needed
- a process for clarifying the facts around the suspected breach where they are not known
- a process for consideration of the material significance of the breach by taking into account its cause, effect, the reaction to it, and its wider implications, including (where appropriate) dialogue with the scheme manager or pension board
- a clear process for referral to the appropriate level of seniority at which decisions can be made on whether to report to the regulator
- an established procedure for dealing with difficult cases
- a timeframe for the procedure to take place that is appropriate to the breach and allows the report to be made as soon as reasonably practicable
- a system to record breaches even if they are not reported to the regulator (the record of past breaches may be relevant in deciding whether to report future breaches, for example it may reveal a systemic issue), and
- a process for identifying promptly any breaches that are so serious they must always be reported.

133 See paragraph 25 for the definition of 'schemes'.

Judging whether a breach must be reported

247. Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and, for funded pension schemes, making investment or investment-related decisions.

Judging whether there is 'reasonable cause'

248. Having 'reasonable cause' to believe that a breach has occurred means more than merely having a suspicion that cannot be substantiated.

249. Reporters should ensure that where a breach is suspected, they carry out checks to establish whether or not a breach has in fact occurred. For example, a member of a funded pension scheme may allege that there has been a misappropriation of scheme assets where they have seen in the annual accounts that the scheme's assets have fallen. However, the real reason for the apparent loss in value of scheme assets may be due to the behaviour of the stock market over the period. This would mean that there is not reasonable cause to believe that a breach has occurred.

250. Where the reporter does not know the facts or events around the suspected breach, it will usually be appropriate to check with the pension board or scheme manager or with others who are in a position to confirm what has happened. It would not be appropriate to check in cases of theft, suspected fraud or other serious offences where discussions might alert those implicated or impede the actions of the police or a regulatory authority. Under these circumstances the reporter should alert the regulator without delay.

251. If the reporter is unclear about the relevant legal provision, they should clarify their understanding of the law to the extent necessary to form a view.

252. In establishing whether there is reasonable cause to believe that a breach has occurred, it is not necessary for a reporter to gather all the evidence which the regulator may require before taking legal action. A delay in reporting may exacerbate or increase the risk of the breach.

Judging what is of 'material significance' to the regulator

253. In deciding whether a breach is likely to be of 'material significance' to the regulator. It would be advisable for those with a statutory duty to report to consider the:

- cause of the breach
- effect of the breach
- reaction to the breach, and
- wider implications of the breach.

254. When deciding whether to report, those responsible should consider these points together. Reporters should take into account expert or professional advice, where appropriate, when deciding whether the breach is likely to be of material significance to the regulator.

Cause of the breach

255. The breach is likely to be of material significance to the regulator where it was caused by:

- dishonesty
- poor governance or administration
- slow or inappropriate decision making practices
- incomplete or inaccurate advice, or
- acting (or failing to act) in deliberate contravention of the law.

256. When deciding whether a breach is of material significance, those responsible should consider other reported and unreported breaches of which they are aware. However, historical information should be considered with care, particularly if changes have been made to address previously identified problems.

257. A breach will not normally be materially significant if it has arisen from an isolated incident, for example resulting from teething problems with a new system or procedure, or from an unusual or unpredictable combination of circumstances. But in such a situation, it is also important to consider other aspects of the breach such as the effect it has had and to be aware that persistent isolated breaches could be indicative of wider scheme issues.

Effect of the breach

258. Reporters need to consider the effects of any breach, but with the regulator's role in relation to public service pension schemes and its statutory objectives in mind, the following matters in particular should be considered likely to be of material significance to the regulator:

- pension board members not having the appropriate degree of knowledge and understanding, which may result in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements
- pension board members having a conflict of interest, which may result in them being prejudiced in the way that they carry out their role, ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements
- adequate internal controls not being established and operated, which may lead to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time
- accurate information about benefits and scheme administration not being provided to scheme members and others, which may result in members not being able to effectively plan or make decisions about their retirement
- appropriate records not being maintained, which may result in member benefits being calculated incorrectly and/or not being paid to the right person at the right time
- pension board members misappropriating any assets of the scheme or being likely to do so, which may result in scheme assets not being safeguarded, and
- any other breach which may result in the scheme being poorly governed, managed or administered.

259. Reporters need to take care to consider the effects of the breach, including any other breaches occurring as a result of the initial breach and the effects of those resulting breaches.

Reaction to the breach

260. Where prompt and effective action is taken to investigate and correct the breach and its causes and, where appropriate, notify any affected members, the regulator will not normally consider this to be materially significant.

261. A breach is likely to be of concern and material significance to the regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence
- are not pursuing corrective action to a proper conclusion, or
- fail to notify affected scheme members where it would have been appropriate to do so.

Wider implications of the breach

262. Reporters should consider the wider implications of a breach when they assess which breaches are likely to be materially significant to the regulator. For example, a breach is likely to be of material significance where the fact that the breach has occurred makes it appear more likely that other breaches will emerge in the future. This may be due to the scheme manager or pension board members having a lack of appropriate knowledge and understanding to fulfil their responsibilities or where other pension schemes may be affected. For instance, public service pension schemes administered by the same organisation may be detrimentally affected where a system failure has caused the breach to occur.

Submitting a report to the regulator

263. Reports must be submitted in writing and can be sent by post or electronically, including by email or by fax. Wherever possible reporters should use the standard format available via the Exchange online service on the regulator's website.

264. The report should be dated and include as a minimum:

- full name of the scheme
- description of the breach or breaches
- any relevant dates
- name of the employer or scheme manager (where known)
- name, position and contact details of the reporter, and
- role of the reporter in relation to the scheme.

265. Additional information that would help the regulator includes:

- the reason the breach is thought to be of material significance to the regulator
- the address of the scheme
- the contact details of the scheme manager (if different to the scheme address)
- the pension scheme's registry number (if available), and
- whether the concern has been reported before.

266. Reporters should mark urgent reports as such and draw attention to matters they consider particularly serious. They can precede a written report with a telephone call, if appropriate.

267. Reporters should ensure they receive an acknowledgement for any report they send to the regulator. Only when they receive an acknowledgement can the reporter be confident that the regulator has received their report.

268. The regulator will acknowledge all reports within five working days of receipt, however it will not generally keep a reporter informed of the steps taken in response to a report of a breach as there are restrictions on the information it can disclose.

269. The reporter should provide further information or reports of further breaches if this may help the regulator to exercise its functions. The regulator may make contact to request further information.

270. Breaches should be reported as soon as reasonably practicable, which will depend on the circumstances. In particular, the time taken should reflect the seriousness of the suspected breach.

271. In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, the regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert the regulator to the breach.

Whistleblowing protection and confidentiality

272. The Pensions Act 2004 makes clear that the statutory duty to report overrides any other duties a reporter may have such as confidentiality and that any such duty is not breached by making a report. The regulator understands the potential impact of a report on relationships, for example, between an employee and their employer.

273. The statutory duty to report does not, however, override 'legal privilege'[134]. This means that oral and written communications between a professional legal adviser and their client, or a person representing that client, while obtaining legal advice, do not have to be disclosed. Where appropriate a legal adviser will be able to provide further information on this.

134 Section 311 of the Pensions Act 2004.

274. The regulator will do its best to protect a reporter's identity (if desired) and will not disclose the information except where lawfully required to do so. It will take all reasonable steps to maintain confidentiality, but it cannot give any categorical assurances as the circumstances may mean that disclosure of the reporter's identity becomes unavoidable in law. This includes circumstances where the regulator is ordered by a court to disclose it.

275. The Employment Rights Act 1996 (ERA) provides protection for employees making a whistleblowing disclosure to the regulator. Consequently, where individuals employed by firms or another organisation having a statutory duty to report disagree with a decision not to report to the regulator, they may have protection under the ERA if they make an individual report in good faith. The regulator expects such individual reports to be rare and confined to the most serious cases.

Appendix

Corresponding Northern Ireland legislation

GB legislation	NI legislation
Pension Schemes Act 1993 (c. 48) - Chapter 1 of Part 4 - section 113	Pension Schemes (Northern Ireland) Act 1993 (c. 49) - Chapter 1 of Part 4 - section 109
Pensions Act 1995 (c. 26) - section 47 - section 49 - section 50 - section 50B - section 87	Pensions (Northern Ireland) Order 1995 (SI 1995/3213 (NI 22)) - Article 47 - Article 49 - Article 50 - Article 50B - Article 85
Employment Rights Act 1996 (c. 18)	Employment Rights (Northern Ireland) Order 1996 (SI 1996/1919 (NI 16))
Data Protection Act 1998 (c. 29)	Data Protection Act 1998 (c. 29)
Freedom of Information Act 2000 (c.36)	Freedom of Information Act 2000 (c.36)
Pensions Act 2004 (c. 35) - section 5 - section 13 - section 70 - section 70A - section 90A - Part 3 - section 227 - section 248 - section 248A - section 249A - section 249B - section 311 - section 318	Pensions (Northern Ireland) Order 2005 (SI 2005/255 (NI 1)) - Article 4 - Article 9 - Article 65 - Article 65A - Article 85A - Part 4 - Article 206 - Article 225 - Article 225A - Article 226A - Article 226B - Article 283 - Article 2
Pensions Act 2008 (c. 30)	Pensions (No. 2) Act (Northern Ireland) 2008 (c. 13)

GB legislation	NI legislation
Public Service Pensions Act 2013 (c. 25) - section 1 - section 2 - section 3 - section 4 - section 5 - section 6 - section 7 - section 14 - section 15 - section 16 - section 28 - section 30 - Schedule 2 - Schedule 3	Public Service Pensions Act (Northern Ireland) 2014 (c. 2) - section 1 - section 2 - section 3 - section 4 - section 5 - section 6 - section 7 - section 14 - section 15 - section 16 - section 28 - section 31 - Schedule 2 - Schedule 3
Occupational Pension Schemes (Managers) Regulations 1986 (SI 1986/1718)	Occupational Pension Schemes (Managers) Regulations (Northern Ireland) 1986 (SR 1986 No. 320)
Occupational Pension Schemes (Contracting-out) Regulations 1996 (SI 1996/1172)	Occupational Pension Schemes (Contracting-out) Regulations (Northern Ireland) 1996 (SR 1996 No. 493)
Occupational Pension Schemes (Scheme Administration) Regulations 1996 (SI 1996/1715)	Occupational Pension Schemes (Scheme Administration) Regulations (Northern Ireland) 1997 (SR 1997 No. 94)
Occupational Pension Schemes (Transfer Values) Regulations 1996 (SI 1996/1847)	Occupational Pension Schemes (Transfer Values) Regulations (Northern Ireland) 1996 (SR 1996 No. 619)
Occupational Pension Schemes (Winding up etc.) Regulations 2005 (SI 2005/706)	Occupational Pension Schemes (Winding up, etc.) Regulations (Northern Ireland) 2005 (SR 2005 No. 171)
Occupational Pension Schemes (Scheme Funding) Regulations 2005 (SI 2005/3377)	Occupational Pension Schemes (Scheme Funding) Regulations (Northern Ireland) 2005 (SR 2005 No. 568)
Registered Pension Schemes (Provision of Information) Regulations 2006 (SI 2006/567)	Registered Pension Schemes (Provision of Information) Regulations 2006 (SI 2006/567)

GB legislation	NI legislation
Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations 2008 (SI 2008/649)	Occupational Pension Schemes (Internal Dispute Resolution Procedures Consequential and Miscellaneous Amendments) Regulations (Northern Ireland) 2008 (SR 2008 No. 116)
Employers' Duties (Registration and Compliance) Regulations 2010 (SI 2010/5)	Employers' Duties (Registration and Compliance) Regulations (Northern Ireland) 2010 (SR 2010 No. 186)
Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations 2010 (SI 2010/772)	Occupational and Personal Pension Schemes (Automatic Enrolment) Regulations (Northern Ireland) 2010 (SR 2010 No. 122)
Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (SI 2013/2734)	Occupational and Personal Pension Schemes (Disclosure of Information) Regulations (Northern Ireland) 2014 (SR 2014 No. 79)
Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations 2014	Public Service Pensions (Record Keeping and Miscellaneous Amendments) Regulations (Northern Ireland) 2014

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4. Governance and administration risks in public service pension schemes: an engagement report

Governance and administration risks in public service pension schemes: an engagement report

Findings from our engagement with 10 local government funds, selected from across the UK, to understand scheme managers' approaches to a number of key risks. As part of each engagement we fed back on good practice and suggested improvements that could be made.

The engagement took place between October 2018 and July 2019 following the results of our annual governance and administration survey, in which we identified that improvements being made across the Local Government Pension Scheme (LGPS) had slowed down. We were pleased to note that scheme managers were already sharing good practice with their LGPS peers and hope that working with us offered scheme managers a new perspective on their funds.

We carried out this review at a high level based on meetings with scheme managers to understand the challenges they face. The meetings were supplemented by a review of some fund documentation and examples of communications sent to members, prospective members and beneficiaries.

It is not a comprehensive evaluation of the funds' operations and is not intended to replace audit requirements, nor is it to be considered as regulatory assurance or an endorsement of the fund by The Pensions Regulator (TPR).

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Glossary of terms

Term	Description
CETV	Cash Equivalent Transfer Value, a valuation of a members benefit entitlement that can be transferred to another scheme.
FCA	The Financial Conduct Authority, which regulates firms in the financial sector including IFAs.
Firm	A business in the financial sector carrying out activities that require authorisation from the FCA.
Fund	A locally administered element of a wider pension scheme.
IFA	Independent Financial Adviser, a person with FCA authorisation to advise people about financial decisions.
Member	A person who has paid into and expects to receive or is receiving a benefit from a pension scheme.

PAS	Pension Administration Strategy, a document detailing roles and responsibilities as well as penalties for non-compliance with duties to the fund.
Pension Board	A body that supports and advises the scheme manager.
Pension committee	A body running a pension scheme with the delegated authority of the scheme manager.
PSPS	Public Service Pension Scheme
Saver	A potential beneficiary of a pension scheme, whether or not they are a member.
s.151 officer	A senior member of staff at a Local Authority. Controls resourcing across the Authority, including for the running of the local element of the Local Government Pension Scheme.
Scheme	A pension scheme which may have separate funds within it.
Scheme manager	The person or body legally responsible for the operation of a PSPS.
SLA	Service Level Agreement, an agreed and measurable level of quality usually forming part of a contract.

Executive summary

Overall we found a number of common areas, some requiring improvement but others demonstrating good practice relating to the various risk areas we investigated. The key improvement areas are summarised below. These findings align with the findings from our annual public service governance and administration survey.

Key person risk: While most scheme managers demonstrated a good knowledge of what we expect, many funds have a lack of comprehensive documented policies and procedures. We also found an over-reliance on controls put in place by the Local Authority with little interaction between the scheme manager and Local Authority. This was particularly prevalent in relation to cyber security but this theme overlays several of the risk areas we explored.

Pension boards: Engagement levels varied, with concerns being raised about the frequency some pension boards meet and their appetite to build their knowledge and understanding. We saw evidence of some pension boards not wanting to review full documents, instead relying on much reduced summaries and leading us to question how they could fulfil their function. Others were well run and engaged.

Fraud / scams: We saw evidence of scheme managers learning from wider events and taking steps to secure scheme assets. However, not all were as vigilant when it came to protecting members from potential scams.

Employers: We saw considerable variance in the approaches taken to dealing with the risks surrounding employers, such as receiving contributions and employer insolvency. Generally this was connected to fund resourcing but also related to different philosophies related to taking security over assets.

The following sections detail our findings and recommendations, together with case studies we believe will be helpful to the PSPS community.

Key findings and associated case studies

Area of focus: Record-keeping

Code of Practice 14 – Governance and administration of public service pension schemes

Failure to maintain complete and accurate records and put in place effective internal controls to achieve this can affect the ability of schemes to carry out basic functions. Poor record-keeping can result in schemes failing to pay benefits in accordance with scheme regulations, processing incorrect transactions and paying members incorrect benefits.

Findings	Recommendations
Many scheme managers have moved from annual to monthly member data collection and found this enabled them to verify data at an earlier stage, with some funds providing monthly reports to employers highlighting the quality of data submitted and action points they need to complete. Well-run funds are aware of the quality of the common and scheme specific data they hold. Where it is not entirely accurate robust and measurable, data improvement plans are in place. scheme managers of these funds consider a range of methods to improve data quality, including tracing exercises and improving contract management methods. They also generally have a robust PAS in place which detail rights and obligations of all parties to the fund.	• Scheme managers should be aware of how the member data they hold is measured. Data quality needs regular review. A robust data improvement plan should be implemented as appropriate. • The quality of member data should be understood by the Scheme Manager and Pension Board. It should be recorded and tracked to ensure common and scheme specific data is of good quality. An action plan should be implemented to address any poor data found. • Although not a legal requirement, a PAS could be implemented clearly setting out responsibilities and consequences of not complying with duties to the fund. The Pension Board should review the PAS and ensure it will stand up to challenges from employers.

Record-keeping case study 1

One scheme manager we engaged with identified concerns with the accuracy of both the common and scheme specific data it held about the fund members. Following engagement with TPR, the scheme manager created and implemented a robust data improvement plan to drive up record-keeping standards.

One of the data areas of concern for the scheme manager was the number of missing member addresses - this resulted in data scores of 60-80% for common and scheme specific categories. After a review of available resources, the scheme manager undertook a tracing exercise and within a short period of time was able to locate and carry out existence checks on over 90% of the deferred members without known addresses. The exercise also involved reviewing the way active and pensioner members are communicated with to ensure the fund holds the correct contact details for them.

This is an example of a scheme manager taking a holistic approach to improving its record-keeping standards. It gave consideration to the resource available so the project achieved a positive result while providing good value for money. The scheme manager has established that having a data improvement plan which is regularly reviewed will improve oversight of the actions it needs to take and the associated deadlines.

Record-keeping case study 2

The scheme manager of a fund we engaged with openly communicated with us about the challenges it faced in producing Annual Benefit Statements. We were told delays were caused by employers not providing member data to the scheme manager on time, and there were issues with the accuracy of some member data provided by employers.

Having considered its operational structure, and our expectations on governance and administration, the scheme manager reorganised itself internally. With the support of the s.151 officer, the scheme manager developed and implemented a robust data improvement plan which could be measured.

As well as creating a data improvement plan the scheme manager also strengthened its pension administration strategy, outlining responsibilities and the timeframes for action. This document made the consequences of non-compliance by employers clear, such as financial penalties. The scheme manager has also introduced regular employer forums to help further raise standards with employers.

As a result the scheme manager has seen a marked improvement in employer engagement and the quality of member data it holds. It continues to actively monitor both data quality and employer compliance.

Area of focus: Internal controls

Code of Practice 14 – Governance and administration of public service pension schemes

The scheme manager of a public service pension scheme must establish and operate internal controls. These must be adequate for the purpose of securing that the scheme is administered and managed in accordance with the scheme rules and in accordance with the requirements of the law.

Findings	Recommendations
There were a range of approaches to identifying, monitoring and mitigating risks	• A risk register should be in place and cover all potential risk areas. It should

to the funds we engaged with. Some funds had detailed risk management frameworks in place and clear defined procedural documents. Others lack detailed risk registers or do not review the risks to the fund on a frequent basis, with little oversight of work being done to identify or mitigate risks.

We found evidence across a number of funds of key person risk, where a long serving member of staff has developed a high level of knowledge about their role and internal processes but this knowledge is not documented. This leaves these funds exposed to the risk of a sharp downturn in administration and governance standards should the key person unexpectedly leave their role.

Funds with an engaged s.151 officer who has a good relationship with the scheme manager are more likely to have clear and robust internal controls.

be regularly reviewed by the pension board.

- The scheme manager should take a holistic view to risks and understand how they are connected.
- The pension board should have good oversight of the risks and review these at each pension board meeting.
- Internal controls and processes should be recorded, avoiding an over reliance on a single person's knowledge levels.
- The scheme manager should ensure all processes are documented and reviewed on a regular basis.
- Decision and action logs covering all decisions provide a useful reference point as decisions recorded in minutes can be hard to locate.

Internal controls case study 1

A scheme manager has reviewed the approach it takes to maintaining a risk register, having found the approach it was taking could be more effective.

The scheme manager developed a high level document which identifies a wide range of risks with all members of the senior leadership team having a role in the identification and scoring of potential risks.

This document is supported by detailed 'risk maps' which provide:

(i) a description of the identified risks

(ii) the person responsible for overseeing the risk

(iii) how the risk is scored and

(iv) details of the mitigating actions and controls in place

Action points identified have clear timescales for completion with an identified person being responsible for delivery.

The full risk register is made available to the pension committee and pension board each time they meet and its review is a standing item on both agendas. This allows for constructive oversight and challenge, along with a clear process to act on feedback provided.

This is an example of a fund which is engaged at all levels of seniority to identify and mitigate risks to good saver outcomes. There are clear, identified processes in place along with strong oversight of the work being done. This approach was devised before TPR began to engage with the scheme manager and demonstrates a clear desire to improve.

Internal controls case study 2

A scheme manager has developed two risk registers, one for the pension committee (which as acts as delegated scheme manager) and a separate, shorter, register for the pension board.

The risk register for the pension board had been reduced in size and detail at the request of the pension board. We have concerns the reduced risk register will prevent the pension board members from having full oversight of all the fund's risk and applying their knowledge and understanding in an appropriate way as they will not be fully conversant with the facts surrounding each risk.

The pension board also only reviews the risk register twice a year. We believe the risk register should be a standing item on the agenda for both the pension committee and the pension board and reviewed at each meeting – ie it will be reviewed at least each four times a year by each body.

We gave feedback to the scheme manager about our concerns and recommendations, and would encourage funds that adopt similar practices to consider how they can make more effective use of the pension board and improve the engagement levels of its members.

Area of focus: Administrators

Code of Practice 14 – Governance and administration of public service pension schemes

Good administration is the bedrock of a well-run fund. A scheme manager should work well with its administrator or administration team, and ensure the right people and processes are in place to ensure members' benefits are administered to a high standard.

Findings	Recommendations
Better performing scheme managers have a close relationship with their administrator, whether they use a third party provider or an internal team. In these instances robust SLAs are in place which are routinely monitored by senior managers. These scheme managers are also willing to effectively challenge reports from administrators to ensure they fully understand the work being done. Not all scheme managers have clear oversight of the work being done by administrators or question the information provided by them	• Scheme managers must agree targets and have a strong understanding of what service providers are expected to achieve. The scheme manager should challenge and escalate as appropriate should agreed standards not be met. • Contract lengths should be known and planned against to allow sufficient time to consider contract extensions or for the tender process, as appropriate. This mitigates risks in handing over to a new administrator.

when it is appropriate to do so. This leads to the scheme manager not understanding how well the fund is performing and can act as a barrier between the scheme manager and both participating employers and members.

There is a variety of methods used to appoint third party administrators, and scheme managers generally carefully consider the best approach for the individual circumstances of their fund.

- It is helpful for the administrator to attend and present to pension board meetings as pension board members can use their knowledge and understanding to effectively challenge reports being provided.
- Scheme managers should hold regular meetings with their service providers to monitor performance.

Administrator case study 1

A scheme manager had entered into a outsourcing contract with an administrator. The administrator's performance over a period of time was unsatisfactory, and targets and SLAs were not consistently met. Despite the council's finance director personally intervening with the administrator, matters were not improved to acceptable levels and penalty clauses were invoked.

The scheme manager decided to terminate the contract and review alternative administrative options, with a key aim of including more visibility, which the previous contract type arrangement had not provided.

The scheme manager decided not to take the administration back in house, but to enter into a third option, a shared service partnership with another administrator. This is charged on a shared cost per member basis. The new administrator also provides administrative services for a few other public service funds. The scheme manager is now part of a collaborative board and engages regularly with other scheme managers, has better visibility and good reporting functionality which now enables easy monitoring of the administrator's performance.

Data quality improvements were recognised as a key focus for the new administrator on its appointment. The scheme manager developed and put in place a robust data improvement plan with the new administrator and has made considerable improvements in its data quality scores in a short period of time. They are now using the plan as a living document to continue to target the areas needing improvement.

Administrator case study 2

One of the scheme managers had appointed a third party administrator using a partnership agreement, rather than a commercial contract. This demonstrates one of a number of approaches taken by scheme managers to secure administration services.

The scheme manager has established a clear set of objectives for the administrator and receives monthly reports about whether these are being met. The reports are shared with the pension board. Additionally, at each pension board meeting a representative of the administrator is present. This allows the pension board members to directly question the administrator about the work it is doing on behalf of the scheme manager and ensure that good saver outcomes are achieved.

Even when a scheme manager uses an outsourced administration service it remains liable for the work done on its behalf. This example demonstrates positive steps taken by a scheme manager to ensure it has effective oversight and can hold an administrator to account.

Administrator case study 3

A scheme manager was informed that its third party administrator intended to restructure in order to improve the level of service it provided to its clients. The administrator was confident that the restructure would not affect its business as usual work and the scheme manager took comfort from this without seeking more detailed assurances.

The restructure did not go as planned, which led to delays in member data being processed and SLAs not being met for around six months. The scheme manager has since increased the number of both operational and strategic meetings it holds with the administrator to combat the declining performance of the administrator.

As part of this work the scheme manager has set clearly documented expectations and provided priorities to the administrator to minimise the number and impact of poor saver outcomes. The scheme manager has now developed new ways of working with the administrator to ensure it probes the administrator's plans in more detail in the future.

This is an example of a scheme manager placing excessive reliance on assurances from an administrator without seeking evidence that supported the assurances. Robust contract management is important and will help scheme managers to identify upcoming risks to savers and to build a strong understanding of the information being provided.

Area of focus: Member communication

Code of Practice 14 – Governance and administration of public service pension schemes

The law requires scheme managers to disclose information about benefits and scheme administration to scheme members and others. This allows savers to understand their entitlements and make informed financial decisions.

Findings	Recommendations
A number of scheme managers are currently reviewing the documents they send to savers. It is widely appreciated that pensions and retirement provision is complicated, and communication with savers needs to be in plain English. A variety of methods are being used, with the strongest scheme managers in this area working closely with a technical team and also enlisting the assistance of non-technical staff to check readability and whether it is comprehensive.	• Information sent to members should be clear, precise and free from jargon. • There should be senior oversight of communications sent to members and prospective members. • It is often helpful for scheme managers to measure the effectiveness of their communication with savers, eg measuring website traffic and running surveys.

Not all scheme managers fully appreciate the extent of their duties to provide information to savers, with some not knowing about the legal duty to inform active members where employee contributions are deducted but not paid to the fund within the legislative timeframe.

Member communication case study 1

A scheme manager had previously delegated responsibility for communication with members to its third party administrator. However, it had a number of concerns about the quality of the service being provided, which included how members were kept informed and the level of detail provided.

The scheme manager took the decision to change its administrator and has now taken greater control over the communication with members. This has led to the development of a new pension administration strategy, with clear expectations around member communications being set and monitored.

A new website is being developed and the scheme manager recognises that having a clear online presence is an important method of communicating with current and potential members.

It is important to communicate with members, potential members and other relevant savers in a clear way. The information provided by a scheme manager will be used by members to make important decisions about their financial affairs. This is an example of a scheme manager looking to improve the member experience through revising the way it communicates.

Member communication case study 2

We engaged with a scheme manager that has developed a detailed communication strategy, which covers the content, frequency, format and methods of communicating. The scheme manager actively promotes the benefits of joining the fund to prospective members and through the participating employers.

Two people are responsible for different aspects of member communications, with all material being formally approved by the scheme manager before being used. The scheme manager has developed a wide range of accessible materials for savers, including a website, a wide range of information booklets, and newsletters.

Members are informed clearly of how they can raise any queries or concerns about the operation of the fund. This includes members being able to go to the scheme manager's offices in person to discuss any queries with a suitable member of staff.

The scheme manager conducts annual surveys of its members, publishing the outcomes on its website and in its annual report. It uses this information, together with complaint trends, to identify how it can provide a better service to savers.

Area of focus: Internal Dispute Resolution Procedure (IDRP)

Code of Practice 14 – Governance and administration of public service pension schemes

Scheme managers must make and implement dispute resolution arrangements that comply with the requirements of the law as set out in the Code to help resolve pensions disputes between the scheme manager and a person with an interest in the scheme.

Findings	Recommendations
Some scheme managers have clear procedures in place for recording, and learning from, complaints and disputes they receive. They use this information to make changes to the way the fund is run in order to provide the best possible service to beneficiaries. Not all the complaints procedures and IDRPs we saw were clear about who was entitled to use them, and in some cases details of how to complain were not clearly published. This limits the ability of people with an interest in the funds to raise concerns and restricts a useful source of information for scheme managers. Not all scheme managers have a clear definition of a complaint. It is important for scheme managers to act in a consistent manner and if what a complaint looks like is not known this will affect its ability to put things right.	• There should be a clear internal policy on how to handle complaints, including escalation to suitable senior members of staff. • People entitled to use the IDRP should be given clear information about how it operates. • This information should be easily available, eg on the fund website. • The pension board and scheme manager should have oversight of all complaints and outcomes, including those not dealt with in-house. • Complaints and compliments could be analysed to identify changes that can be made to improve the operation of the fund.

IDRP case study 1

All the scheme managers we engaged with operate a two stage IDRP, where the first and second stages are looked at by people who are independent of each other.

Initially, one of the scheme managers we engaged with didn't have oversight of complaints entering the first stage of the IDRP. These complaints were dealt with by employers as they were not considered to be issues about the fund or an in-house administration matter. This meant the scheme manager did not have full oversight of the first stage complaints and therefore could not identify whether there were any trends or patterns that needed addressing, eg an employer training issue.

Following engagement as part of the cohort work, we recommended that the scheme manager

develop greater oversight of the work being done on its behalf. The scheme manager now recognises this is an area where it should improve and has amended its processes to ensure it is aware of how member outcomes are being managed when first stage IDRP complaints are received.

IDRP case study 2

Like all other funds we engaged with, this scheme manager operates a two tier IDRP. However, the scheme manager stood out in this instance for the detailed and methodical manner in which it records complaints that are raised.

All complaints are recorded in a single log which detail how it progresses, potentially from an initial concern through to a finding issued by the Pensions Ombudsman. This allows the scheme manager to analyse complaint trends and the learning points are used to improve the operation of the fund.

Additionally, all actions relating to complaints have a clear owner. This allows for strict quality control and helps ensure complaints are dealt with as soon as possible.

We would encourage all scheme managers, where they have not already done so, to adopt a detailed and auditable approach to monitor complaints and compliments received through all channels.

Area of focus: pension boards

Code of Practice 14 – Governance and administration of public service pension schemes

The role of the pension board is to assist the scheme manager with the operation of the scheme. Pension board members are required to have an appropriate level of knowledge and understanding in order to carry out their function.

Findings	Recommendations
Scheme managers have a variety of methods for appointing pension board members and the structure of these boards also varies between funds. In some cases board member rotation is staggered to help preserve knowledge levels. Additionally, some boards have independent chairs, depending on the needs of the individual pension board. We also found a mix of engagement levels amongst pension board members. Some scheme managers are able to call on strong, committed pension boards to assist them with the operation of the fund. Other scheme managers face challenges around pension board members who routinely fail to attend	• The scheme manager should arrange training for pension board members and set clear expectations around meeting attendance. • Individual pension board member training and training needs should be assessed and clearly recorded. • The pension board should meet an appropriate number of times a year, at least quarterly. • Processes should be in place to deal with an ineffective pension board member by either the chair of the pension board or the scheme manager.

meetings or complete the training they need to meet the required level of knowledge and understanding.

The relationships between pension boards and scheme managers varied - where the pension board had a strong relationship with the scheme manager, including a willingness to challenge, we found better-run funds.

- Scheme managers should be aware of the risk of pension board member turnover and ongoing training needs.
- Regular contact between the scheme manager and chair of the pension board is helpful. An open and auditable dialogue outside of formal meetings can help improve the governance and administration of the fund.
- The chairs of the pension board and pension committee should consider attending each other's meetings to observe as this leads to better transparency.
- Pension board members should be fully engaged and challenge parties where appropriate.

Pension board case study 1

One scheme manager spoke to us about the challenge it has faced regarding attendance at pension board meetings, and ensuring the pension board has the required level of knowledge and understanding. At one time it had to reschedule a meeting of the pension board because so few people attended the meeting.

Since then the scheme manager has changed its policy on pension board meetings. One pension board member with a low attendance record has been removed and replaced with a more engaged representative.

The scheme manager is also reviewing how it records the training that pension board members attend. Currently, training is recorded at a high level and there is no clear method of identifying training needs, although informal discussions take place between the scheme manager and individual pension board members.

The scheme manager has recognised that it needs to better understand how pension board members are meeting their obligation to have an appropriate level of knowledge.

Pension board case study 2

Another scheme manager we engaged with has reviewed how the pension board operates and decided to appoint an independent chair. While the chair does not have voting rights, this person lends their expertise to the running of the pension board to ensure meetings run effectively.

Having an independent chair is not compulsory but in this instance is a positive example of a scheme manager being aware of the needs of the local pension board and taking steps to ensure it operates effectively.

The scheme manager has also developed a strong working relationship with the chair, holding a number of informal meetings outside of the formal pension board meetings. This working practice allows the scheme manager to ensure the pension board receives all the information it needs and that the scheme manager can comprehensively answer any anticipated questions.

Area of focus: Employers and contributions

Code of Practice 14 – Governance and administration of public service pension schemes

Contributions must be paid to the scheme in accordance with scheme regulations. Scheme managers are also reliant on employers to provide accurate and timely member data, which is required for the effective administration of the scheme.

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Findings	Recommendations
Scheme managers monitoring the payment of contributions often face the challenge of payroll providers making a single payment for several employers and delaying sending a breakdown of the amount paid. Some scheme managers have been working with participating employers to encourage them to provide training to payroll providers where the payroll company won't engage with a body it doesn't have a direct contractual relationship with. Changing a payroll provider can cause issues. Early engagement with the employer and provider is helpful to mitigate later problems. Scheme managers have a variety of ways of assessing the risk of employers failing to pay contributions or having a disorderly exit from the fund, depending on the fund's resources. Better resourced and funded scheme managers will carry out detailed covenant assessments of all participating employers, with other scheme managers only reviewing those they believe to pose the highest risk. Most scheme managers seek security from employers to mitigate the risk of a failure to pay contributions. Some scheme managers rely on guarantees, particularly in relation to participating employers providing outsourced services. Others expect the majority of employers to set up a bond. Only a few scheme managers accepted a wide range of	• Scheme managers should understand the financial position of participating employers and take a risk-based and proportionate approach to identifying employers most at risk of failing to pay contributions. Red, Amber, Green reporting often provides extra focus. • Employer solvency should be considered on an ongoing basis and not just at the time of each valuation. • Where employers outsource the payroll function, early engagement with the employer on the potential risks will help them manage their supplier. • Employers may exit the fund so it is helpful to have a principle based policy on how to manage this given that circumstances are likely to vary in individual situations. • Scheme managers should develop an understanding of the risk and benefits of a range of security types, such as charges, bonds and guarantees. • Scheme manages should consider whether accepting a range of security types will offer more effective protection to the fund, rather than focussing on a single form of security. • Scheme managers should understand which employers have not provided any security for unpaid contributions

security types, generally those with larger funds.

Decisions around what security to require are often based on previous ways of operating, rather than considering the best option in individual circumstances.

and consider what appropriate steps can be taken to secure fund assets.

- Where security is in place, Scheme Managers should have a policy on when the security should be triggered.

Employer case study 1

Having a robust method for reviewing employer risk is a high priority for one of the scheme managers we engaged with. It has developed a process to maintain oversight of the various participating employers in the fund, covering a range of topics from the provision of member data to the strength of the employer covenant.

Each employer is risk rated and the risk levels are regularly monitored. This allows the scheme manager to gain advance notice of potential problems so it can take steps to mitigate the risks and to provide comfort that guarantors are in a position to pay additional amounts to the fund if a call on the guarantee is made.

This information is also used to inform employers of any failures to meet their obligations to the fund at an early stage, identifying action points they need to carry out.

Employer case study 2

Scheme manager 1 has decided to incorporate a charging policy for seeking the reimbursement of costs caused by an employer's failure to comply with its obligations into admission agreements. This means the scheme manager has a clear policy in place that all employers will be aware of when they start to participate in the fund.

Not all scheme managers have approached the issue of employer compliance in the same way. Scheme manager 2 has a small portfolio of participating employers and relies on having a good relationship with them in order to achieve compliance. This scheme manager also considers that as most employers are supported by central government it need not be concerned with affordability.

We were concerned about the lack of formal processes to ensure compliance. While the scheme manager has not encountered difficulties to date, we have recommended that it makes some improvements. Additionally, all scheme managers should remember that, should a participating employer suffer an insolvency event, any missing payments due to the fund will need to be paid by someone and there should not be an over-reliance on the taxpayer and other employers.

Area of focus: Cyber security

Guidance: Cyber security principles for pension schemes

Pension schemes hold large amounts of personal data and assets which can make them a target for fraudsters and criminals. scheme managers need to take steps to protect their members and assets accordingly.

Findings	Recommendations
Most scheme managers are heavily reliant on the security systems put in place by the Local Authority, with some not engaging with how the procedures in place affect the fund. Scheme managers of well run funds have a good understanding of the IT systems in place, even where these are implemented by the Local Authority. Some scheme managers have not given consideration to the risks posed by cyber crime. For these funds, cyber security did not appear on the risk register before our engagement with the scheme manager. Scheme managers that are aware of the risks associated with cyber crime generally have robust procedures in place to test the effectiveness of both cyber security and resilience methods.	• Scheme managers and pension boards should understand the risk posed to data and assets held by the fund so steps can be taken to mitigate the risks. This should be reflected in the risk register. • Regular, independent, penetration testing should be carried out. Scheme managers should consider physical security as well as protection against remote attacks. • Where cyber security is maintained by the Local Authority rather than the scheme manager, the scheme manager should understand the procedure and ensure the fund's requirements are met. • Scheme managers should be aware of the cyber security processes used by third party providers, such as the administrator or custodian, that handle fund assets or data.

Cyber security case study 1

A scheme manager we engaged with identified cyber security as one of the top risks to the fund. It demonstrated a good awareness of the processes put in place by the Local Authority and carries out testing of these processes.

The scheme manager had recently tested both its cyber defences and the wider business continuity plan. As a result it is confident it can provide a good service to savers in the event of a wide variety of disaster scenarios.

As part of our engagement we also found the scheme manager has processes in place to assess the adequacy of steps taken by its service providers to protect member data. This gives the scheme manager comfort that member data will be secure when being handled by other bodies.

Although the scheme manager has not implemented its own controls it has rigorously reviewed the process put in place by the Local Authority. It has satisfied itself that those processes are of a sufficient standard to protect the fund and its savers.

Cyber security case study 2

A scheme manager had not considered the importance of cyber security until we engaged with them as part of this work. The scheme manager was reliant on the security measures put in place by the council but did not engage on the topic, so it was not clear how it was affected.

Cyber security did not appear on the fund's risk register and the scheme manager was not actively considering the dangers of a successful cyber attack on the fund.

Following our engagement, the scheme manager has developed its understanding of the risks surrounding cyber security. It now records the risk on its risk register and as part of the Local Authority's strategy all staff will receive mandatory training in cyber security.

The scheme manager has also started engaging with third party service providers to ensure they also have robust cyber security and data protection procedures in place. This gives the scheme manager better oversight of how member data is protected when not under the scheme manager's direct control and marks a significant improvement in how this risk is monitored and mitigated.

Area of focus: Internal fraud and false claims

Code of Practice 14 – Governance and administration of public service pension schemes

Schemes without strong internal controls are at greater risk. This includes having a clear separation of responsibilities and procedures which prevent a single member of staff from having unfettered access to scheme assets. Strong internal controls, particularly over financial transactions, also help mitigate the risk of assets being misappropriated.

Findings	Recommendations
Scheme managers generally appear to have an awareness of the risks of fraud against their fund, both from an internal and external source. We found scheme managers are generally aware of publicised fraudulent activity that have affected other pension schemes and have taken steps to review their own procedures. Scheme managers of well run funds typically take steps to regularly screen member existence. Their scheme managers are also aware that not all incorrectly claimed pension benefits are the result of an attempt to defraud the fund and can identify when to treat a situation with sensitivity. Most scheme managers have introduced multiple levels of sign offs, with more than one person being required to agree to a	• Scheme managers should regularly review their procedures to protect the fund's assets from potential fraud. • A clearly auditable process should be in place for the authorising of payments. Ideally, this would require more than one person to provide authority to make the payment. • A scheme manager should have a policy in place to differentiate between a potential fraud and a potential honest mistake by a saver. • Where a fraud is detected in the scheme manager's fund, or another one, they should take steps to stop the fraud and analyse causes to prevent a reoccurrence. • When paper records are being used they should be held securely to

payment being made. The scheme managers were also aware of frauds involving other funds, where this had been made public. They had taken steps to reduce their own vulnerability to similar issues.

prevent the risk of loss or mis-appropriation.

Fraud case study 1

A scheme manager has worked with its administrator to put in stringent measures to prevent fraudulent activity. In addition to participating in the National Fraud Initiative, it does regular life certificate exercises as part of the fund's policy, checking mortality and addresses. Where doubts are raised the scheme manager will suspend payments pending clarification.

Many of the members of the fund are now non-resident in the UK, which provides challenges to the scheme manager in locating members. The scheme manager has adopted an innovative use of technology for the foreign domiciled members by arranging video calls to speak to the member who must show their passports to provide their identity and confirm personal details.

The scheme manager demonstrated good awareness of the risk of internal fraud by connected persons, and there is clear segregation of duties. Additionally the workflow processes being system driven provide automatic checks with different people checking and authorising the processes. Suspicious payments are immediately reported to senior management to check.

Fraud reporting policies are clear, and internal auditors are involved whenever there is suspicion of a fraudulent activity. The fraud reporting goes immediately to directorship and chief executive level.

Fraud case study 2

In this instance the scheme manager has strong controls in place to identify potential frauds against the fund assets.

The scheme manager works with the National Fraud Initiative to identify instances of possibly fraudulent claims for a benefit from the fund. The scheme manager's work in this area is supplemented by its involvement with the 'Tell Us Once' initiative and the use of a third party agency to help identify when beneficiaries have passed away.

The scheme manager also demonstrated an awareness of the risks associated with members and other potential beneficiaries being overseas. It carries out existence checks on these people as well as those residing in the United Kingdom.

When a payment is due to be made, the scheme manager has introduced a vigorous set of controls. This has led to a clear separation of duties and the requirement for payments to be independently authorised, reducing the risk of fund employees misappropriating fund assets.

Conclusion

We've outlined some areas of good practice in this report, and also some areas where we remain concerned and expect scheme managers to improve where appropriate. Overall, we noted:

- Not all funds are the same and there is a variety of equally valid approaches to mitigating risk used across funds in the LGPS.
- It is important that scheme managers recognise, and maintain, a separation between the fund and Local Authority to avoid an over-reliance on the Local Authority's policies and procedures. When establishing its own policies and procedures a scheme manager should be able to seek assistance from the pension board, meaning steps should also be taken to ensure the pension board is able to fulfil its role. Where this is not possible, scheme managers should feed into creating Local Authority policies to make sure they are fit for purpose.
- There are clear benefits to the operation of the fund where there is an engaged s.151 officer who is directly involved.
- Good quality data and record-keeping standards underpin all aspects of successfully running a fund and these areas should be treated as a priority in order to drive good outcomes.
- Scheme managers that have developed and implemented a robust pension administration strategy have found them useful. While not a legal requirement, scheme managers should consider whether this type of document will be useful and look to introduce them where this is the case.
- A common risk is the unexpected departure of key members of the scheme manager's staff. Succession planning and clearly recorded processes help mitigate this risk.
- Measuring governance and administration is challenging and requires more than just an analysis of raw figures. Scheme managers should therefore put in place appropriate reporting measures that they believe capture both quantitative and qualitative assessments. This approach should be tailored to the specific circumstances of their fund.
- Scheme managers should take a holistic approach when considering the governance and administration risks to their fund. Most risks are connected to each other and a scheme manager should understand how a risk materialising will impact on other areas of governance and administration.
- Risks to funds are constantly changing and evolving. For example, the methods used by scammers change over time. Scheme managers should be alert to the changing nature of risks and adapt their approaches accordingly.
- Many scheme managers have a clear understanding of how their funds operate and want to provide the best experience for savers. Where scheme managers liaise with each other to discuss common challenges and solutions to them, whether at formal events or through ad hoc engagement, often leads to improved governance standards. We encourage such action.

Related content

Resolving internal disputes

Knowledge and understanding duty on board members

Pension board conflicts of interest and representation

Maintaining contributions

Cyber security principles

Pension scams

Public service governance and administration survey

- Public service pension schemes
- Master trust pension schemes
- Exchange
- Trustee toolkit
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The Pension Regulator's Code of Practice Compliance Checklist

Date of Completion:

Introduction

This document outlines how Westminster City Council complies with the Pensions Regulator's (TPR) Code of Practice No 14 Governance and administration of public service pension schemes ('the TPR Code') in relation to the management of the Council's Pension Fund which is part of the Local Government Pension Scheme (LGPS). It will be updated regularly by officers of the Fund and reported annually to the Pensions Committee and Pension Board.

This document highlights all the key elements of the TPR Code and then evidences whether Westminster City Council meets these areas of best practice. As part of this evidence it shows when the element was last checked and whether, at that point, it was considered fully, partially or not compliant. Where they are partially or not compliant, it also highlights whether Westminster Council have identified actions to be carried out to improve their current practices. Where an element is not yet active, the commentary will generally still highlight where advanced progress is being made.

Those reading this document should be mindful that the TPR Code applies equally to all public service pension schemes and therefore it is generic in nature. There may be a number of elements that are more specifically stipulated within LGPS legislation and it is not the purpose of this compliance checklist to consider that level of detail.

Further, Westminster City Council may also incorporate key elements of national guidance from the LGPS Scheme Advisory Board into this compliance checklist. This version contains the checklists included as part of the Shadow Scheme Advisory Boards "Guidance on the creation and operation of Local Pension Boards in England and Wales".

The national LGPS Scheme Advisory Board

Pensions Committee

Local Pension Board

The Pensions Regulator's Code of Practice No 14 Governance and administration of public service pension schemes

Frequency of review and last review date: Where a process, policy or practice is officially reviewed at a set interval, the actual interval will be shown as well as the last interval date. However, in many circumstances processes and procedures are ongoing and part of the day – to - day operation of the Fund. In these circumstances, an annual check will be carried out to ensure that the ongoing process meets the TPR Code expectations and therefore the date shown will be the date that annual check was carried out and the frequency will be shown as "ongoing (annual check)".

A – Knowledge and Understanding

Legal Requirement

A member of the pension board of a public service pension scheme must be conversant with:

- the rules of the scheme, and
- any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

A member of a pension board must have knowledge and understanding of:

- the law relating to pensions, and
- any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the pension board.

Ref	Code Requirement	Code Ref	WCC	Frequency of Review	Last Review Date	Compliant	Action
A1	Are there policies and arrangements in place to support pension board members in acquiring and retaining knowledge and understanding?		There is a knowledge and skills policy in place for the Pension Board that covers the areas that members are legally required to have knowledge of.			**compliant**	
A2	Has a person been designated to take responsibility for ensuring that a framework is developed and implemented?		The Tri Borough Director of Treasury and Pensions is responsible for ensuring that a knowledge and understanding framework is developed and implemented ?				Need to Check implementatio n
A3	Is WCC providing assistance to pension board members to determine the degree of knowledge and understanding?		Upon appointment to the board, all members are required to complete a sell assessment/training needs analysis. This is then used to identify areas where training may be required.			**compliant**	
A4	Are the roles and responsibilities of pension boards and members of the board clearly set out in scheme documentation?		The terms of reference sets out the roles and responsibilities of the pension board and individual members of the board. It has been formulated based on the guidance that was issued by the Scheme Advisory Board.			**compliant**	
A5	Are pension board members aware of their legal responsibility in terms of knowledge and understanding		Extensive training was given in this area as part of the one day induction training of members. Subsequent training has also been provided in this area through a contracted training programme that has been put in place for board members.			**compliant**	
A6	Have pension board members got access to copies of the scheme rules and relevant scheme documentation?		Copies of the scheme rules are available on the WCC pension fund website and the main WCC website. (need to ascertain that members are directed to all the documents.)			partially	Direct members to documents
A7	Is there an updated list of fund specific documents with which the Is there an up-to-date list of the Fund specific documents with which pension board members need to be conversant in?		A list of documents is outlined in the Terms of Reference that members of the Board must receive on appointment. These documents are also held on line and updated accordingly. However document list needs to be reviewed to ensure completeness.			partially	Check that all list of documents is complete
A8	Are all pension board members investing sufficient time in their learning and development?						Update training record
A9	Does the Fund offer pre-appointment training for new pension board members or mentoring by existing members?		A comprehensive 2 day training programme was put in place for the first Board members that were appointed. New appointments to the Board are required to undertake a training needs analysis in keeping with the Knowledge and Skills policy			**compliant**	
A10	Is there a process in place for regularly assessing the pension board members' level of knowledge and understanding is sufficient for their role, responsibilities and duties?		The knowledge and skills policy statement require members of the pension board to complete a knowledge and skills self assessment annually. Also specific training is provided sometimes jointly with the pensions committee leading up to specific events for example, joint training was provided on the triennial valuation during the 2016 valuation. Officer inform board members of external events and workshops to enhance their knowledge.			**compliant**	
A11	Are records of learning activities being maintained?		Records of attendance at training sessions arranged by the Council are kept and reported on in meetings. Board members have also been provided access to the Council's learning management system to record development that they have undertaken outside of the arranged training sessions			**compliant**	
A12	Have the pension board members completed the Pension Regulator's toolkit for training on the Code of Practice number 14?		Need to ascertain.				Check that members have completed

B – Conflicts of Interest

Legal Requirement

The Public Service Pensions Act 2013 sets out the legal requirements for scheme managers and pension boards for conflicts of interest.

In relation to the pension board, scheme regulations must include provision requiring the scheme manager to be satisfied:

Scheme regulations must require each member or proposed member of a pension board to provide the scheme manager with such information as the scheme manager reasonably requires for the purposes of meeting the requirements referred to above.

Scheme regulations must include provision requiring the pension board to include employer representatives and member representatives in equal numbers.

· that a person to be appointed as a member of the pension board does not have a conflict of interest and

· from time to time, that none of the members of the pension board has a conflict of interest.

Ref	Code Requirement	Code Ref	WCC	Frequency of Review	Last Review Date	Compliant	Action
B1	Does the Fund have a conflict of interest policy and procedure, which include identifying, monitoring and managing potential conflicts of interest?		There is a comprehensive conflict of interest policy that covers the role of the Board and the role of the Authority in identifying, monitoring and managing conflicts of interest	annually		**compliant**	
B2	Do pension board members have a clear understanding of their role, the circumstances in which they may have a conflict of interest and how to manage potential conflicts?		This is set out in the conflict of interest policy with examples. In addition Conflict of interest was included as part of the induction and subsequent training.			**compliant**	
B3	Have all Pension Board members provided appropriate information for the Administering Authority to determine whether a conflict exists (on appointment and from time to time)?		In addition to the Conflict of Interest Policy and declaration at the time of appointment, there is also a standing item on the agenda of each Board meeting for members of the board to declare any conflict of interest			**compliant**	
B4	Does the appointment process for pension board members require disclosure of interests and responsibilities which could become conflicts of interest?		Yes, please see above.			**compliant**	
B5	Is the conflicts policy regularly reviewed?		The conflict of interest policy is reviewed annually			**compliant**	
B6	Does the Fund have a conflicts register and it is circulated for ongoing review and published?		It was agreed by the board that declarations of interests would be recorded in the pension board minutes. Is there a register outside of the minutes			partially	Establish register
B7	Is appropriate information included in the register?		There is not a comprehensive register. The minutes of each meeting has any declaration of interests.			partially	Establish register
B8	Is there a standing item on the agenda for declaring conflicts of interest?		There is a standing item for declaration of interests ot the start of each meeting.	quarterly		**compliant**	
B9	Do those involved know how to report a conflict of interest?		This is included in the Conflict of interest policy and was also part of the induction training.			**compliant**	
B10	Is the number of employer and member representatives on the board in line with legal requirements?		Yes. There are equal numbers of employee and employer representatives in keeping with the guidance issued by the Scheme Advisory Board.	When required at appointments		**compliant**	
B11	Is the board made up of the appropriate mix of representatives in order to minimise potential conflicts?		There are three employer representatives and 3 scheme member representatives. The employer reps are made up of 2 Councillors and 1 admitted body employer and the scheme member reps are made up of scheme members from the Council or admitted bodies.	When required at appointments		**compliant**	

C - Publishing information about schemes

Legal Requirement

The scheme manager for public service scheme must publish information about the pension board for the scheme(s) and keep that information up to date

The information must include:

· who the members of the pension board are

· representation on the board of members of the scheme(s), and

· the matters falling within the pension board's responsibility

Ref	Code Requirement	Code Ref	WCC	Frequency of Review	Last Review Date	Compliant	Action
C1	Does the Administering Authority publish information about the pension board?		Information regarding the role and membership of the board along with key documents – Terms of Reference, Code of Conduct, Conflicts of Interest Policy, Knowledge and Skills policy and membershipare published on the Council's website	Annually and ongoing		Compliant	
C2	Does the Administering Authority publish other useful related information about the pension board?		In addition to the above Agenda and minutes of the board meetings are also available and the pension fund annual report also includes information about the board.	Annually		compliant	
C3	Is all the information about the Pension Board kept up-to-date?		Officers review the published information and amend accordingly.	On-going		compliant	
C4	Does the Administering Authority publish information about pension board business?		This information is contained in the pension board annual report and the minutes of the meetings would also contain information about the pension board business	Quarterly/annually		compliant	

D – Managing Risk

Legal Requirement

The scheme manager must establish and operate internal controls that adequately ensure the scheme is administered and managed in accordance with the requirements of the law.

Internal controls are defined in the legislation as:

· arrangements and procedures to be followed in the administration and management of the scheme

· systems and arrangements for monitoring that administration and management

· arrangements and procedures to be followed for the safe custody and security of the assets of the scheme

The legal requirements apply equally where a scheme outsources services connected with the running of the scheme.

Ref	Code Requirement	Code Ref	WCC	Frequency of Review	Last Review Date	Compliant	Action
D1	Is there an agreed process for identifying and recording scheme risks?		The Council's risk management framework is used to identify and record risk			Compliant	
D2	Does the Fund have an adequate process to evaluate risks and establish internal controls?		Risk is evaluated using a scoring matrix that has been agreed by the pension committee. The scoring matrix examines the likelihood of each risk identified and applies a rating and also looks at the impact of the risk occurring and applies a score. Based on the outcome of each risk then resources are channelled into that area.	quarterly		compliant	
D3	Does the Administering Authority have a risk register to record all risks identified and action taken?		A risk register that records all risk identified is in place. This is reviewed quarterly at meetings and any resulting follow up actions reported on.	quarterly		compliant	
D4	Does the Administering Authority review the effectiveness of the risk management and internal control systems of the Fund?		This is reviewed quarterly at each meeting of the Committee and the Board and would also be tested as part of external audit and by Audit and Governance Committee.	annually		compliant	
D5	Does the Administering Authority regularly review the risk register?		The risk register is reviewed quarterly at Pension Board and Committee meetings	quarterly		compliant	
D6	Is there a standing item on the Pension Board agenda to review scheme risks?		Review of the risk register is a standing item on both the Pension Board and Committee agenda	quarterly		compliant	
D7	Does the Administering Authority have adequate systems, arrangements and procedures (internal controls) in place for the administration and management of the Fund and are they documented ?		The City Treasurer has a statutory responsibility to to ensure the proper administration of the Council's financial affairs including financial controls. Details of this can be found in Part E of the Financial Regulations under Internal Controls.	Annually		compliant	
D8	Do these procedures apply equally to outsourced services, are internal controls reflected in contracts with third party providers and is there adequate reporting in relation to those controls?		The administration function is outsourced to Surrey CC. The requirements for internal controls are specified in the agreement. (Need to ascertain how the implementation is evidenced.			partially	Obtain information on verification

E – Scheme Record-keeping

Legal Requirement

Scheme managers must keep records of information relating to:

member information

transactions, and

pension board meetings and decisions.

Ref	Code Requirement	Code Ref	WCC	Frequency of Review	Last Review Date	Compliant	Action
E1	Do member records record the information required as defined in the Record Keeping Regulations and is it accurate?		Yes our records are compliant and accurate. We maintain date joined the scheme, a record of all contributions received on an annual basis, pension in payment and lump sum , transfer and refund payments made	Annually	31/08/2017	Compliant	
E2	Does the Fund have the appropriate processes in place so employers can provide timely and accurate information?		Yes we encourage employers to submit data via Egress to the administrators. All necessary forms are available on the pension fund website so that employers can easily access complete and return to the fund. Contact details are available on the pension website.	Annually	31/08/2017	Compliant	
E3	Does the Fund keep records of and reconcile transactions as required by the Record Keeping Regulations?		Reconciliation does take place for things like lump sum payments and transfer payments made via the altair system and the matching payments in the bank account as part of the accounts preparation. Weakness is in matching annual returns to contributions made to the fund in the year.	Annually		Partially	Developing plan to add this additional check.
E4	Are records kept of pension board meetings as required by the Record Keeping Regulations?		Yes Minutes are maintained by the Committee Section.	Quarterly		Compliant	
E5	Are records kept of decisions made by the pension board, outside of meetings as required by the Record Keeping Regulations?		The Pension Board don't make decisions outside of meetings.	N/A		N/A	
E6	Are records retained for as long as they are needed?		yes	Annually		Compliant	
E7	Does the Administering Authority have policies and processes to monitor data on an ongoing basis?		The Authority is just introducing a PAS which outlines further monitoring.	Annually		Compliant	
E8	Does the Administering Authority carry out a data review at least annually?		The Authority is always doing some data checking. We are currently reviewing records for some people who no longer have contributions being paid into their records. In order to chase up with employers leaver information if required,	Annually		Compliant	
E9	Is a data improvement plan in place which is being monitored with a defined end date?		We review and implement changes to data on an ongoing basis.			Compliant	
E10	Are processes and policies in place to reconcile scheme data with employer data?		The introduction of the PAS will help address this but still some weakness in matching contributions paid to end of year returns. We are considering options including i-connect to collect contribution data on a monthly basis that will update the Altair records.			Partially	
E11	Do the Administering Authority's member data processes meet the requirements of the Data Protection Act 1998 and the data protection principles?		Yes			Compliant	

F – Maintaining Contributions

Legal Requirement

Ref	Code Requirement	Code Ref	WCC	Frequency of Review	Last Review Date	Compliant	Action
F1	Does the Fund have procedures and processes in place to identify payment failures?		The Reconciliation Assistant in Finance checks monthly for contributions paid and liaises with the contractor and employer on any outstanding contributions. The Council's contractor will advise finance of this though review may not be immediate.			compliant	
F2	Do those processes and procedures include a contributions monitoring record to determine whether contributions are paid on time and in full?		Late payments are identified and chased first by the contractor and then continued by finance. However interest is not applied to late payments. The Pensions Administration Strategy which was recently approved should strengthen ability to do this.			compliant	
F3	Do those processes and procedures include monitoring payments against the contributions monitoring record on an ongoing basis?		Contributions to be paid are outlined in the rates and adjustment certificate issued by the actuary. A spread sheet is kept maintained and updated monthly with contributions received/outstanding and related correspondence			Compliant	
F4	Are these procedures regularly reviewed to ensure they are effective?		We are reviewing them but cannot change that quickly			Not Compliant	
F5	Do the Administering Authority's processes include managing overdue contributions in line with TPR's suggested approach?		Processes are in place to identify and manage overdue payment. The notification to employers of the contribution rate also includes when the payment should be made by and the penalty for late payments. This is also outline in the PAS and monitored by Reconciliation Assistant.			Compliant	
F6	Does the Fund maintain a record of any investigations and communications with employers?		A spread sheet is maintained with all correspondence as part of the contribution checks. People Services e-mail individually but e-mails are kept so should be available. Surrey keep document images stored on member records where relevant.			Compliant	
F7	Do employers provide sufficient information to monitor contributions and is this in accordance with the LGPS regulations?		There is a standard remittance advice that has been given to employers to capture the information necessary to post contributions received. Employers also provide payroll reports at individual level so that employer and employee rates can be checked. There are a few employers that do not provide payroll reports			Compliant	
F8	Is there a satisfactory process in place to assess the materiality of any payment failures and ensure that those which are material are reported to the Regulator within a reasonable period?		There is no clear ownership of where the responsibility lies for checking contribution rates, chasing late payments etc as a result it is unlikely that material failures are reported			Not Compliant	HR/Finance/Contractor need to establish responsibility
F9	If the administration of contributions outsourced to a service provider, is there a process in place to obtain regular information on the payment of contributions to the scheme?		The agreement with the provider outlines the data to be supplied and the frequency of information.			compliant	

G – Providing Information to Members and Others

Legal Requirement

The law requires schemes to disclose information about benefits and scheme administration to scheme members and others. This includes requirements relating to benefit statements and certain other information which must be provided under the requirements of the 2013 Act, HM Treasury directions and the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 ('the Disclosure Regulations 2013'). In addition to these duties, there are other legal requirements relating to the provision of information to members and others under other legislation.

Ref	Code Requirement	Code Ref	WCC	Frequency of Review	Last Review Date	Compliant	Action
G1	Has an annual benefit statement been provided to all active members within the required timescales?		The 2016/ 2017 ABS were available online by 31/8/17			Compliant	
G2	Do these meet the legal requirements in relation to format?		Yes			Compliant	
G3	Has a benefit statement been provided to all active, deferred and pension credit members who have requested one within the required timescales?		ABS are produced automatically and available online. A small number of deferred statements were sent late.			Partially	
G4	Does this meet the legal requirements in relation to format?		yes			Compliant	
G5	Has an annual benefit statement been provided to all members with AVCs within the required timescales?		yes			Compliant	
G6	Do these meet the legal requirements in relation to format?		yes			Compliant	
G7	Is basic scheme information provided to all new and prospective members within the required timescales?		Information is in the contract including a link to the pension fund website			Compliant	
G8	Does this meet the legal requirements in relation to format?		yes			Compliant	
G9	Is all other information provided in accordance with the legal timescales?		yes			Compliant	
G10	Is all other information provided in the format and methods required by law?		yes			Compliant	
G11	Where any information is only provided electronically (i.e. instead of any hard copy) does it comply with the legal requirements?		yes			Compliant	
G12	Does the Administering Authority aim to design and deliver communications in a way that ensures scheme members are able to engage with their pension provision?		Yes, we are always looking to develop our communication.			Compliant	
G13	Does the Administering Authority use a tracing service?		Periodically.			Compliant	

H – Internal Dispute Resolution

Legal Requirement

Scheme managers must make and implement dispute resolution arrangements that comply with the requirements of the law and help resolve pension disputes between the scheme manager and a person with an interest in the scheme. The act states that a person has an interest in the scheme if they:

· are a member or beneficiary

· are a prospective member

· have ceased to be a member, beneficiary or prospective member

· claim to be any of the above and the dispute relates to this claim.

The Act also states that the procedure must include

· how an application is to be made

· what must be included in an application

· how decisions are to be reached and notified

· a specified period (which is reasonable) within which applications must be made.

Ref	Code Requirement	Code Ref	WCC	Frequency of Review	Last Review Date	Compliant	Action
H1	Has the Administering Authority put in place an internal dispute resolution procedure?		yes			Compliant	
H2	Does the Administering Authority's process highlight or consider whether a dispute is exempt?		yes			Compliant	
H3	Does the information made available to applicants about the procedure clearly state the procedure and process to apply for a dispute to be resolved including:- who it applies to- who the specified person (stage 1) is - the timescales for making applications- who to contact with a dispute- the information that an applicant must include- the process by which decisions are reached?		yes			Compliant	
H4	Has the Administering Authority ensured that employers who make first stage decisions also have IDRP in place?		No, our employers are generally small a process for this may not be practical			Not Compliant	
H5	Are the timescales in the procedure adhered to including sending an acknowledgment on receipt of an application?		Yes.			Compliant	
H6	Does the Administering Authority notify and advertise the procedure appropriately?		We don't advise IDRP, but advised individual in relevant circumstance.			Partially	
H7	Are the notification requirements in relation to TPAS and the Pensions Ombudsman being adhered to?					Compliant	
H8	Does the Administering Authority regularly assess the effectiveness of its arrangements?		yes			Compliant	
H9	Does the Administering Authority regularly assess the effectiveness where employers carry out a stage one process?		No, they are very rare.			Not Compliant	We will communicate to our fund employers what they should do.

I – Reporting Breaches of Law

Legal Requirement

Certain people are required to report breaches of the law to the regulator where they have reasonable cause to believe that:

- a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with
- the failure to comply is likely to be of material significance to the regulator in the exercise of any of its functions.

Ref	Code Requirement	Code Ref	WCC	Frequency of Review	Last Review Date	Compliant	Action
I1	Is the Administering Authority satisfied that those responsible for reporting reaches under the legal requirements and TPR guidance understand the requirements?		Duty for reporting breaches and how to report formed a fundamental part of the induction training that was given by the fund actuary Barnett Waddingham.			Compliant	
I2	Does the Administering Authority have appropriate procedures in place to meet their legal obligations for identifying and assessing breaches?		Need to ensure that procedures and records are centrally stored and available to all relevant parties			Partially	
I3	Are breaches being recorded in accordance with the agreed procedures?		Need to ensure that procedures and records are centrally stored and available to all relevant parties.			Partially	