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City of Westminster

Committee Agenda

Title:	**Pension Board**
Meeting Date:	**Tuesday 9th July, 2019**
Time:	**6.30 pm**
Venue:	**Room 18.08, 18th Floor, 64 Victoria Street, London, SW1E 6QP**
Members:	**Councillors:** Tim Mitchell Guthrie McKie **Employer Representative:** Marie Holmes **Scheme Member Representatives**: Terry Neville Christopher Smith Chris Walker

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

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

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

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

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

AGENDA

PART 1 (IN PUBLIC)

9. ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

10. EXCLUSION OF PRESS AND PUBLIC

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

Item No	Grounds
11	Information relating to the financial and business affairs of an individual including the authority holding the information and legal advice

11. MINUTES

To approve the confidential minutes of the Pension Board meeting held on 13 May 2019.

Stuart Love
Chief Executive
3 July 2019

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CITY OF WESTMINSTER

MINUTES

Pension Board

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Board** held on **Monday 13th May, 2019**, Room 18.02, 18th Floor, 64 Victoria Street, London, SW1E 6QP.

Members Present: Councillor Angela Harvey (Chairman and Employer Representative), Terry Neville (Vice-Chairman and Scheme Member Representative), Councillor Guthrie McKie (Employer Representative), Marie Holmes (Employer Representative), Christopher Smith (Scheme Member Representative and Chris Walker (Scheme Member Representative).

Martin Colwell (Scheme Member Representative) was also in attendance.

Also Present: Phil Triggs (Tri-Borough Director of Treasury and Pensions), Billie Emery (Pension Fund Manager, Treasury and Pensions), Matthew Dawson (Senior Finance Manager, Tri-Borough Treasury and Pensions), Lee Witham (Director of People Services), Sarah Hay (Senior Pensions and Payroll 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 Terry Neville declared that he is a councillor at the London Borough of Enfield, however he is a scheme member of the Westminster Pension Fund.

3 MINUTES

3.1 **RESOLVED:**

That the minutes of the meeting held on 29 January 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 there had been a dip in performance for some of the key performance indicators (KPIs) during the January to March 2019 period. This

was attributable to the Administration Team in East Sussex not following through the full work flow of duties, such as not undertaking a daily monitoring of replies from pension scheme members to letters sent out by Surrey County Council. (SCC). Sarah Hay advised that she had since visited the Administration Team to raise this issue and it was hoped that the KPIs for April would demonstrate that this was no longer a cause for concern.

4.2 In respect of data cleansing, Sarah Hay advised that the number of errors identified had reduced by 39% as of end of April. She confirmed that all of the Fund's employers had completed status 2 leaver data to SCC. As of the end of April 2019, 77% of cases had been completed and with SCC, ready to be sent to JLT for processing. As of 13 May, a further two batches had also been sent over to SCC and an update on the data cleansing exercise could be provided at a future meeting.

4.3 During Members' discussions, the Chairman noted that there had been no cases brought to the attention of People Services about the problems experienced during the January to March period. She also requested the updated KPIs for April. Regarding data cleansing in identifying the true employer, the Chairman enquired whether any of 185 cases referred to SCC may involve potential fraud.

4.4 Members queried why the Council was liable for the £14,500 costs for removing critical errors in the Fund's data. Members also sought assurances that the data cleansing would not unearth further issues. It was also queried whether the auditors would pick up any issues concerning data cleansing.

4.5 The Board welcomed the progress made in respect of the existence checking of pensioners living overseas, an exercise undertaken by Western Union on behalf of the Council.

4.6 In reply to issues raised by the Board, Sarah Hay advised that she was not aware that it had led to any pension scheme members suffering hardship and this had not been raised at the Pensions Annual General Meeting. A number of steps were being taken to improve data accuracy through data cleansing. The Board heard that The Pensions Regulator required administering authorities to measure data accuracy each November and the Data Improvement Plan would help to minimise data inaccuracies which Sarah Hay agreed to email this plan to Members. With regard to identifying the true employer, Sarah Hay advised that this was likely to involve instances where schools that were Fund members were using different payroll providers and there was no particular reason to suspect that fraud may be involved. Members heard that the Fund has responsibility to check data and so are liable for the costs involved. Sarah Hay stated that the auditors would focus on the process of ensuing accurate data, rather than looking at specific instances of missing data.

4.7 Phil Triggs (Tri-Borough Director of Treasury and Pensions) added that the internal auditors would focus on systems checking and this would involve looking at a sample of data. It was also important to work closely with internal audit to help maintain data accuracy.

4.8 The Chairman requested that information on the size of the pension scheme's liability and an update on the work undertaken by internal audit for the pension scheme be provided at the 15 October meeting.

5 PENSIONS ANNUAL GENERAL MEETING

5.1 Phil Triggs (Tri-borough Director of Treasury and Pensions) introduced this item and stated that the Pensions Annual General Meeting (AGM) had been a success, with in excess of 60 people attending. The event had begun with a presentation from Sarah Hay, summarising the benefits in being a member of the pension scheme. This was followed by a presentation from Phil Triggs summarising the investment aspects of the Fund and then concluded by a presentation from Majedie, one of the fund managers, on environmental, social and governance (ESG) investments.

5.2 A Member who had attended the event remarked that he was impressed by the number of people attending and the presentations were informative. In reply to a query about communicating the AGM to scheme members, Phil Triggs suggested that there could be a feature on it in the Council's website. The Board also agreed to his suggestion that next year's Pensions AGM take place the week after the last May Bank Holiday weekend in order that the Pension Fund Annual General Report was ready to be distributed at the event.

6 FUND FINANCIAL MANAGEMENT

6.1 Billie Emery (Pension Fund Manager) presented the report and referred to the updated Risk Registers for both the administration risks and the investment risks.

6.2 During discussions, Members requested that risks that were more likely to occur be highlighted in the Executive Summary of the report so that the Board could focus on these. Members expressed reservations in respect of the governance arrangements of the London Collective Investment Vehicle (LCIV), particularly in respect of governance and requested an update on this at the next meeting.

6.3 **RESOLVED:**

1. That the Risk Registers for 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 plans for the Pension Fund Committee and the Pension Board be noted.

7 QUARTERLY FUND PERFORMANCE

7.1 Billie Emery presented the report and advised that the Fund had

underperformed its benchmark over the year to 31 March 2019 by 0.9%. However, over the longer three year period, the Fund was outperforming its benchmark by 0.5%. Billie Emery added that the funding level remained stable at 94.5% as of 31 December 2018.

7.2 Members queried why Baillie Gifford, one of the fund managers, had been underperforming recently. In reply, Phil Triggs advised that Baillie Gifford, along with Majedie, had been outperforming for a period of around 20 years until the dips in performance in the last two years. This illustrated that it was not possible to be permanently outperforming the benchmarks.

7.3 **RESOLVED:**

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

8 CITY OF WESTMINSTER RESPONSE TO MINISTRY OF HOUSING, COMMUNITIES AND LOCAL GOVERNMENT (MHCLG) STATUTORY GUIDANCE ON ASSET POOLING IN THE LOCAL GOVERNMENT PENSION SCHEME CONSULTATION

8.1 Phil Triggs presented the report that included the Council's response to the MHCLG's guidance on pooling. There were currently eight pools in existence in England and Wales and the way in which the pools were run varied widely. In the case of the LCIV, this initially had been a voluntary pool before pooling had become a statutory requirement and the LCIV had been operating on a more 'optional' basis as opposed to some other pools that were far more compulsory in nature. Phil Triggs added that there had been visible improvements to the LCIV of late and a new Chief Executive and Chief Investment Officer had been appointed. Billie Emery and Matthew Hopson (Strategic Investment Manager, Tri-Borough Treasury and Pensions) had also visited the LCIV and had met the new Chief Investment Officer and it was note that communications and transparency on costs had improved.

8.2 During discussions, a Member commented that the expected reductions in fund manager fees since joining the LCIV were only just beginning to be achieved.

8.3 In reply, Phil Triggs advised that the Council had actually chosen the fund managers in respect of assets allocated to the LCIV and was benefitting from lower management fees.

8.4 **RESOLVED:**

That the response to the consultation in Appendix 1 of the report and the report taken to the Pension Fund Committee in Appendix 2 of the report be noted.

9 LOCAL GOVERNMENT ASSOCIATION SUMMARY ON PROPOSED CAP ON EXIT PAYMENTS IN THE PUBLIC SECTOR

9.1 Phil Triggs presented the report and advised that if the proposed cap was

imposed, an individual taking an early, enforced retirement at the age of 55 years or above would mean that the statutory redundancy payment and the pension strain could not exceed £95,000. This would mean a reduction in payment for a number of middle income earners, and particularly handicap those who had long service records. The proposals were currently under consultation and the Local Government Association (LGA) was compiling responses from local authorities. Phil Triggs then sought a steer on the views of the Board on the proposals.

9.2 During discussions, the Chairman asked whether the Local Government Association had done any modelling in respect of this matter. Members noted that the intention of the proposals was to prevent senior staff retiring early with significant six figure pension strain and other statutory redundancy pay-offs. However, as this would impact adversely on a number of middle income, long serving staff, the Board did not consider the proposals desirable. It was also commented that it would have the effect of taking away the independence and authority of local councils in structuring their workforce accordingly. Marie Holmes (Employer Representative) stated that a plan of action also needed to be put in place in respect of schools and she asked that the Council's draft response be sent to her to act as a guide.

9.3 In reply to the issues raised, Lee Witham (Director of People Services) advised that London Councils had undertaken some modelling in respect of the proposed cap on exit payments and he gave an example of where a 55 year old on a salary of £50,000 who had given 20 years of service would be well over the cap, and even those on £40,000 with 30 years of service would also be over the cap. Lee Witham emphasised the need to put across the Council's views and formulate its response in consultation with London Councils.

9.4 **RESOLVED:**

That the report be noted.

10 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

10.1 Members expressed their satisfaction on the training on infrastructure investments that had taken place prior to the meeting. The Board agreed that the next training session be on investing in ESG assets and that representatives of the LCIV be invited to attend to discuss their ESG policy. Phil Triggs also circulated a draft induction handbook for Board Members for feedback.

11 EXCLUSION OF PRESS AND PUBLIC

11.1 **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.

12 PENSION FUND COSTS

12.1 The Board considered and noted a confidential report on Pension Fund costs.

13 UK EQUITY MANDATE REVIEW

13.1 The Board considered and noted a confidential report on the UK Equity Mandate Review.

The Meeting ended at 8.28 pm.

CHAIRMAN: _____ **DATE** _____

City of Westminster

Pension Fund Board

Date:	**9th of July 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. Executive Summary

1.1. This report provides a summary of the performance of Surrey County Council (SCC) with the Key Performance Indicator (KPI) for the period April 2019 to May 2019. The detailed KPIs are shown in Appendix 1, There has been performance improvement on the prior period reported as 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 confirms the LGPS end of year file for WCC has been submitted with section 5 outlining the current progress on the Western Union existence check for overseas pensioners.

2. Surrey County Council (SCC) Performance

2.1 The scope of the KPIs in this report have been agreed between WCC and SCC based on the section 101 agreement, however they will continue to be reviewed on feedback from all parties, including committee members.

2.2 This paper covers the period of April 2019 to May 2019. March 2019 data has been retained in the appendix for comparison.

2.4 KPI performance in appendix 1 is summarised below:

2.5 At the last board meeting we reported disappointing KPI results for January through to March 2019. The April 2019 KPI were perfect except for one correspondence case that was processed late. In May 2019 we were

disappointed that there were two late payments of lump sum and two late processing of pension such as they missed the next available pension payroll run. The two late cases were both deferred pensions into payment, one was two days late and the other six days late. The reasons given for the delay here was that a senior member of staff that had worked on our contract left and general workloads meant this could not be picked up by another team member to keep within KPI timescales.

2.6 The Correspondence in April 2019 was very late at taking 32 days for a response. This query was in relation to a widow pension and was being dealt with by the pension payroll team. The reason given by the team for the late response was simply that the letter arrived at a busy time of year and it was missed amongst other work the team had to complete. The pension team have advised that they do not have any complaints in progress as a result of the delays, we will review this with the team going forward.

3. Data Cleansing

3.1 The Status 2 project has been running since March 2019, the first phase of the project has involved getting all of the fund employers to return data where a missing leaver otherwise known as a Status 2 has been identified. This phase included producing 906 cases for which Westminster City Council (WCC) is the employer. The only employer not to complete data necessary for the Status 2 project at the end of May 2019 was City West Homes (CWH). CWH had 140 Status 2 data queries, a dedicated pension officer with CWH experience has now completed working through these cases and the data is due to be sent to Surrey for processing.

3.2 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 are project managing the Status 2 resolution on behalf of Westminster alongside 4 other funds that they provide administration services for. All of the Westminster data is currently with Surrey apart from the CWH data which is due to be sent shortly. A third of this data has been sent to JLT in order to enable monitoring of JLT progress and ensure efficiency of costs. This did prove prudent as there has been some issues with their end to end process.

3.3 Of the 535 cases Surrey have sent to JLT, 230 have been processed and checked by JLT. Progress is far slower than we would have anticipated, Surrey's lack of direction, weather conditions and issues with the checking processes, that lead to a bottleneck. JLT have now increased the resources and experience in this area of the team with 6 checkers now in place and Surrey putting in place a "check the checker" role to check around 8% of processed cases at additional cost that is to be spread across 3 funds (Hammersmith and Fulham, Kensington and Chelsea, WCC). The Pension Project Officer and the Pension Officer have been liaising regularly with Surrey project management

team on both the processing rate of cases and the quality assurance required to ensure that the data processed is accurate.

3.4 The Pension Officer and The Pension Project officer met with the Surrey project manager for the contract with JLT on the 13th of June. There have been a number of calls subsequently with Surrey on our concerns regarding JLT's ability to process our data prior to valuation. The Surrey project manager confirmed that the checking situation had been escalated to the head of the project at JLT and that he had taken responsibility for the failure to progress the cases through checking as quickly as was originally outlined in the contract for the work. JLT have now appointed additional checking resources to the project. JLT are going to report back to Surrey on the 5th of July 2019, after this report has been submitted, on the revised timescale for processing and checking cases. After JLT has reported back to Surrey we will have better visibility of the work that will be processed ahead of valuation and are seeking assurance from JLT and Surrey that a majority of the work will be processed before the deadline.

3.5 Progress on the Status 1 errors continues**,** lead by the Pension Project Officer, there were 1283 total errors across the 5 memberships groups of actives, deferred, pensioners, dependants and undecided, at the end of April 2019. This has gone down by 39% to 498. The admin team has switched focus for May and June 2019 to look at the year-end files from all employers in the fund.

3.6 There were 533 active level 1 queries (the most valuation impacting area) that appeared to be WCC employer cases. However, we referred these back to Surrey technical team to identify the true employer as some of the payroll references did not match a WCC format. The revised number of active level queries were 454. Only reducing the active queries by 79. Of the 454 active level 1 queries the WCC team have been able to work through 370 records to date. This data has not been provided to Surrey while they process the end of year files for our fund employers. As the year end process is being finalised, and the WCC team finish working through the remainder cases, the Surrey team will be in a position to work on this data in the next few weeks. Allowing the team to spend the rest of July processing as much of this data ahead of the valuation as possible.

4. LGPS End of Year File 18 / 19

4.1 The LGPS end of year project has resulted in a file being uploaded to Surrey County Council on June the 20th. Initial indications from Surrey are that the quality of the data is good though processing continues at the date of writing this report.

4.2 All other fund employers have now submitted their files for end of year. The feedback on data for the fund in general is that the data quality for end of year files is also good.

4.3 The next focus will be ensuring that the Annual Benefit Statements (ABS), that legally have to be available online by 31st of August will be available. We expect to be in a position to achieve this target now that the end of year file is submitted and data checks are running well.

4.4 We will review any queries for WCC and any other fund employers as we can.

5. Western Union Existence Checking

5.1 The fund has started an existence checking exercise with Western Union for all of our overseas based pensioners. The existence checking will involve inviting the pensioner to attend a local WU office with identification to confirm their continued entitlement to benefit from the fund. For attending the existence check the member will be given £10 for their inconvenience but this will help the fund reduce or stop overpayments following a members death. Pensioners whom are based within the United Kingdom have their records subject to monthly mortality screening and therefore the risk of overpayment for these members is much lower.

5.2 When we started looking at the existence exercise we realised that many of our pensioner records did not hold a full name but only initials and a surname. In order to complete a full existence check, we need to hold the full name so that the Western Union agent can check the name against the members identification. 91 individuals were written to in March and asked to confirm their full name for our records. We had 36 responses with full names in the first 3 weeks plus we were notified of 4 pensioner deaths. We have then moved to start full existence checking for 171 people that includes people we already had full name details for and the 36 people who had responded in time to be included in this years' project.

5.3 Responses have continued to come in from those members we wrote to in March and 16 additional people have confirmed their full name and will be included in next years existence exercise. There were twenty two individuals that were sent a life certificates in April and May 2019 who had either not responded to confirm their full name or could not have an existence exercise completed because of where they live. At the time of writing this report we have had notification on one additional death. We are waiting for nine responses and will proceed with suspending the pension from July for any that we do not have a response for by the time the July pension payroll is run. Names are being updated from Life Certificates directly onto the Altair pension system to ensure that individuals can be included in the existence check going forward.

5.4 The first warm up letters have gone to pensioners in the first week of May, this letter introduced Western Union as our partner and advise that the existence exercise will be starting this month with details to follow. The warm up letter is to reduce the concern amongst pensioners of fraud which can occur when this exercise is first implemented. The second letter that will actually invite the 171 people to their local Western Union office to complete the existence process will be going out by the 5th of July. There had been a slight delay in that Western

Union would not raise an invoice for the £10 sum to pay the pensioners until they had final confirmation of numbers involved in case numbers changed. Monies have been confirmed received by Western Union by the 1st of July and so the exercise is proceeding.

6. Auto Enrolment

6.1 WCC the employer reaches it's three year staging date in August 2019 where any eligible staff not in the pension scheme are brought back into the scheme and have to opt out again if they wish to not be in the scheme. The Pension Officer is in talks with HCC and our Bi Borough colleagues on the implementation of this project. We will also be engaging with WCC schools where the Local Authority is the employer for pension purposes as they also need to complete the process with WCC. Church Schools and academies would not be included.

6.2 We will update the Board in the next meeting on the numbers of people brought into the fund as a result of this exercise.

7. Summary

7.1 The Pension Administration KPIs have improved in April and although we are disappointed that two cases were processed late in May we understand that this is not a result of the workflow monitoring issue that caused problems at the start of 2019.

7.2 The data cleansing work as made significant progress since the last Board report in May. It is great news that all of the Westminster fund data has already gone to Surrey apart from the CWH data which will be with Surrey by the time of the Board meeting. The priority here is ensuring that the contractor JLT complete as many of the calculations and the checking as they can before the end of July when the data needs to go to the actuary.

7.3 The LGPS end of year file for Westminster City Council has been submitted to Surrey which was critical for valuation. We are confident that the file quality is very good and will reduce issues at valuation. Individuals will have their annual statement available by the 31st of August.

7.4 The Western Union existence project is underway and we now have full name details for the vast majority of our overseas pensioners so that full existence can be completed in future years without this delay. Where responses had not been received to the request for information or we could not complete existence, we have sent life certificates out if those individuals had not already had one in the last year. At the time of writing this report we were waiting for 9 people to reply to this and we will be suspending those pensions in July without a response.

7.5 Finally we planning to implement Auto enrolment for Westminster City Council (WCC) in August 2019. This will bring additional members into the fund, an update will be given in the next Board report.

Westminster County Council - March 2019 to May 2019 Results on KPI Reporting

Description	Target time/date as per Partnership Agreement	Target	Actual Score for Quarter	Quantity March 2019	Actual Score March 2019	Comments	Quantity April 2019	Actual Score April 2019
Pension Administration								
Death Benefits Notify potential beneficiary of lump sum death grant	5 days	**100%**	%	2	100%		1	100%
Write to dependant and provide relevant claim form	5 days	**100%**	%	2	100%		1	100%
Set up any dependants benefits and confirm payments due	14 days	**100%**	%	1	100%		1	100%
Retirements Retirement options issued to members	5 days	**100%**	%	7	100%		17	100%
New retirement benefits processed for payment following receipt of all necessary documents	5 days	**100%**	%	3	100%		4	100%
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		%	3	100%		4	100%
Refunds of Contributions Refund paid following receipt of claim form	14 days	**100%**	%	7	100%		14	100%

Deferred Benefits Statements sent to member following receipt of leaver notification	30 days	**100%**	%	48	98%	1 case late	31	100%
Notification to members 2 months before payments due	2 months		%	43	98%	1 case late	0	N/A
Lump Sum (on receipt of all necessary documentation)	5 days		%	23	96%	1 case late	23	100%
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		%	23	96%	1 case late	23	100%
New Joiners New starters processed	30 days	**100%**	%	154	100%	February New Starters	37	100%
Transfers In Non LGPS transfers-in quotations	30 days	**100%**	%	4	100%		3	100%
Non LGPS transfers-in payments processed	30 days	**100%**	%	0	N/A		0	N/A
Transfers Out Non LGPS transfers-out quotations processed	30 days	**100%**	%	9	100%		6	100%
Non LGPS transfers out payments processed	30 days	**100%**	%	0	N/A		1	100%
Interfunds In - Quotations	30 days	**100%**	%	9	100%		21	100%
Interfunds In - Actuals	30 days	**100%**	%	0	N/A		0	N/A
Interfunds Out - Quotations	30 days	**100%**	%	17	100%		8	100%
Interfunds Out - Actuals	30 days	**100%**	%	6	100%		4	100%
Estimates								
1-10 cases	5 Days		%	1	100%		2	100%

11-50 cases	Agreed with WCC		%	0	N/A			
51 cases or over	Agreed with WCC		%	0	N/A			
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		%	25	100%		24	100%
Buying Additional Pensions								
Members notified of terms of purchasing additional pension	15 days		%					
Monthly Pensioner Payroll								
Full reconciliation of payroll and ledger report provided to WCC	Last day of month				100%			100%
Issue of monthly payslips	3 days before pay day				100%			100%
RTI file submitted to HMRC	3 days before pay day				100%			100%
BACS File submitted for payment	3 days before pay day				100%			100%
P35	EOY				31-Mar-18			31-Mar-19
Annual Exercises			**Date Achieved**					

Annual Benefit Statements Issued to Active members	31 August each year				Annual			Annual
Annual Benefit Statements Issued to Deferred members	31 August each year				Annual			Annual
P60s Issued to Pensioners Non LGPS transfers-in quotations processed within 20 days	31 May each year				100%	Issued April 2018		100%
Apply Pensions Increase to Pensioners	April each year				100%			100%
Pensioners Newsletter	April each year				100%			100%
Correspondence								
Acknowledgement if more than 5 days	2 days							
Response	10 days			18	94%	1 case late	12	92%
3rd party enquires	10 days							
Volumes of Enquiries Handled By Helpdesk	Number of Enquiries Handled			379	-	89%	446	-
Customer Surveys								

Monthly survey to retirees	Percentage Satisfied with Service			

Comments	Quantity May 2019	Actual Score May 2019	Comments	Trend	People services Comments
	1	100%			
	0	N/A			
	0	N/A			
	1	100%			
	5	100%			
	5	100%			
	8	100%			

	13	100%			
	20	100%			
	22	91%	2 cases late		2 late deferred into payment cases
	22	91%	2 cases late		2 late deferred into payment cases
New starter records created in April 2019	23	100%	New starter records created in May 2019		
	4	100%			
	0	N/A			no cases in period.
	7	100%			
	0	N/A			
	3	100%			
	1	100%			All 100%
	11	100%			All 100%
	4	100%			All 100%
	10	100%			All 100%

					no cases in period.
	15	100%			All 100%
		100%			All 100%
		100%			All 100%
		100%			All 100%
		100%			All 100%
		31-Mar-19			

		Annual			
		Annual			
Issued April 2019		100%	Issued April 2019		April 19 Actions completed.
Applied		100%			April 19 Actions completed.
Issued April 2019		100%			April 19 Actions completed.
			Issued April 2019		
1 case late	17	100%			1 case late in April.
90%	390		90%		
		-			

City of Westminster

Pension Board

Date:	**9 July 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 register has now been updated to illustrate risk movements using arrows.

1.2 The cashflow forecast for the next three years has now been updated with actuals to 30 June 2019. The bank position continues to be stable.

1.3 The forward plans for the upcoming year 2019/20 for the Pension Board and Pension Fund Committee are attached.

2. Recommendations

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

2.2 The Board is asked to note the cashflow position, the rolling 12-month forecast and the three-year forecast.

2.3 The Board is asked to note the attached forward plans for 2019/20.

3. Risk Register Monitoring

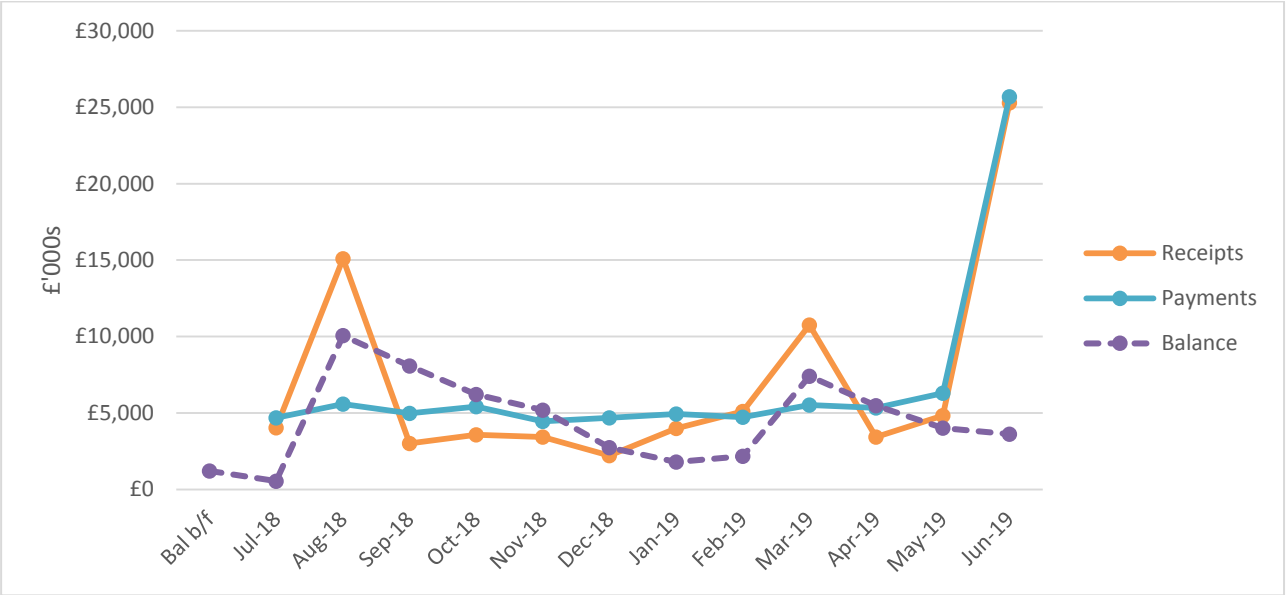
3.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The register has now been redesigned to include arrows which illustrate the risk movement. The current top five risks to the Pension Fund are highlighted below:

- The London CIV disbands or fails to produce proposals deemed sufficiently ambitious (Governance – 1st/42).
- Scheme members live longer than expected leading to higher than expected liabilities (Governance – 2nd/42).
- Significant volatility and negative sentiment in global investment markets following global disruptive political/economic events (Governance – 3rd/42).
- Price inflation is significantly more than anticipated in the actuarial assumptions (Governance – 4th/42).
- Structural changes in an employer's membership or an employer fully/partially closing its LGPS offering (Administration – 1st/21).

4. Cashflow Monitoring and Forecasted Cashflows

4.1 The balance on the pension fund bank account as at 30 June 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 June 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 June 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 June 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 Plans for the Pension Fund Committee and Pension Board are 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 April 2019
Appendix 3 – Pension Fund Committee Forward Plan: 2019/20
Appendix 4 – Pension Board 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**	29/04/2019
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**	29/04/2019
Admin	3		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.	3	**12**	29/04/2019
Admin	4		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**	29/04/2019
Admin	5		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**	29/04/2019
Admin	6		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**	29/04/2019
Admin	7		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	2	**10**	29/04/2019
Admin	8		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**	29/04/2019
Admin	9		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**	29/04/2019
Admin	10		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**	29/04/2019

Admin	11		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**	29/04/2019
Admin	12		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**	29/04/2019
Admin	13		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.	2	2	2	6	3	**18**	TREAT 1) Staff working with HCC and the Tri-Borough Pensions have come up with a solution to ensure bank reconciliations and income is posted promptly and accurately.	1	**6**	29/04/2019
Admin	14		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**	29/04/2019
Admin	15		Unstructured training leads to under developed workforce resulting in inefficiency.	2	2	2	6	2	**12**	TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Surrey County Council.	1	**6**	29/04/2019
Admin	16		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**	29/04/2019
Admin	17		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**	29/04/2019
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**	29/04/2019
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**	29/04/2019
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**	29/04/2019
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**	29/04/2019

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) Now permanent CEO in place with appointment of CIO to follow	2	**24**	29/04/2019
Funding	2		Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	3	**33**	Revised actuarial assumptions shows mortality rates levelling out.	2	**22**	29/04/2019
Investment	3		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**	29/04/2019
Funding	4		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**	29/04/2019
Funding	5		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**	29/04/2019
Funding	6		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**	29/04/2019
Funding	7		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**	29/04/2019

Investment	8		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**	29/04/2019
Investment	9		Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union, lack of any trade deal struck by 29 March 2019 and the economic after effects.	4	4	1	9	3	**27**	TREAT- 1) Officers to consult and engage with advisors and investment managers. 2) Future possibility of looking at move from UK to Global benchmarks on UK Equities and UK Property. 3) Possibility of hedging currency and equity index movements. 4) The UK is currently still part of the EU, so risk remains stable.	2	**18**	29/04/2019
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**	29/04/2019
Investment	11		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**	29/04/2019
Governance	12		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.	2	**16**	29/04/2019
Funding	13		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**	29/04/2019

Operational	14		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**	29/04/2019
Funding	15		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**	29/04/2019
Funding	16		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**	29/04/2019
Governance	17		Failure to take difficult decisions inhibits effective Fund management	5	3	4	12	2	**24**	TREAT-1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (/FSS), Governance policy statement and Committee Terms of Reference and that appropriate advice from experts is sought	1	**12**	29/04/2019
Governance	18		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**	29/04/2019
Funding	19		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**	29/04/2019
Funding	20		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**	29/04/2019

Financial	21		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**	29/04/2019
Operational	22		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**	29/04/2019
Governance	23		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**	29/04/2019
Funding	24		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**	29/04/2019
Governance	25		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**	29/04/2019
Governance	26		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**	29/04/2019
Operational	27		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**	29/04/2019
Investment	28		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**	29/04/2019
Operational	29		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**	29/04/2019

Investment	30		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**	29/04/2019
Governance	31		Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	4	3	3	10	2	**20**	Person specifications are used at recruitment to appoint officers with relevant skills and experience. Training plans are in place for all officers as part of the performance appraisal arrangements. Shared service nature of the pensions team provides resilience and sharing of knowledge.	1	**10**	29/04/2019
Governance	32		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**	29/04/2019
Funding	33		Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	5	3	1	9	2	**18**	Review maturity of scheme at each triennial valuation. Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. Cashflow position monitored monthly.	1	**9**	29/04/2019
Governance	34		Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	2	**18**	External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval)	1	**9**	29/04/2019
Operational	35		Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage.	3	2	4	9	2	**18**	TREAT-1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published ISS. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors.	1	**9**	29/04/2019
Financial	36		Inaccurate cash flow forecasts or drawdown payments lead to shortfalls on cash levels and borrowing becomes necessary to ensure that funds are available	3	4	2	9	2	**18**	TREAT - 1) Borrowing limits with banks are set at levels that are more than adequate should cash be required at short notice. 2) Cashflow analysis of pension fund undertaken at regular intervals.	1	**9**	29/04/2019

Regulation	37		Loss of flexibility to engage with Fund Managers that the fund has not 'opted up' with regard to new products, resulting in reduced knowledge about investment opportunities that may benefit the fund. (The Fund is a retail client to counterparties unless opted up)	5	2	2	9	2	**18**	More reliance on investment advisor to keep Officers and Committee updated. Officers are considering other financial institution outside of the current mandates to 'opt up' with. Maintaining up to date information about the fund on relevant platforms. Fund can opt up with prospective clients.	1	**9**	29/04/2019
Governance	38		Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	3	5	9	2	**18**	TREAT - 1) Ensure that an cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	**9**	29/04/2019
Regulation	39		Loss of 'Elective Professional Status' with any or all of existing Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund's investment options.	4	2	2	8	2	**16**	Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. There is a training programme and log in place to ensure knowledge and understanding is kept up to date. Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	**8**	29/04/2019
Operational	40		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**	29/04/2019
Funding	41		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**	29/04/2019
Regulation	42		Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	4	2	1	7	2	**14**	Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	**7**	29/04/2019

Appendix 3

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

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

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

Appendix 4

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

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

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

City of Westminster

Pension Board

Date:	**9 July 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 31 May 2019, together with an update of the funding position as at 31 December 2018.

1.2 The Fund underperformed the benchmark gross of fees by 0.88% over the three months to 31 May 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.

2. Recommendation

2.1 The Board is asked to note the performance of the investments and funding position.

3. Background

3.1 The terms of reference of the Pension Fund Committee require the committee to monitor the performance of the Pension Fund, individual

Fund Managers and other service providers to ensure that they remain suitable.

3.2 This report presents a summary of the Pension Fund's performance to 31 May 2019 and estimated funding level to 31 December 2018. The investment performance report (Appendix 1) has been prepared by Northern Trust, the Fund's custodian.

3.3 The Investment Performance Report shows that over the three months to 31 May 2019 the market value of the assets increased by £18m to £1,403bn. The Fund underperformed the benchmark gross of fees by 0.88% during this period. This is mainly attributable to underperformance within the Longview, Standard Life and Majedie mandates. However, this has been partly offset by positive performance from Insight and Baillie Gifford, who outperformed their benchmark gross of fees by 1.0% and 0.57% over the three-month period.

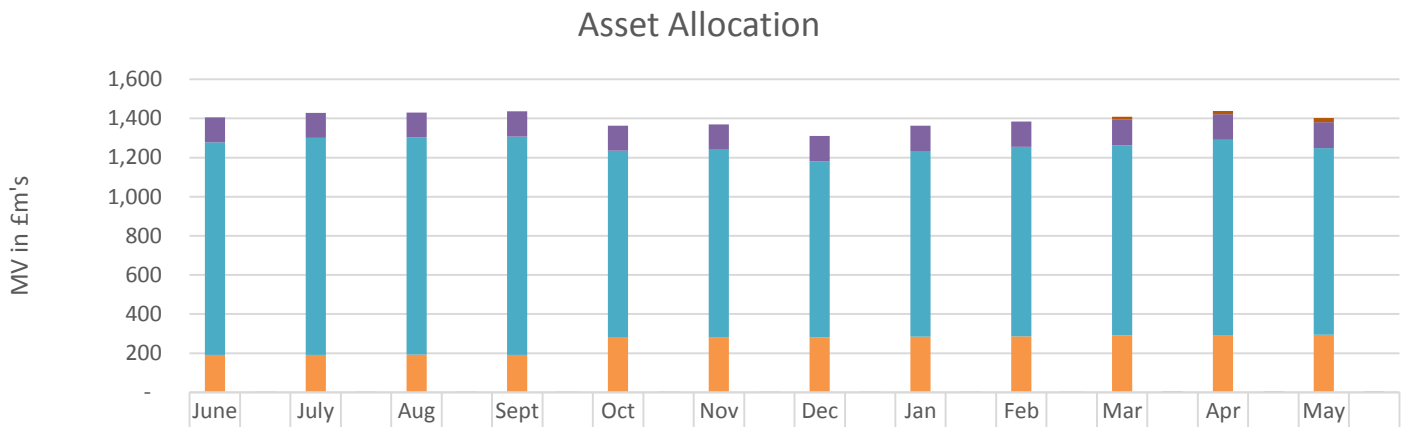
3.4 Over the longer three-year period to 31 May 2019, the Fund outperformed the benchmark gross of fees by 0.48%, with Baillie Gifford and Standard Life being the major contributors. Both Majedie and Longview underperformed their benchmarks gross of fees by 2.58% and 0.91% respectively during this period.

3.5 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.

3.6 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 funding level will be provided by the actuary once they have completed the triennial review as the actuarial assumptions and membership data are likely to change.

4. Asset Allocation and Summary of Changes

4.1 The chart below shows the changes in asset allocation of the Fund from 1 June 2018 to 31 May 2019. Asset allocations may vary due to changes in market value.



	June		July		Aug		Sept		Oct		Nov		Dec		Jan		Feb		Mar		Apr		May	
Infrastructure	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	-	0%	14	1%	17	1%	21	2%
Property	127	9%	127	9%	127	9%	128	9%	128	9%	129	9%	130	10%	130	10%	130	9%	131	9%	131	9%	132	9%
Equities	1,0	77%	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%
Fixed Income	191	14%	192	13%	193	13%	191	13%	283	21%	280	20%	280	21%	285	21%	286	21%	291	21%	292	20%	294	21%

Fixed Income Equities Property Infrastructure

*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, 10% within property and 5% in infrastructure.

4.3 In June 2018, the Fund's investment advisor undertook a review of the Longview equity mandate with the Fund being 12% overweight against its policy asset allocation to equities. The Pension Fund Committee elected to rebalance the Fund's portfolio by gradually selling down its holdings in the Longview mandate, with the intention of transferring the portfolio into fixed income (multi asset credit) and infrastructure asset classes.

4.4 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 in October 2018.

4.5 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.

4.6 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.

4.7 During May 2019, an additional £3.4m was transferred from the Longview portfolio to Pantheon following another capital call notice. This brings the asset allocation in infrastructure to 2% with 68% remaining within equities.

5. Update on London CIV

5.1 The value of pension fund investments transferred to the LCIV at 31 May 2019 was £667m. This represents 47% of Westminster's investment assets. A further £319m continues to benefit from reduced management fees, Legal and General having reduced their fees to match those available through the LCIV.

5.2 During the first quarter of 2019, Mike O'Donnell joined the London CIV as the Chief Executive Officer, this was followed by the appointment of Mark Thompson as permanent CIO. Mark will start in September 2019 and brings with him over thirty years of experience in the financial services industry. Mark has held the position of CIO at HSBC Bank UK Pension Scheme for over eight years and worked for over twenty years at Prudential/M&G Investments in a variety of senior investment positions.

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: Northern Trust Investment Report, as at 31 May 2019
Appendix 2: Barnett Waddingham Funding Update as at 31 December 2018

NORTHERN TRUST

City of Westminster Total Fund

Investment Risk & Analytical Services

May 31, 2019

Table of Contents

SECTION 1

City of Westminster Total Fund

Investment Risk & Analytical Services

May 31, 2019

Investment Hierarchy

Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return							Inception Date
			One Month	Three Months	One Year	Three Years	Five Years	Ten Years	Inception to Date	
City of Westminster Total Fund	**1,402,943,346**	**100.00**	**-2.59**	**1.30**	**0.38**	**9.54**	**7.89**	**-**	**9.19**	**30/09/2009**
City of Westminster Total BM			*-2.19*	*2.18*	*1.97*	*9.06*	*7.31*	*-*	*8.52*	*30/09/2009*
Excess Return			*-0.40*	*-0.88*	*-1.59*	*0.48*	*0.58*	*-*	*0.67*	*30/09/2009*
Equities	**955,093,041**	**68.08**	**-4.08**	**0.75**	**-1.08**	**10.90**	**-**	**-**	**8.92**	**30/09/2014**
UK Equities	**285,971,784**	**20.38**	**-3.84**	**-0.98**	**-8.83**	**6.13**	**-**	**-**	**4.81**	**30/09/2014**
Majedie	**285,971,784**	**20.38**	**-3.84**	**-0.98**	**-8.83**	**6.13**	**3.81**	**-**	**9.95**	**30/09/2011**
FTSE All-Share			*-3.00*	*2.26*	*-3.17*	*8.70*	*5.28*	*-*	*9.15*	*30/09/2011*
Excess Return			*-0.83*	*-3.24*	*-5.66*	*-2.58*	*-1.47*	*-*	*0.80*	*30/09/2011*
Global Equities	**669,121,257**	**47.69**	**-4.18**	**1.50**	**2.21**	**12.97**	**-**	**-**	**10.72**	**30/09/2014**
Baillie Gifford	**287,683,854**	**20.51**	**-2.65**	**4.48**	**3.28**	**17.81**	**14.67**	**-**	**14.12**	**18/03/2014**
MSCI AC World GBP Net			*-2.70*	*3.91*	*4.21*	*14.43*	*11.40*	*-*	*11.54*	*18/03/2014*
Excess Return			*0.06*	*0.57*	*-0.92*	*3.38*	*3.27*	*-*	*2.58*	*18/03/2014*
LGIM	**318,593,154**	**22.71**	**-5.74**	**-0.75**	**-0.06**	**9.15**	**7.01**	**-**	**10.32**	**31/10/2012**
FTSE World GBP Hedged			*-5.74*	*-0.76*	*-0.12*	*9.13*	*7.00*	*-*	*10.31*	*31/10/2012*
Excess Return			*0.00*	*0.01*	*0.06*	*0.02*	*0.01*	*-*	*0.01*	*31/10/2012*
Longview Partners	**62,844,249**	**4.48**	**-3.17**	**0.07**	**6.25**	**13.45**	**-**	**-**	**12.84**	**20/01/2015**
MSCI World TR Net (GBP)			*-2.54*	*4.32*	*5.27*	*14.36*	*-*	*-*	*11.34*	*20/01/2015*
Excess Return			*-0.63*	*-4.25*	*0.98*	*-0.91*	*-*	*-*	*1.50*	*20/01/2015*
Fixed Income	**293,773,748**	**20.94**	**0.59**	**2.87**	**3.38**	**3.72**	**-**	**-**	**4.27**	**30/09/2014**
Insight IM (Core)	**201,066,928**	**14.33**	**0.91**	**3.47**	**4.36**	**4.27**	**4.70**	**-**	**6.24**	**30/09/2011**
iBoxx £ Non-Gilts 1-15			*0.80*	*2.47*	*3.41*	*3.62*	*4.14*	*-*	*5.33*	*30/09/2011*
Excess Return			*0.11*	*1.00*	*0.95*	*0.65*	*0.55*	*-*	*0.90*	*30/09/2011*
Insight IM (Gilts)	**9**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**30/09/2011**
LCIV Global MAC	**92,706,811**	**6.61**	**-0.10**	**1.57**	**-**	**-**	**-**	**-**	**1.88**	**30/10/2018**
3 Month Libor + 4%			*0.41*	*1.24*	*-*	*-*	*-*	*-*	*2.99*	*30/10/2018*
Excess Return			*-0.51*	*0.33*	*-*	*-*	*-*	*-*	*-1.11*	*30/10/2018*
Real Estate	**131,902,435**	**9.40**	**0.77**	**1.12**	**6.31**	**8.09**	**-**	**-**	**9.00**	**30/09/2014**
Hermes Property	**66,467,157**	**4.74**	**0.84**	**0.70**	**6.07**	**7.93**	**10.77**	**-**	**9.68**	**30/09/2011**
IPD UK PPFI Balanced PUT			*0.00*	*0.48*	*5.83*	*6.85*	*9.31*	*-*	*8.26*	*30/09/2011*
Excess Return			*0.84*	*0.22*	*0.23*	*1.09*	*1.46*	*-*	*1.42*	*30/09/2011*
Standard Life Property	**65,435,278**	**4.66**	**0.71**	**1.55**	**6.55**	**8.26**	**7.95**	**-**	**8.71**	**14/06/2013**
FTSE Gilts All Stocks + 2.0%pa			*2.86*	*4.87*	*6.18*	*5.78*	*7.43*	*-*	*6.65*	*14/06/2013*
Excess Return			*-2.15*	*-3.33*	*0.36*	*2.48*	*0.52*	*-*	*2.05*	*14/06/2013*
Cash	**1,098,334**	**0.08**	**-18.05**	**-14.67**	**-15.36**	**-0.58**	**-**	**-**	**-0.02**	**30/09/2014**

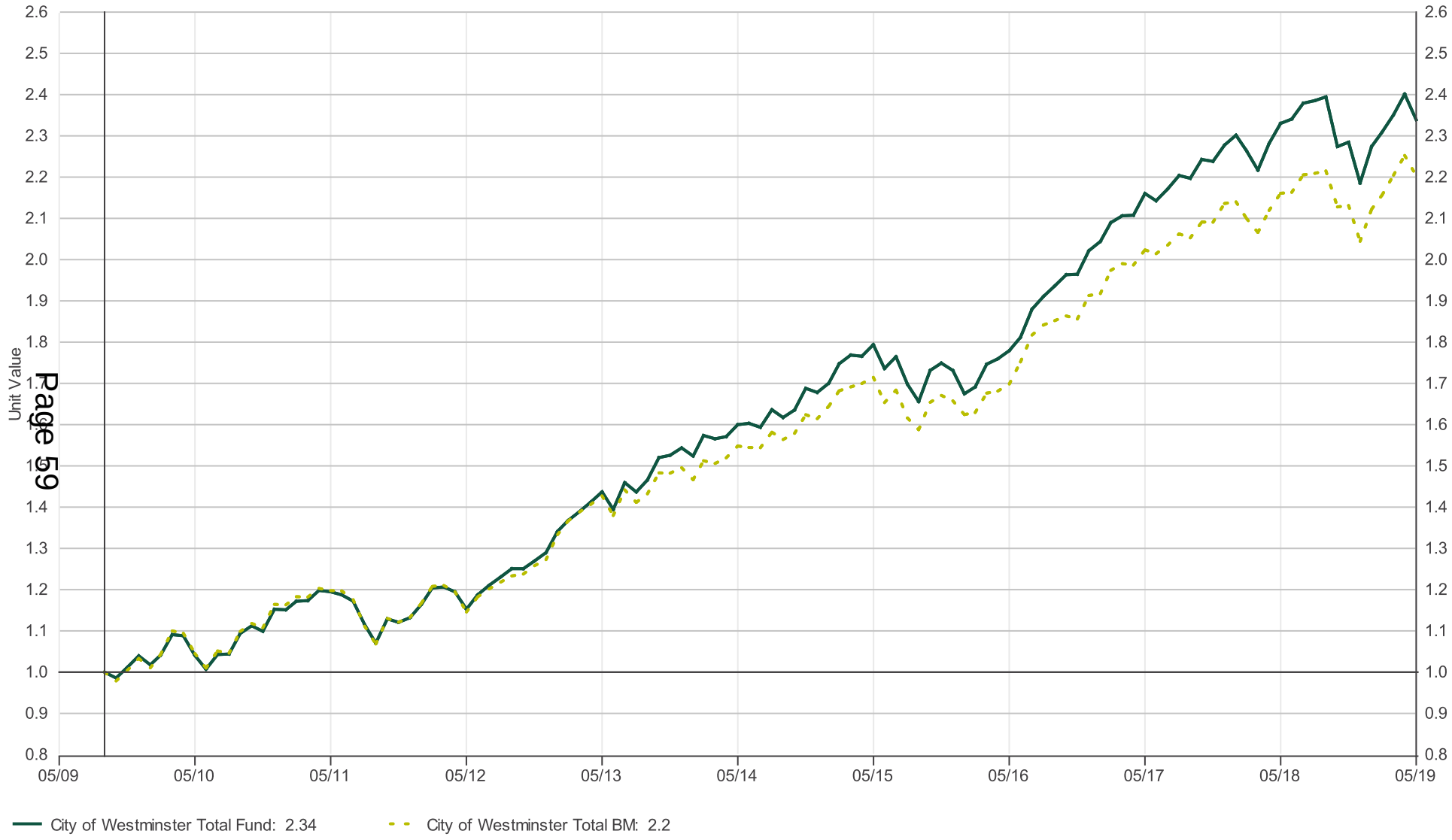
Account/Group	Ending Market Value GBP	Ending Weight	% Rate of Return							Inception Date
			One Month	Three Months	One Year	Three Years	Five Years	Ten Years	Inception to Date	
In-House Cash	**1,098,334**	**0.08**	**-18.05**	**-14.67**	**-15.36**	**-0.58**	**-**	**-**	**-0.02**	**31/08/2014**
Infrastructure	**21,075,788**	**1.50**	**4.92**	**-**	**-**	**-**	**-**	**-**	**5.20**	**15/04/2019**
Pantheon Global Infrastructure	**21,075,788**	**1.50**	**4.92**	**-**	**-**	**-**	**-**	**-**	**5.20**	**15/04/2019**
3 Month Libor + 8%			*0.73*	-	-	-	-	-	*2.75*	*15/04/2019*
Excess Return			*4.19*	-	-	-	-	-	*2.45*	*15/04/2019*

Market Value Summary - One Month

Account/Group	30/04/2019 Market Value	Net Contribution*	Income	Fees	Appreciation	31/05/2019 Market Value
City of Westminster Total Fund	**1,440,228,217**	**4,541**	**551,416**	**-4,541**	**-37,840,828**	**1,402,943,346**
Equities	**999,287,836**	**-3,500,000**	**2,016**	**0**	**-40,696,811**	**955,093,041**
UK Equities	**297,379,608**	**0**	**1,188**	**0**	**-11,409,012**	**285,971,784**
Majedie	297,379,608	0	1,188	0	-11,409,012	285,971,784
Global Equities	**701,908,228**	**-3,500,000**	**827**	**0**	**-29,287,798**	**669,121,257**
Baillie Gifford	295,500,654	0	827	0	-7,817,628	287,683,854
LGIM	337,989,895	0	0	0	-19,396,741	318,593,154
Longview Partners	68,417,679	-3,500,000	0	0	-2,073,430	62,844,249
Fixed Income	**292,058,633**	**0**	**0**	**0**	**1,715,115**	**293,773,748**
Insight IM (Core)	199,261,981	0	0	0	1,804,947	201,066,928
Insight IM (Gilts)	9	0	0	0	0	9
LCIV Global MAC	92,796,644	0	0	0	-89,832	92,706,811
Real Estate	**130,884,550**	**4,541**	**548,039**	**-4,541**	**465,305**	**131,902,435**
Hermes Property	65,915,615	0	548,039	0	3,504	66,467,157
Standard Life Property	64,968,935	4,541	0	-4,541	461,801	65,435,278
Cash	**15,490,536**	**-14,150,301**	**1,107**	**0**	**-243,009**	**1,098,334**
In-House Cash	15,490,536	-14,150,301	1,107	0	-243,009	1,098,334
Infrastructure	**2,506,663**	**17,650,301**	**253**	**0**	**918,571**	**21,075,788**
Pantheon Global Infrastructure	2,506,663	17,650,301	253	0	918,571	21,075,788

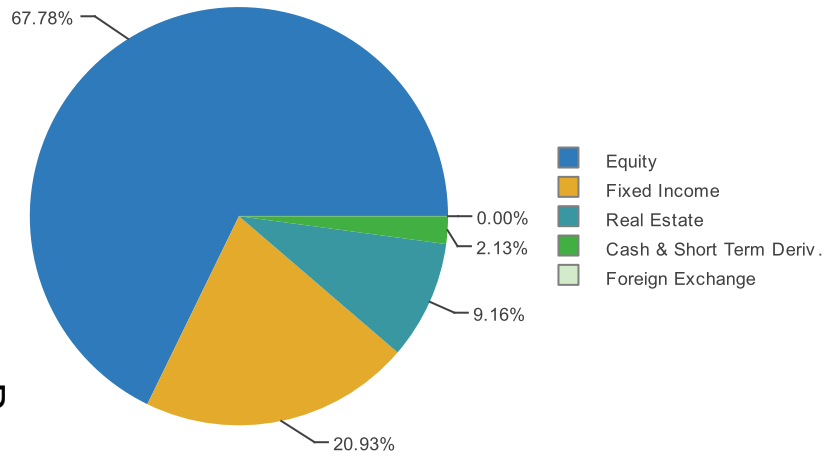
**Net Contributions include Cash Contributions/Distributions, Security Deliveries/Receipts, Fees/Fee Rebates, Inter Account transfers for Consolidations & Benefits Payments.*
Copied History or Backloaded Data may not display the correct Contributions/Withdrawals creating misrepresentation.

Growth Over Time - Inception to Date



Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

	1 Mo
Beginning Market Value	1,440,228
Net Contribution	5
Income	551
Fees	-5
Appreciation	-37,841
Ending Market Value	1,402,943

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Equity	**950,938,025**	**67.78**	**-4.10**	**0.76**	**8.49**	**-1.19**	**10.87**		
Common Stock	950,938,025	67.78	-4.10	0.76	8.49	-1.19	10.87		
Fixed Income	**293,584,212**	**20.93**	**0.59**	**2.87**	**4.76**	**3.47**	**3.84**		
Marketable Bonds	200,877,400	14.32	0.91	3.48	5.18	4.36	4.53		
Collateralized Mortgage Oblig.	92,706,811	6.61	-0.10	1.57	3.85				
Real Estate	**128,534,553**	**9.16**	**0.79**	**1.14**	**1.83**	**6.42**	**8.20**		
Cash & Short Term Deriv.	**29,886,542**	**2.13**	**2.50**	**3.64**	**3.72**	**4.04**	**0.98**		
Pending Cash	**0**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Foreign Exchange	**14**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Fund Gross of Fees	**1,402,943,346**	**100.00**	**-2.59**	**1.30**	**7.01**	**0.38**	**9.54**	**7.89**	**9.19**
City of Westminster Total BM			-2.19	2.18	7.77	1.97	9.06	7.31	8.52
Excess Return			*-0.40*	*-0.88*	*-0.76*	*-1.59*	*0.48*	*0.58*	*0.67*

Excess is calculated using arithmetic methodology

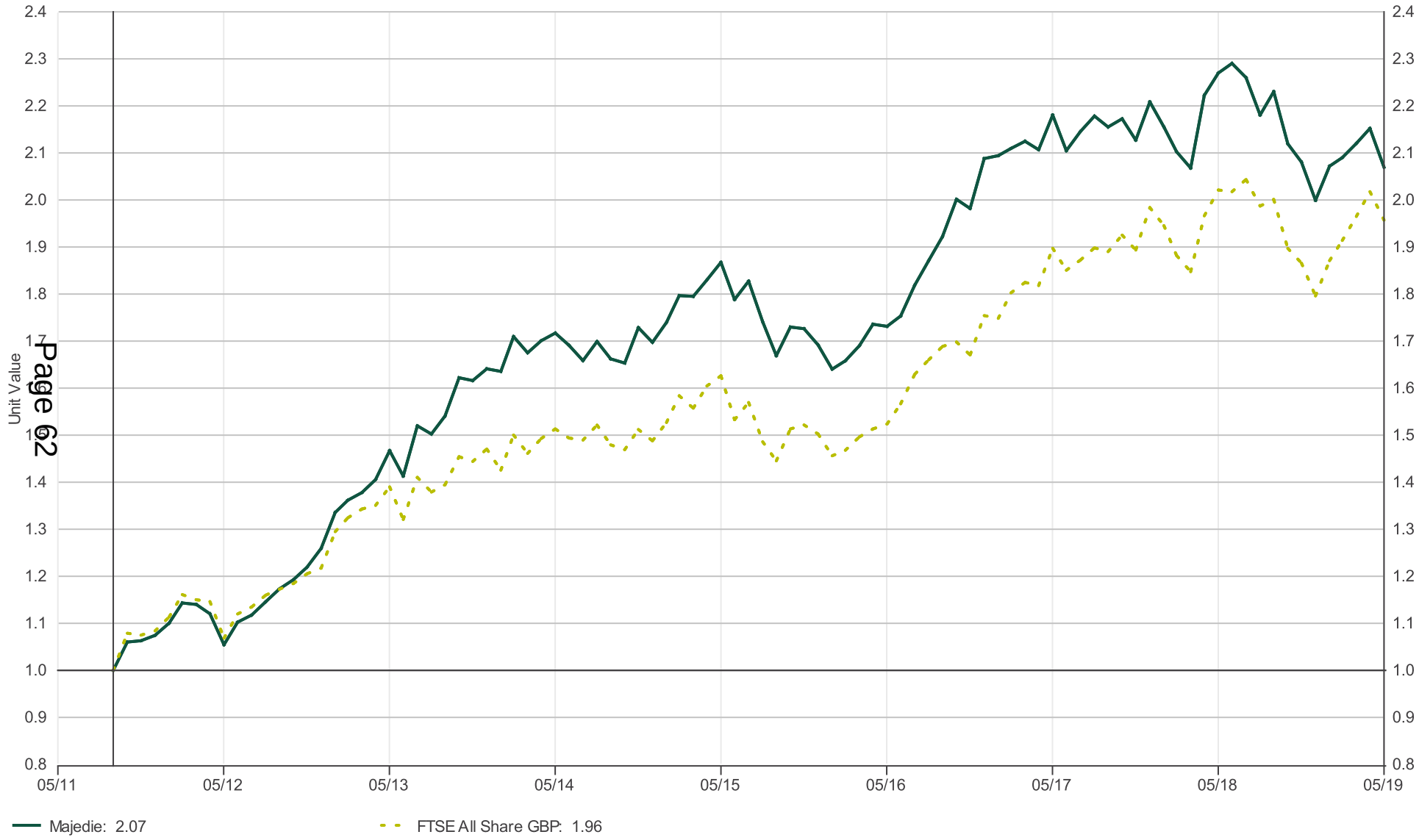
SECTION 2

Majedie

Investment Risk & Analytical Services

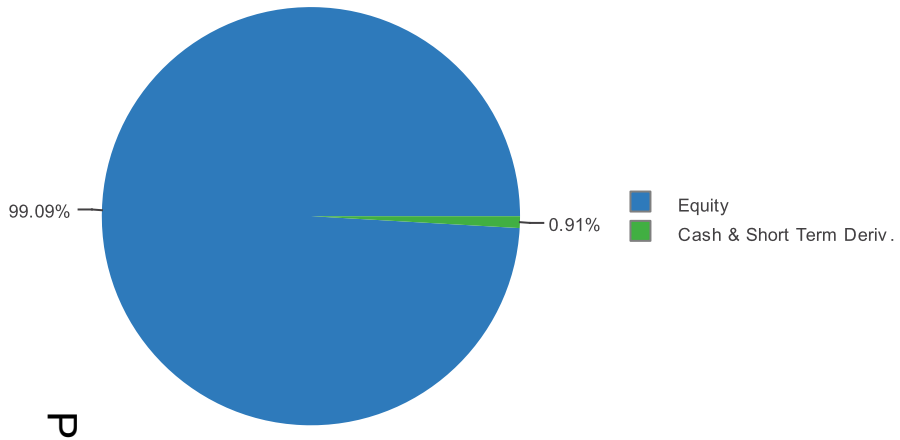
May 31, 2019

Growth Over Time - Inception to Date



Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

	1 Mo
Beginning Market Value	297,380
Net Contribution	0
Income	1
Fees	0
Appreciation	-11,409
Ending Market Value	285,972

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Equity	**283,378,979**	**99.09**	**-3.87**	**-0.97**	**3.72**	**-9.03**	**6.09**		
Common Stock	283,378,979	99.09	-3.87	-0.97	3.72	-9.03	6.09		
Cash & Short Term Deriv.	**2,592,805**	**0.91**	**0.07**	**0.14**	**0.23**	**0.53**			
Pending Cash	**0**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Fund Gross of Fees	**285,971,784**	**100.00**	**-3.84**	**-0.98**	**3.52**	**-8.83**	**6.13**	**3.81**	**9.95**
FTSE All Share GBP			-3.00	2.26	8.97	-3.17	8.70	5.28	9.15
Excess Return			*-0.83*	*-3.24*	*-5.45*	*-5.66*	*-2.58*	*-1.47*	*0.80*

Excess is calculated using arithmetic methodology

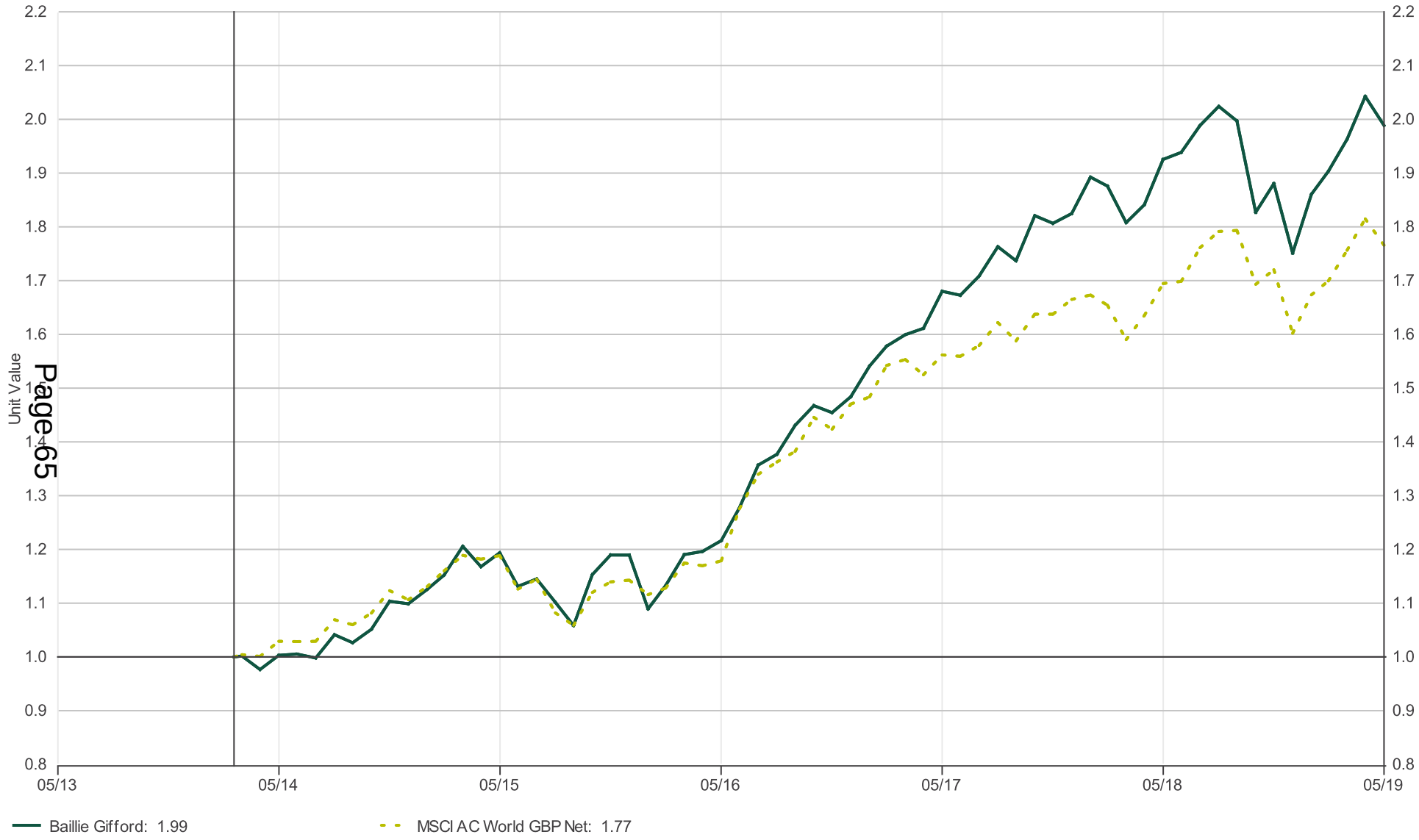
SECTION 3

Baillie Gifford

Investment Risk & Analytical Services

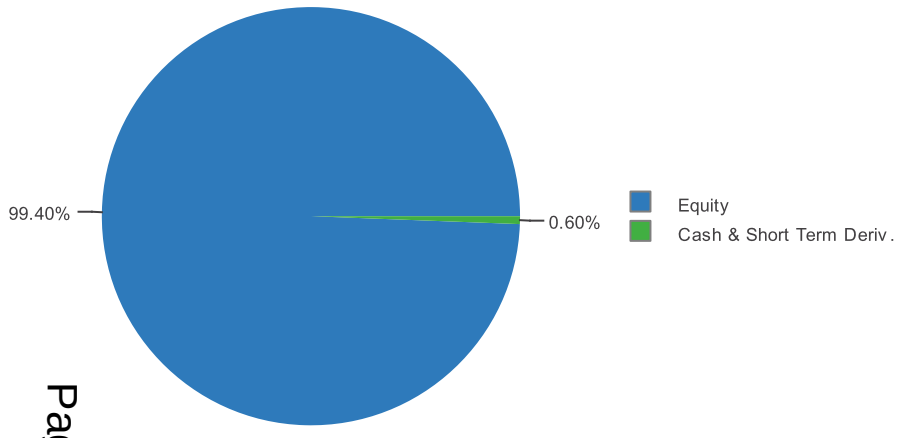
May 31, 2019

Growth Over Time - Inception to Date



Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

	1 Mo
Beginning Market Value	295,501
Net Contribution	0
Income	1
Fees	0
Appreciation	-7,818
Ending Market Value	287,684

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Equity	**285,951,443**	**99.40**	**-2.66**	**4.52**	**13.76**	**3.31**	**17.80**		
Common Stock	285,951,443	99.40	-2.66	4.52	13.76	3.31	17.80		
Cash & Short Term Deriv.	**1,732,412**	**0.60**	**0.05**	**0.14**	**0.24**	**0.54**			
Pending Cash	**0**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Fund Gross of Fees	**287,683,854**	**100.00**	**-2.65**	**4.48**	**13.56**	**3.28**	**17.81**	**14.67**	**14.12**
MSCI AC World GBP Net			-2.70	3.91	10.23	4.21	14.43	11.40	11.54
Excess Return			*0.06*	*0.57*	*3.33*	*-0.92*	*3.38*	*3.27*	*2.58*

Excess is calculated using arithmetic methodology

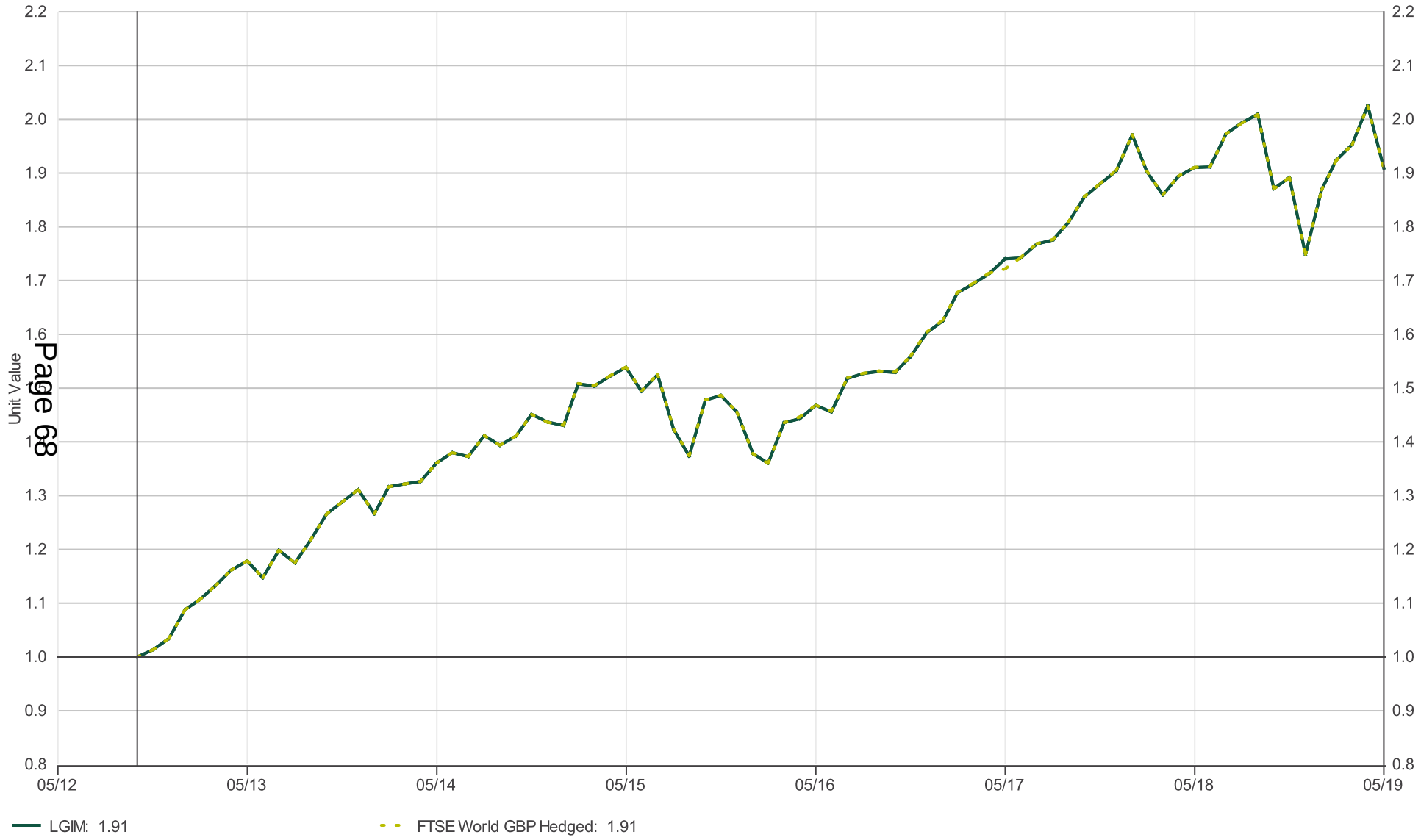
SECTION 4

LGIM

Investment Risk & Analytical Services

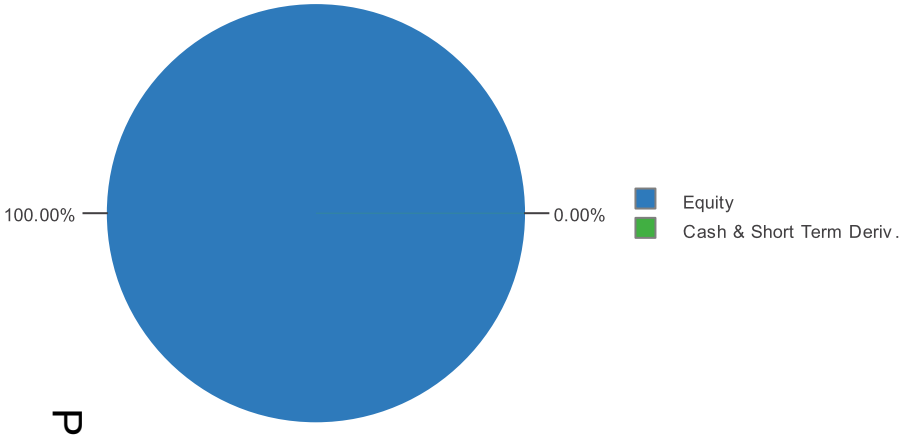
May 31, 2019

Growth Over Time - Inception to Date



Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

	1 Mo
Beginning Market Value	337,990
Net Contribution	0
Income	0
Fees	0
Appreciation	-19,397
Ending Market Value	318,593

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Equity	**318,593,154**	**100.00**	**-5.74**	**-0.75**	**9.19**	**-0.06**	**9.15**		
Common Stock	318,593,154	100.00	-5.74	-0.75	9.19	-0.06	9.15		
Cash & Short Term Deriv.	**0**	**0.00**					**0.01**		
Total Fund Gross of Fees	**318,593,154**	**100.00**	**-5.74**	**-0.75**	**9.19**	**-0.06**	**9.15**	**7.01**	**10.32**
FTSE World GBP Hedged			-5.74	-0.76	9.14	-0.12	9.13	7.00	10.31
Excess Return			*0.00*	*0.01*	*0.05*	*0.06*	*0.02*	*0.01*	*0.01*

Excess is calculated using arithmetic methodology

SECTION 5

Longview Partners

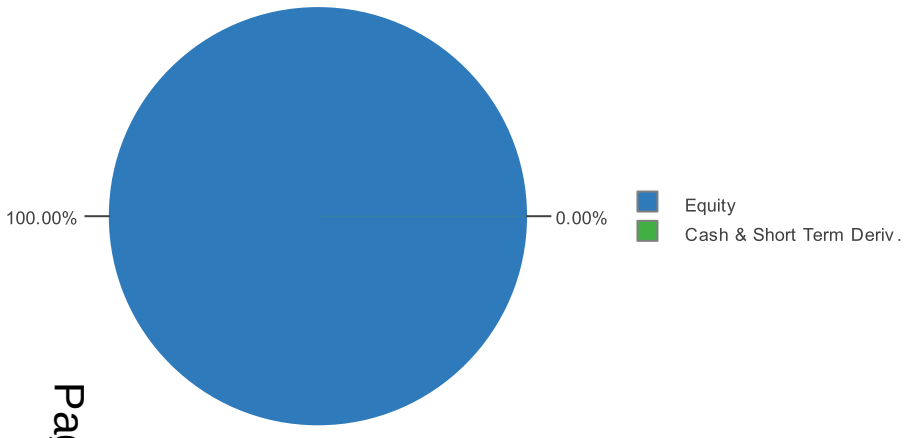
Investment Risk & Analytical Services

May 31, 2019

Growth Over Time - Inception to Date

Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

	1 Mo
Beginning Market Value	68,418
Net Contribution	-3,500
Income	0
Fees	0
Appreciation	-2,073
Ending Market Value	62,844

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Equity	**62,844,125**	**100.00**	**-3.17**	**0.07**	**5.17**	**6.25**	**13.45**		**12.84**
Common Stock	62,844,125	100.00	-3.17	0.07	5.17	6.25	13.45		12.84
Cash & Short Term Deriv.	**124**	**0.00**	**0.00**	**0.03**					
Pending Cash	**0**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Fund Gross of Fees	**62,844,249**	**100.00**	**-3.17**	**0.07**	**5.17**	**6.25**	**13.45**		**12.84**
MSCI World TR Net (GBP)			-2.54	4.32	10.90	5.27	14.36		11.34
Excess Return			*-0.63*	*-4.25*	*-5.73*	*0.98*	*-0.91*		*1.50*

Excess is calculated using arithmetic methodology

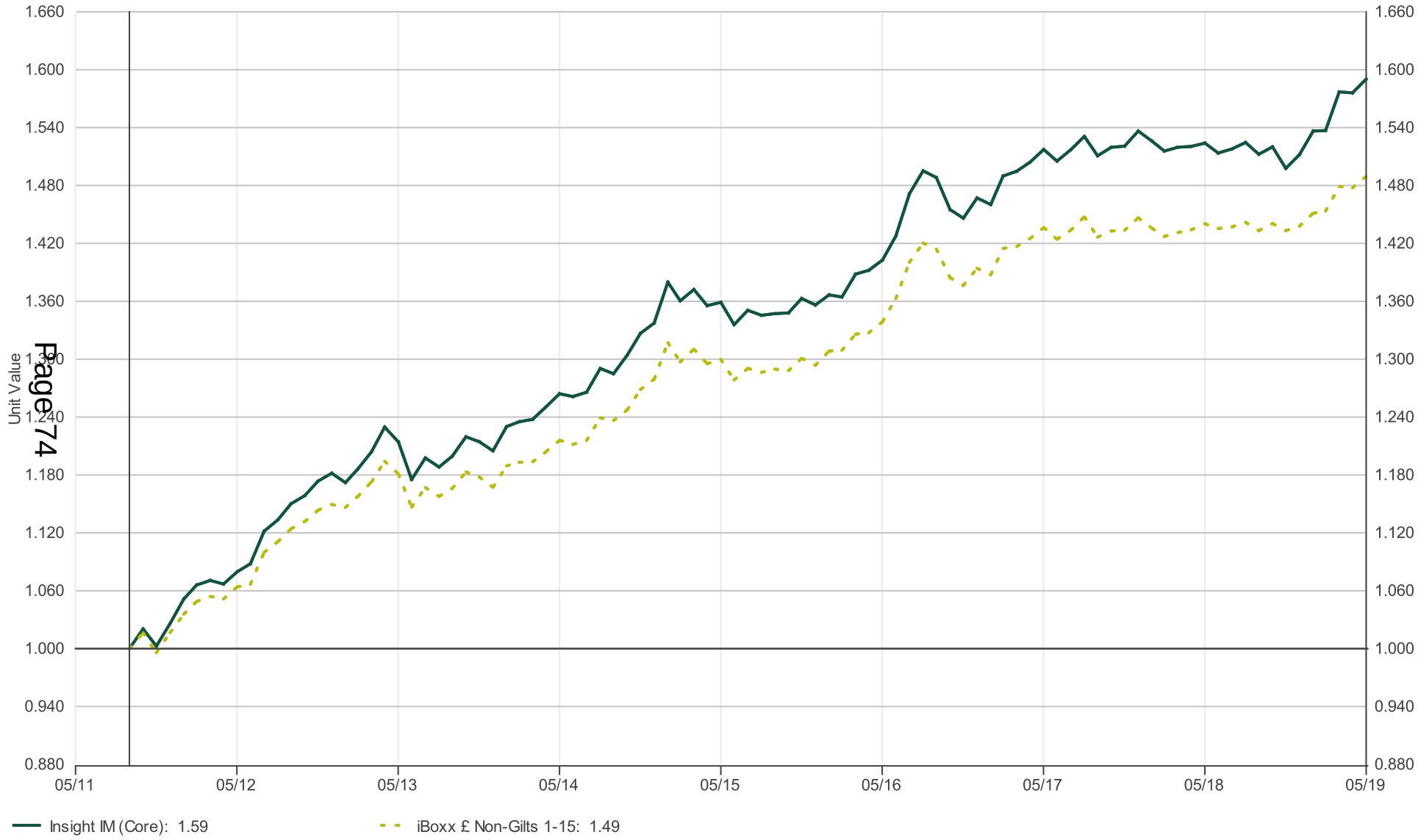
SECTION 6

Insight IM (Core)

Investment Risk & Analytical Services

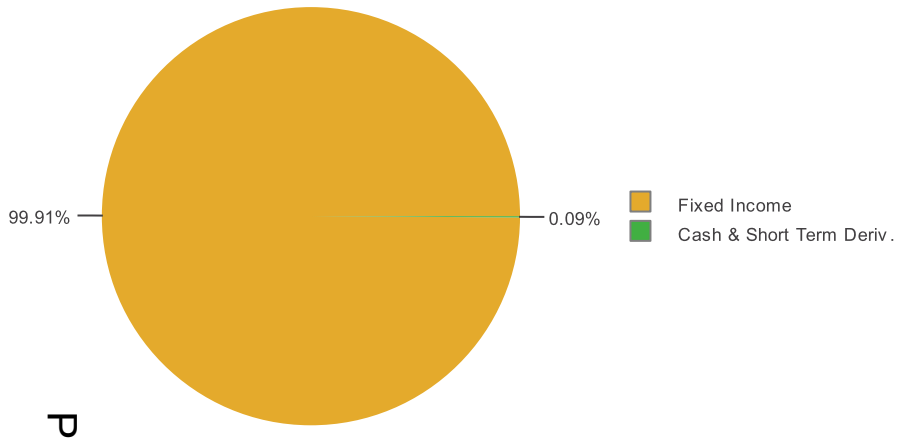
May 31, 2019

Growth Over Time - Inception to Date



Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

	1 Mo
Beginning Market Value	199,262
Net Contribution	0
Income	0
Fees	0
Appreciation	1,805
Ending Market Value	201,067

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Fixed Income	**200,877,400**	**99.91**	**0.91**	**3.48**	**5.18**	**4.36**	**4.36**		
Marketable Bonds	200,877,400	99.91	0.91	3.48	5.18	4.36	4.80		
Cash & Short Term Deriv.	**189,528**	**0.09**	**0.00**	**0.00**	**-0.00**	**-0.01**	**-0.66**		
Total Fund Gross of Fees	**201,066,928**	**100.00**	**0.91**	**3.47**	**5.17**	**4.36**	**4.27**	**4.70**	**6.24**
iBoxx £ Non-Gilts 1-15			0.80	2.47	3.59	3.41	3.62	4.14	5.33
Excess Return			*0.11*	*1.00*	*1.58*	*0.95*	*0.65*	*0.55*	*0.90*

Excess is calculated using arithmetic methodology

Greatest Asset Impact - One Month

TOP LARGEST HOLDINGS

Asset Description	Sector/Industry	Country	31/05/2019 Market Value	Gain/Loss	31/05/2019 Weight	Base Return	Contribution to FMD
INSIGHT GLOBAL FUNDS II BUY AND ...	Corporates	Ireland	200,877,400	1,804,947	100.00	0.91	0.91
SubTotal			200,877,400	1,804,947	100.00		0.91

BEST PERFORMERS

Asset Description	Sector/Industry	Country	31/05/2019 Market Value	Gain/Loss	31/05/2019 Weight	Base Return	Contribution to FMD
INSIGHT GLOBAL FUNDS II BUY AND ...	Corporates	Ireland	200,877,400	1,804,947	100.00	0.91	0.91
SubTotal			200,877,400	1,804,947	100.00		0.91

WORST PERFORMERS

Asset Description	Sector/Industry	Country	31/05/2019 Market Value	Gain/Loss	31/05/2019 Weight	Base Return	Contribution to FMD
INSIGHT GLOBAL FUNDS II BUY AND ...	Corporates	Ireland	200,877,400	1,804,947	100.00	0.91	0.91
SubTotal			200,877,400	1,804,947	100.00		0.91
Fixed Derivatives			200,877,400			0.91	

**Security was not held for the entire period of Concentration.*
**Assets held in funds are listed individually.*

SECTION 7

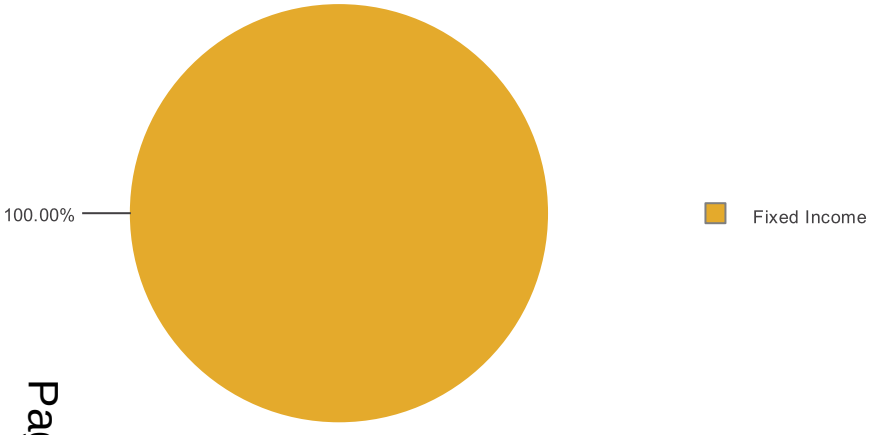
LCIV Global MAC

Investment Risk & Analytical Services

May 31, 2019

Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

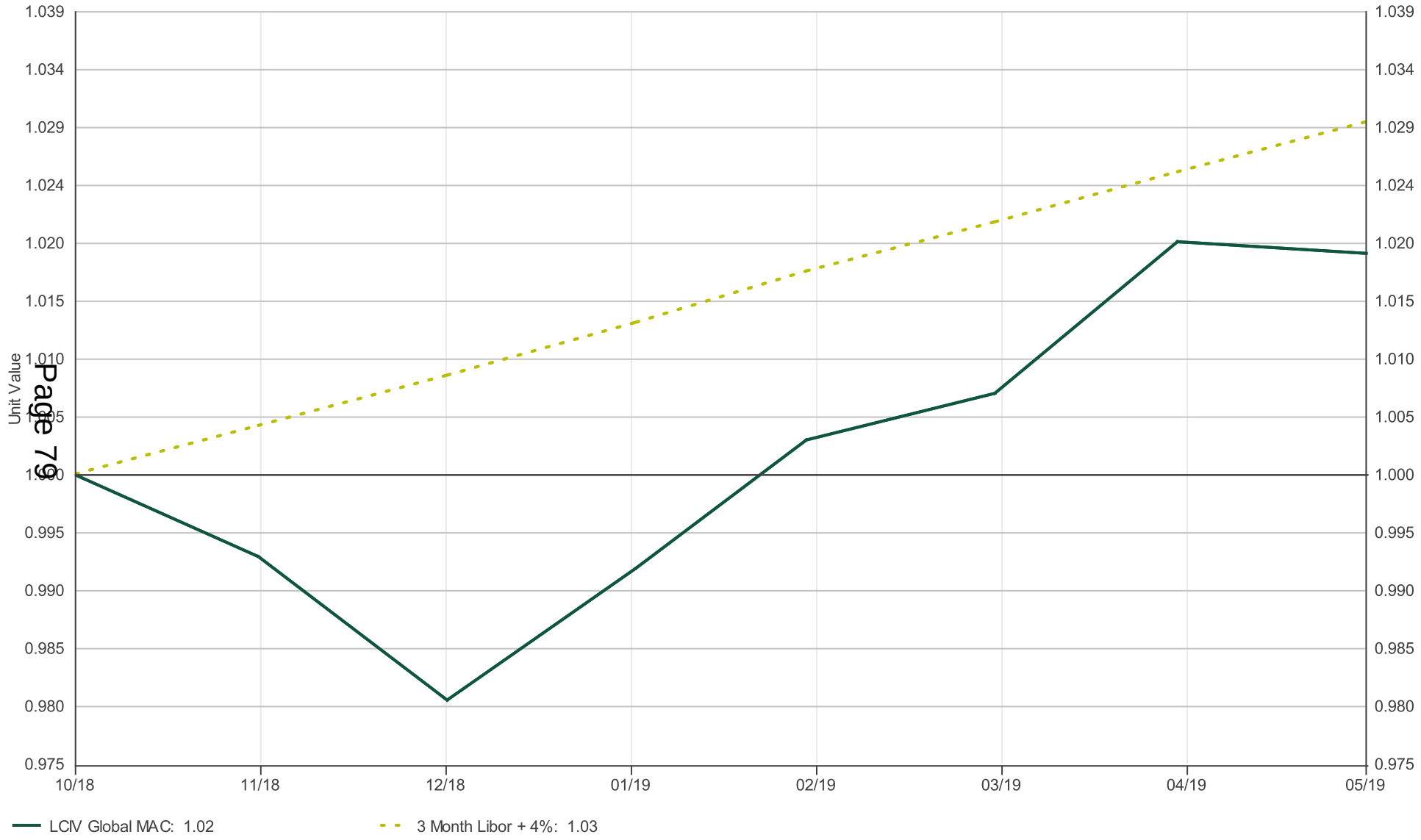
	1 Mo
Beginning Market Value	92,797
Net Contribution	0
Income	0
Fees	0
Appreciation	-90
Ending Market Value	92,707

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Fixed Income	**92,706,811**	**100.00**	**-0.10**	**1.57**	**3.85**				**1.88**
Collateralized Mortgage Oblig.	92,706,811	100.00	-0.10	1.57	3.85				1.88
Total Fund Gross of Fees	**92,706,811**	**100.00**	**-0.10**	**1.57**	**3.85**				**1.88**
3 Month Libor + 4%			0.41	1.24	2.13				2.99
Excess Return			*-0.51*	*0.33*	*1.73*				*-1.11*

Excess is calculated using arithmetic methodology

Growth Over Time - Inception to Date



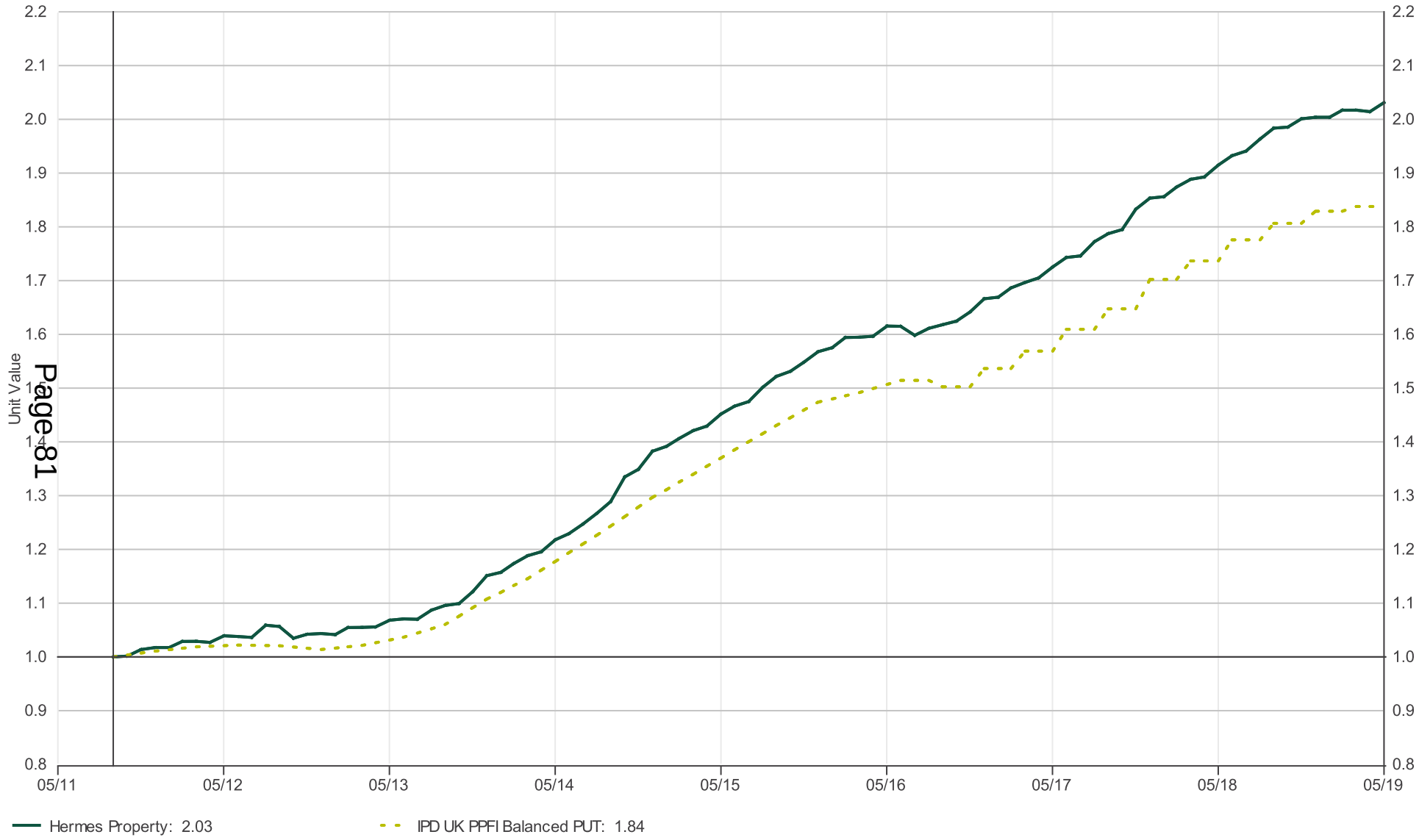
SECTION 8

Hermes Property

Investment Risk & Analytical Services

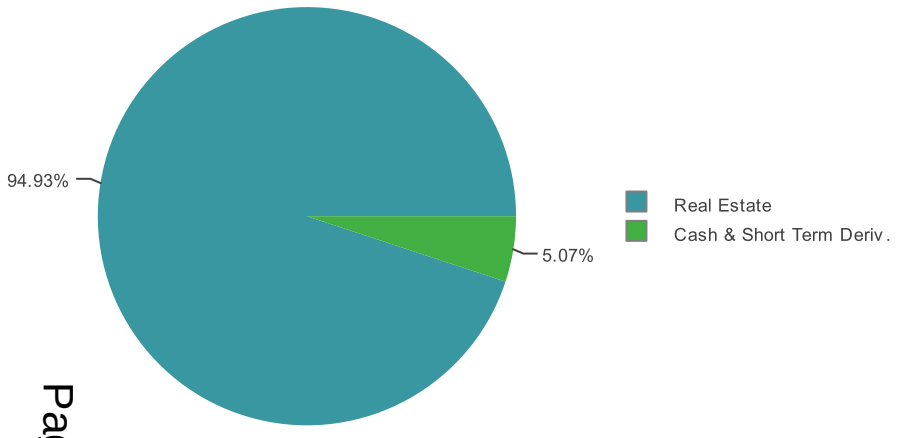
May 31, 2019

Growth Over Time - Inception to Date



Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

	1 Mo
Beginning Market Value	65,916
Net Contribution	0
Income	548
Fees	0
Appreciation	4
Ending Market Value	66,467

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Real Estate	**63,099,275**	**94.93**	**0.88**	**0.73**	**1.41**	**6.28**	**8.14**		
Cash & Short Term Deriv.	**3,367,882**	**5.07**	**0.05**	**0.15**	**0.25**	**0.54**	**0.28**		
Pending Cash	**0**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Fund Gross of Fees	**66,467,157**	**100.00**	**0.84**	**0.70**	**1.36**	**6.07**	**7.93**	**10.77**	**9.68**
IPD UK PPFI Balanced PUT			0.00	0.48	0.48	5.83	6.85	9.31	8.26
Excess Return			*0.84*	*0.22*	*0.88*	*0.23*	*1.09*	*1.46*	*1.42*

Excess is calculated using arithmetic methodology

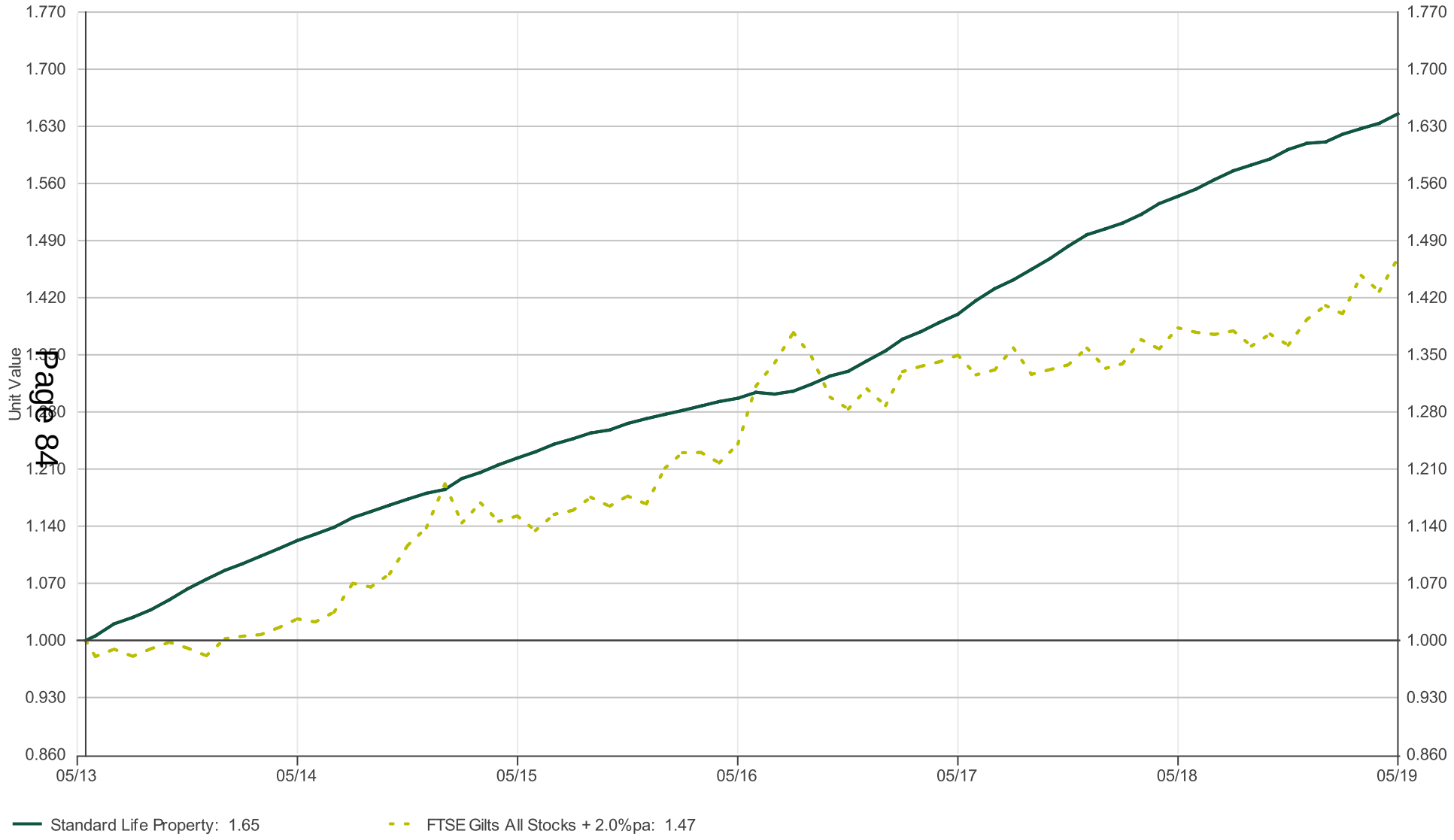
SECTION 9

Standard Life Property

Investment Risk & Analytical Services

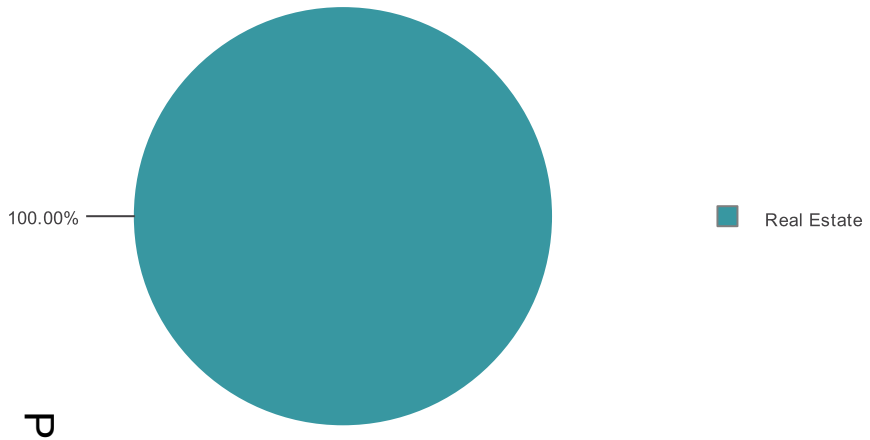
May 31, 2019

Growth Over Time - Inception to Date



Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

	1 Mo
Beginning Market Value	64,969
Net Contribution	5
Income	0
Fees	-5
Appreciation	462
Ending Market Value	65,435

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Real Estate	**65,435,278**	**100.00**	**0.71**	**1.55**	**2.25**	**6.55**	**8.26**		
Cash & Short Term Deriv.	**0**	**0.00**							
Pending Cash	**0**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Fund Gross of Fees	**65,435,278**	**100.00**	**0.71**	**1.55**	**2.25**	**6.55**	**8.26**	**7.95**	**8.71**
FTSE Gilts All Stocks + 2.0%pa			2.86	4.87	5.40	6.18	5.78	7.43	6.65
Excess Return			*-2.15*	*-3.33*	*-3.15*	*0.36*	*2.48*	*0.52*	*2.05*

Excess is calculated using arithmetic methodology

SECTION 10

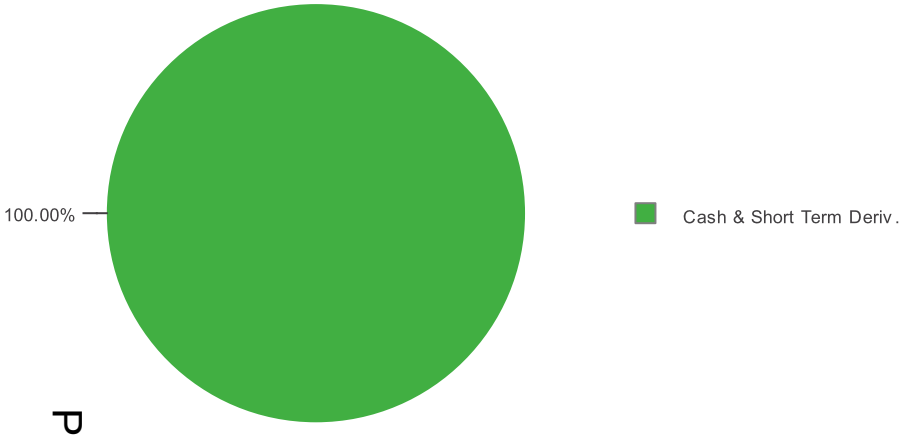
Pantheon Global Infrastructure

Investment Risk & Analytical Services

May 31, 2019

Asset Class Performance

ASSET CLASS ENDING WEIGHTS



MARKET VALUE SUMMARY OVER TIME

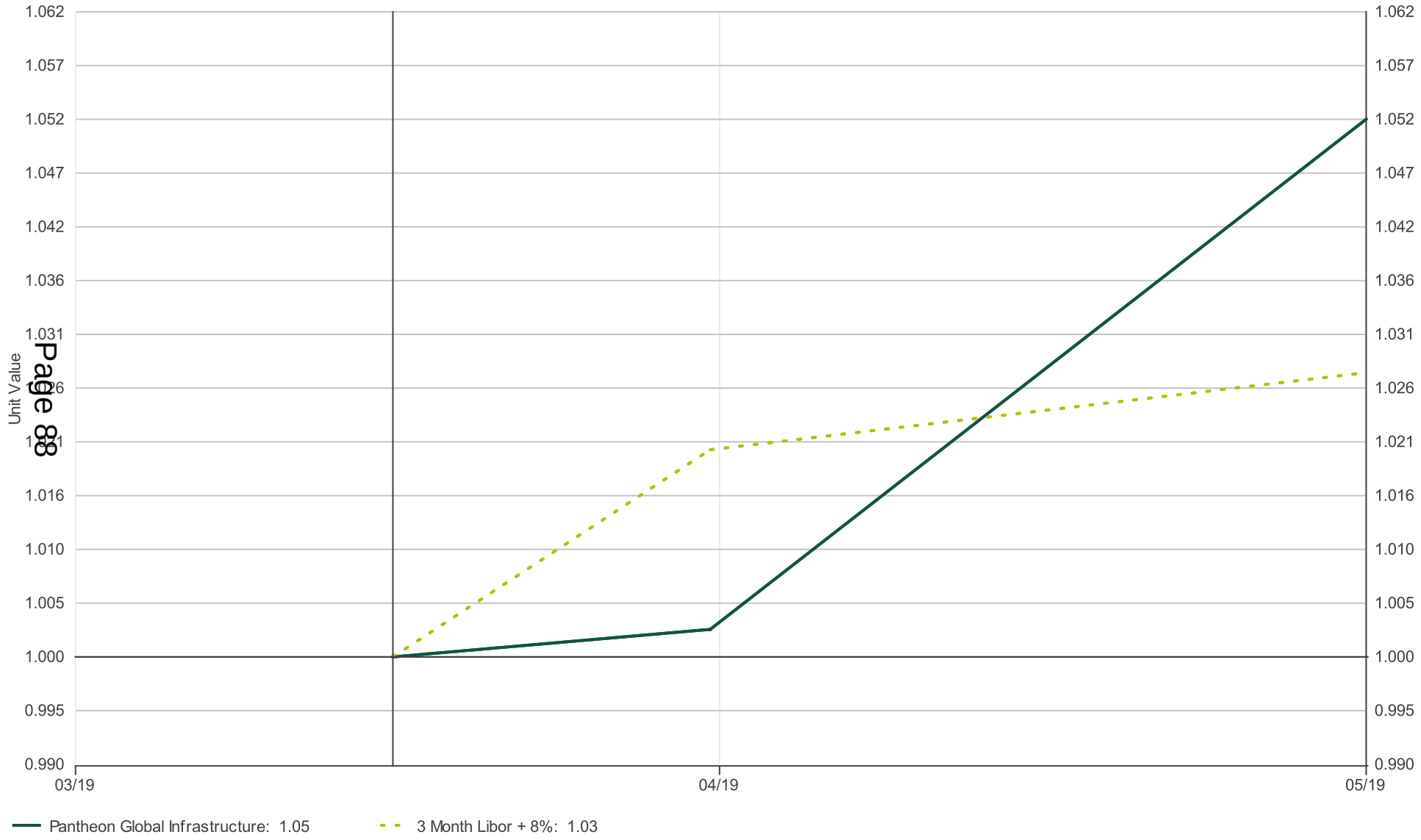
	1 Mo	3 Mos	1 Yr
Beginning Market Value	2,507		
Net Contribution	17,650		
Income	0		
Fees	0		
Appreciation	919		
Ending Market Value	21,076	21,076	21,076

**Market Values are in 000s.*

Asset Class	End MV	End Wt	1 Mo	3 Mos	YTD	1 Yr	3 Yrs	5 Yrs	ITD
Cash & Short Term Deriv.	**21,075,788**	**100.00**	**4.95**						**5.40**
Pending Cash	**0**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Foreign Exchange	**0**	**0.00**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Total Fund Gross of Fees	**21,075,788**	**100.00**	**4.92**						**5.20**
3 Month Libor + 8%			0.73						2.75
Excess Return			*4.19*						*2.45*

Excess is calculated using arithmetic methodology

Growth Over Time - Inception to Date



SECTION 11

Appendix

Investment Risk & Analytical Services

May 31, 2019

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City of Westminster Pension Fund

Funding update report as at 31 December 2018

Barnett Waddingham LLP

11 January 2019

Contents

BARNETT WADDINGHAM
beyond the expected

Introduction

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

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

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

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

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

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

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

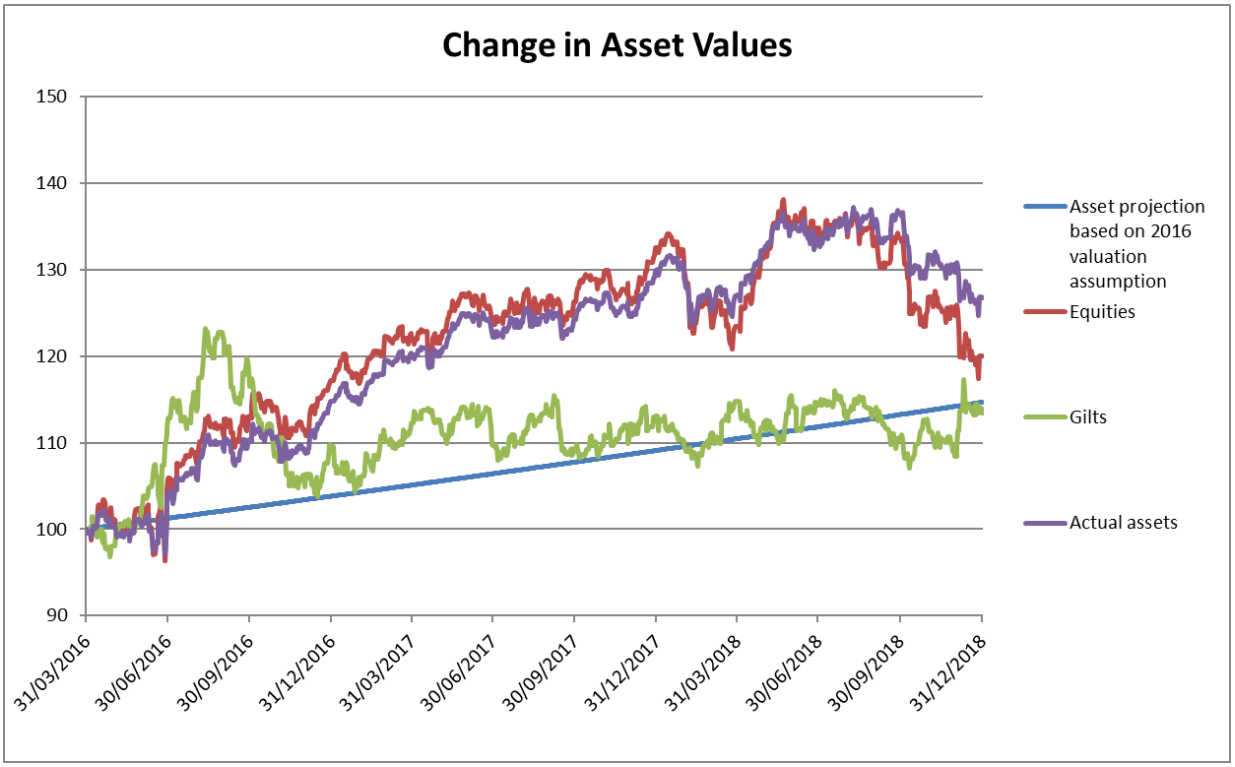
Assets

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

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

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

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



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

Changes in market conditions – market yields and discount rates

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

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

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

Assumptions (smoothed)	31 Dec 2018		30 Sep 2018		31 Mar 2016	
	Nominal	Real	Nominal	Real	Nominal	Real
	% p.a.		% p.a.		% p.a.	
Pension increases (CPI)	2.76%	-	2.68%	-	2.39%	-
Salary increases	4.26%	1.50%	4.18%	1.50%	3.89%	1.50%
Discount rate	5.52%	2.75%	5.29%	2.61%	5.10%	2.71%

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

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

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

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

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

Results

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

The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 December 2018 is 94.5% and the average required employer contribution would be 20.6% of payroll assuming the deficit is to be paid by 2038.
- This compares with the reported (smoothed) funding level of 80.0% and average required employer contribution of 29.1% of payroll at the 31 March 2016 funding valuation.

The ongoing discount rate underlying the smoothed funding level as at 31 December 2018 is 5.5% p.a. The investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 5.8% p.a.

Westminster City Council

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

Smoothed	Assets £000s	Liabilities £000s	Surplus / Deficit £000s	Funding level %	CARE ongoing cost (% of payroll)
31 Dec 2017	842,147	1,043,061	(200,914)	81%	17.3%
31 Mar 2018	858,830	1,044,850	(186,020)	82%	17.1%
30 Jun 2018	874,734	1,051,143	(176,410)	83%	17.1%
30 Sep 2018	883,354	1,032,151	(148,796)	86%	16.3%
31 Dec 2018	857,312	1,014,836	(157,524)	84%	15.5%

BARNETT WADDINGHAM
beyond the expected

SCAPE basis

The results summarised above and in the Appendix are based on the ongoing basis. On the SCAPE basis, as at 31 December 2018, we estimate the comparable funding level for the Fund to be 89% and the average required employer contribution rate would be 27.3% of payroll assuming the deficit is to be paid by 2038. This contribution includes 18.8% of payroll towards the cost of future benefits and 8.5% of payroll towards deficit recovery.

On the SCAPE basis, as at 31 December 2018, we estimate the comparable funding level of Westminster City Council to be 79% and the average required employer contribution rate would be 33.1% of payroll assuming that the deficit is to be paid by 2038. The contribution includes 17.5% of payroll towards the cost of future benefits and 15.6% of payroll towards deficit recovery.

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

Final comments

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

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

Looking forward to 2019

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

Overall, on a basis consistent with the 2016 valuation, the total required contribution rate is estimated to have reduced since 31 March 2016. The next triennial valuation will be taking place as at 31 March 2019, with revised contribution rates payable from 1 April 2020. As part of the 2019 valuation, the Fund and Fund Actuary will work together in setting the assumptions for the valuation.

Given the improvement in funding position over the period and the level of uncertainty in the markets going forward, it may be appropriate to increase the level of prudence underlying the valuation funding assumptions.

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

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.

City of Westminster

Pension Board

Date:	**09 July 2019**
Classification:	**General Release**
Title:	**Local Government Pension Scheme Cost Cap, McCloud Case and Actuarial Valuation Consultation**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 This paper provides the Pensions Board Members with a summary of the background information on the history LGPS cost cap in public service pensions and recent developments regarding the McCloud case, which has suspended the cost cap until the outcome of the Supreme Court ruling.

1.2 This paper also covers proposed changes to the triennial actuarial valuation process.

2. RECOMMENDATIONS

2.1 The Pension Board is recommended to note the report and make appropriate comments.

3. THE EXIT CAP

3.1 In 2010, following the Lord Hutton report concerning provision of public service pensions, one of the key recommendations was that public service defined benefit schemes should have a “cost cap” mechanism to control the cost of future pension provision.

3.2 HM Treasury's concern was the risk around how long a pension is expected to be paid (pensioner longevity). If future pensions in payment were longer than initially anticipated, then the additional costs should be reflected in a reduction in pension payment or, alternatively, an increase in member contributions in order to offset the increased cost of members pensions.

3.3 Whilst the original concept from the Hutton report was a cost "cap", it was also argued that there should be a "floor". This would apply where the duration of pension paid to retired members is shorter than expected. In this event, theoretically, it would mean an increase in pensions benefit or a reduced employee contribution rate.

3.4 As new cost cap/floor mechanisms were constructed to accommodate the above factors, there was an unexpected slowdown in UK longevity improvement. The result of this was that the cost floor became a far more significant issue than was initially anticipated at the time of the Hutton report, as this slowdown in longevity would mean pension payments would not be for as long as initially envisaged.

3.5 Whilst the cost cap/floor calculation would normally be underway at this time, the Government Actuaries Department (GAD) has suspended the process, pending the outcome of the McCloud Supreme Court case.

4. MCCLOUD CASE

4.1 In connection with the cost cap/floor process above, revised actuarial assumptions were implemented to reflect the slowdown in longevity and had nearly reached completion when the Appeal Court judgment of the McCloud case was reached. This is a case where the Appeal Court examined transitional protections offered to judges in the reform of the Judiciary Pension Scheme, which were intended to partially protect them from changes being made to future pension benefits over a transition period.

4.2 The reforms to the judges' scheme and protection offered to older judges were found to be age discriminatory, on the basis that younger members of the judges' scheme were offered no such protection. In December 2018, the Appeal Court found against the Government. The Government then appealed the decision to the Supreme Court.

4.3 On 27th June 2019, it was announced that the Supreme Court had denied the Government's request to appeal the Appeal Court decision.

4.3 The implications of this case are that the transitional changes to public service schemes, when moving from final salary to career average revalued earnings (CARE), are now deemed to be unlawful, mainly on age discrimination grounds. Following the denial of the Government's request for an appeal, there will now be a further wait for a resolution which will either be imposed by the Employment Tribunal or negotiations which would then be applied to all public sector schemes.

4.4 Implications to LGPS pensions following this decision will be backdated to 1 April 2019. As it is unlikely there will be any agreed resolution before the 2019 actuarial valuation is complete, there are several possible ways of treating the cost management process. Fund officers are currently liaising with the fund actuary and the LGPS Scheme Advisory Board will also issue advice in due course.

5. TRIENNIAL ACTUARIAL VALUATION

5.1 With regard to the current triennial valuation, the Government has issued a consultation paper which suggests moving to quadrennial valuations (every four years instead of the current three) in line with the other public service pension schemes. Post 2019, the next valuation is widely expected to be 2024, both for LGPS Funds in England and Wales, and Scotland.

5.2 Whilst this would mean that LGPS scheme would fall into the same four-year cycle as the other public sector schemes and be aligned, a gap of five years between valuations would not be without complications in setting employer contributions over such a long period. It is likely that there would be an interim valuation in 2022 to solve the problem of the five-year gap.

5.3 The consultation on the actuarial valuation process is included at Appendix 1.

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: Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk

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Ministry of Housing,
Communities &
Local Government

Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk

Policy consultation

May 2019
Ministry of Housing, Communities and Local Government

This document/publication is also available on our website at www.gov.uk/mhclg

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May 2019

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Contents

Scope of the consultation

Topic of this consultation:	This consultation seeks views on policy proposals to amend the rules of the Local Government Pension Scheme 2013 in England and Wales. It covers the following areas: 1. Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle 2. A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles 3. Proposals for flexibility on exit payments 4. Proposals for further policy changes to exit credits 5. Proposals for policy changes to employers required to offer LGPS membership
Scope of this consultation:	MHCLG is consulting on changes to the regulations governing the Local Government Pension Scheme (LGPS).
Geographical scope:	These proposals relate to the Local Government Pension Scheme in England and Wales only.
Impact Assessment:	The Ministry's policies, guidance and procedures aim to ensure that any decisions, new policies or policy changes do not cause disproportionate negative impacts on particular groups with protected characteristics, and that in formulating them, the Ministry has taken due regard to its obligations under the Equality Act 2010 and the Public Sector Equality Duty. We have made an initial assessment under the duty and do not believe there are equality impacts on protected groups from the proposals in sections 1 to 4 which set out changes to valuations, flexibilities on exit payments and in relation to exit credits payable under the scheme, as there will be no change to member contributions or benefits as a result. Our proposals in section 5 to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS may result in a difference in treatment between the staff of an institution who are already in the LGPS when the change comes into force (who would have a protected right to membership of the LGPS) and new employees (who would not). It will be up to each institution to consider the potential equalities impacts when making a decision on which, if any, new employees should be given access to the scheme. Question 19 asks for views from respondents on equalities impacts and on any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation.

	When we bring forward legislation, a fuller analysis will include the equality impacts of any final policy proposals.

Basic Information

To:	Any changes to the LGPS rules are likely to be of interest to a wide range of stakeholders, such as local pension funds, administering authorities, those who advise them, LGPS employers and local taxpayers.
Body/bodies responsible for the consultation:	Local Government Finance Reform and Pensions, Ministry of Housing, Communities and Local Government
Duration:	This consultation will last for 12 weeks from 8 May 2019 to 31 July 2019
Enquiries:	For any enquiries about the consultation please contact: LGPensions@communities.gov.uk
How to respond:	Please respond by email to: LGPensions@communities.gov.uk Alternatively, please send postal responses to: LGF Reform and Pensions Team Ministry of Housing, Communities and Local Government 2nd Floor, Fry Building 2 Marsham Street London SW1P 4DF When you reply, it would be very useful if you could make it clear which questions you are responding to. Additionally, please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include: - your name, - your position (if applicable), - the name of organisation (if applicable), - an address (including post-code), - an email address, and - a contact telephone number.

Introduction

This consultation contains proposals on a number of matters relating to the Local Government Pension Scheme (LGPS) in England and Wales.

Amongst these, it is proposed to amend the local fund valuation cycle of the LGPS from the current three year (triennial) cycle to a four year (quadrennial) one. The Government has moved the LGPS scheme valuation to a quadrennial cycle[1], and our consultation is intended to ensure that scheme and local valuations are aligned. Views are sought on whether this is the right approach and the best way of transitioning the LGPS to a quadrennial local valuation cycle.

The LGPS is a locally administered funded pension scheme, established primarily to provide retirement benefits to individuals working in local government in England and Wales. Local fund valuations are used to set employer contribution rates and to assess whether funds are on target to meet their pension liabilities as they fall due in the years ahead. In making our proposals, we aim to ensure that a lengthening of the valuation cycle would not materially increase the risks that pension funds and their employers face. We are therefore proposing mitigation measures that would allow LGPS funds to act between valuations and address any issues as they arise, specifically:

- We propose the introduction of a power for LGPS funds to undertake interim valuations. This would allow LGPS administering authorities to act when circumstances change between valuations and undertake full or partial valuations of their funds.

- We also propose the widening of a power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations, so that contribution rates can be adjusted following the outcome of a covenant check or where liabilities are estimated to have significantly reduced.

Views are sought on the detail of these measures and what LGPS funds should put in their funding strategy statements regarding these matters.

These measures are intended to help funds manage their liabilities and ensure that employer contributions are set at an appropriate level. However, for some employers, a significant issue is the cost of exiting the scheme which can be prohibitive. Current regulations require that when the last active member of an employer leaves the scheme, the employer must pay a lump sum exit payment calculated on a full buy-out basis. We are seeking views on two alternative approaches that would reduce the cliff-edge faced by employers:

- To introduce a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong

[1] https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations

covenant. Whilst this arrangement remains in place, deferred employers would continue to pay contributions to the fund on an ongoing basis:

- To allow an exit payment calculated on a full buy-out basis to be recovered flexibly – i.e. over a period of time. This may be of use where an administering authority does not feel that granting deemed employer status would be appropriate but that some level of flexibility is in the interests of the fund and other employers.

We also seek views on an issue that has come to light in recent months. In 2018, the LGPS Regulations 2013 were amended[2] to allow the payment of 'exit credits' to scheme employers who are in surplus at the time their last active member leaves the scheme. This followed a consultation on the introduction of exit credits undertaken by the Department in 2016[3]. However, it has since been highlighted that the amendments can cause issues where an LGPS employer has outsourced a service and used contractual arrangements to share risk with their contractor. Views are sought on a mechanism via which we can address this issue.

And finally, given the LGPS's funded nature, with liabilities potentially falling back on local authorities and other public bodies in a particular area in the event an employer cannot meet its obligations, the Government is conscious of the need to ensure that scheme participation requirements remain appropriate. Changes in the higher education and further education sectors have taken place in recent years and we are consulting on proposals that would remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff. Instead, reflecting their status as non-public sector, autonomous organisations, we propose it will be for each institution to determine whether to offer the LGPS to new employees or not.

Under our proposals, current active LGPS members and those eligible for active membership in an employment with a further education corporation, sixth form college corporation or higher education corporation in England would have a protected right to membership of the scheme.

Your comments are invited on the questions contained in sections 1 to 5. **The closing date for responses is 31 July 2019**.

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[2] S.I. 2018/493

[3] https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations

Changes to the Local Government Pension Scheme (LGPS) valuation cycle

1.1 Changes to the local fund valuation cycle

The Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes[4].

Aligning the LGPS scheme valuation with other public sector schemes allows for outcomes of each valuation to be looked at in parallel and for Government to make consistent decisions for the public sector as a whole.

Each LGPS fund also carries out a local valuation which is used to assess its financial health and to determine local employer contributions. Currently the valuation cycle of the scheme and of individual funds align. This will no longer be the case as the scheme nationally has moved to a quadrennial cycle. We therefore propose that LGPS funds should also move from triennial to quadrennial valuation cycles.

Moving the LGPS local fund valuations to quadrennial cycles would deliver greater stability in employer contribution rates and reduce costs. The Scheme Actuary's review of local valuations under s13 of the Public Service Pensions Act 2013 would also move to a quadrennial cycle.

However, we recognise that there are potential risks that changes in employer contribution rates may be greater as a result of longer valuation periods and that longer valuation periods could also lead to reduced monitoring of any risks and costs. Section 2 of this consultation sets out proposals to mitigate these matters.

If we move to quadrennial local fund valuations, we propose to produce draft regulations making the necessary amendments to the LGPS Regulations 2013, amending regulation 62(2), 62(3) and other consequential regulations in due course.

Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

Question 2 - Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

Question 3 - Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

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[4] https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations

1.3 Transition to a new LGPS valuation cycle

Given that LGPS funds and the other public sector schemes have carried out a valuation as at 1 April 2016, now is the best opportunity to achieve consistency. If missed, it would be 2028 before valuations of all the schemes align again. On the assumption that scheme and fund valuations are carried out at the same date, potential approaches are as follows:

a) For the next fund valuation to complete as anticipated, using data as at 31 March 2019, giving rates and adjustment certificates for the **coming five years** (i.e. from 1 April 2020-2025) but with the administering authority having the option to perform an interim valuation if circumstances require changes to contribution rates. Further fund valuations would be done using data as at 31 March 2024 and every four years thereafter.

b) For the next fund valuation to complete as anticipated, using data as at 31 March 2019, giving rates and adjustment certificates for the **coming three years** (i.e. from 1 April 2020-2023). The following valuation would be done with fund data as at 31 March 2022 but giving new rates and adjustments certificates for **only two years**. Further fund valuations would be done using data as at 31 March 2024 and every four years thereafter.

Our proposal is to adopt approach b) as it provides continuity and potentially gives LGPS funds greater funding certainty than a five-year cycle would provide.

Question 4 - Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Dealing with changes in circumstances between valuations

2.1. Ability to conduct an interim valuation of local funds

With a longer valuation period of four years, there is greater scope for changes in assets and liabilities between valuations with a consequent potential increase in risks. In relation to the value of assets, this might include a significant downturn in value or increased volatility in returns. In relation to liabilities, this could be due to a sustained lower level of interest rates. The Government Actuary considered the potential impact of volatility of asset returns and changes in economic conditions on funds in their report on the 2016 local valuations[5]. The results showed that funds could face significant pressure on employer contributions in some future scenarios.

As part of a package of mitigation measures, we are proposing to introduce a new power to enable funds to conduct an interim valuation to reassess their position and, where appropriate, adjust the level of contributions outside of the regular cycle. This would not affect the timing of the next quadrennial fund valuation or the scheme valuation. It would, however, allow administering authorities to manage risk and avoid the need for very sharp corrections if maintaining the longer review cycle. This is consistent with the aim of the current regulations in preserving as much stability as possible in contribution rates across valuations (see Reg 66(2)(b) of the 2013 LGPS Regulations).

Depending on the trigger for the interim valuation, different levels of actuarial advice might be needed. For example, it may not be necessary to revisit all of the demographic assumptions and scheme experience where the trigger is a major financial down-turn shortly after the last valuation was completed. Funds will want to assure themselves that they have access to such data and analysis as is proportionate to the nature of the trigger and the time elapsed since the previous valuation.

Allowing an interim valuation gives greater adaptability should longer-term trends emerge that it would be prudent to address ahead of the next scheduled valuation.

To limit the risk that interim valuations could be timed to take advantage of short-term market conditions and undermine the cost and administrative advantages of a longer valuation cycle, we propose that interim valuations may take place only for the reasons set out in an authority's Funding Strategy Statement. In exceptional circumstances not envisaged in the Funding Strategy Statement, a fund could apply for a direction from the Secretary of State to carry out an interim valuation. The Secretary of State would also have a power to require interim valuations of funds either on representation from funds, scheme employers or of his own motion.

We propose to include in the regulations, supported by statutory guidance, certain protections so that decisions on whether to undertake an interim valuation should only be

[5] https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2016

made by the administering authority having due regard to the views of their actuary and following consultation with the Local Pension Board. Where an administering authority undertakes an interim valuation it would also be obliged to notify the Secretary of State of the reasons for it and the conclusions reached. The costs of the valuation would be recovered in the usual way from all employers. As interim valuations should not be necessary frequently, the cost is likely to be more than offset by the move to four-yearly valuations.

Question 5 - Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

Question 6 - Do you agree with the safeguards proposed?

2.2. Review of employer contributions

A four-year valuation cycle would also mean fewer opportunities to respond to changes in the financial health of scheme employers. This means that the assessment made at the time of the valuation about that employer being able to meet all of its obligations to the fund, most importantly to make contributions (often referred to as an employer's "covenant strength"), might be out of date.

CIPFA's guidance on maintaining a Funding Strategy Statement[6] requires funds to identify the employer risks that inevitably arise from managing a large and often changing group of scheme employers. In their related guidance on *Managing Risk in the Local Government Pension Scheme* (2018) they emphasise the importance of maintaining a knowledge base to track and identify risk levels for each employer. It further suggests that employers be categorised into groups depending on the level of risk they present to the fund as a whole.

We understand that some funds already carry out frequent reviews of their employers' covenant strength. Currently, the LGPS regulations provide funds with a limited number of tools to manage or reduce any risks identified. These tools include:

- At each valuation specifying secondary rate contributions that target a funding level that has been set with regard to the covenant strength of that employer (as allowed by Regulation 62(7) of the 2013 LGPS Regulations);
- Requiring adequate security for new admission bodies (as required in Part 3 of Schedule 2 to the 2013 LGPS Regulations);
- Increasing the security where existing admitted bodies wish to make changes to their admission agreement (as allowed for in Part 3 of Schedule 2 to the 2013 LGPS Regulations);
- Reviewing employer contributions where there is evidence that the employer is likely to exit the scheme (Regulation 64(4) of the 2013 LGPS Regulations);

[6] Preparing and Maintaining a Funding Strategy Statement, published September 2016

- Reviewing employer contributions where there is evidence that the liabilities of that employer have increased substantially (see Regulations 64(6)(b) of the 2013 LGPS Regulations).

Whilst a four-yearly review of employer contributions would be sufficient for statutory or tax-payer backed employers, we recognise that for some scheme employers, and in particular admitted bodies, it may be prudent to allow funds to amend contribution rates more frequently. That would be driven by a change in the deficit recovery period and/or funding target level for a single employer, or group of employers, where this was felt necessary to protect other employers in the scheme or the solvency of the fund itself.

This would include giving funds the ability to offer employers a reduction in their contribution rate if they were able to make a one-off deficit reduction payment or there was a significant change in the composition of their workforce following a merger. We propose to introduce the ability for an employer to request a reassessment of its contribution rate where it believes that its liabilities have reduced.

We propose that funds would need to specify in their Funding Strategy Statement those employers (generally statutory or tax-raising employers) for whom the regular assessment of employer contributions through valuations is sufficient and what events would trigger reassessment through covenant reviews for other employers.

As these reassessments of employer contributions are designed to protect the interest of all employers and the scheme as a whole, the costs of conducting them anticipated in the Funding Strategy Statement, or triggered by a particular event or concern over covenant, would normally be met by the fund as a whole. However, where a scheme employer requested a reassessment because it believed that this would lead to a reduction in its contribution rate, then this would be paid for by the employer concerned.

Question 7 – Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

2.3. Guidance on setting a policy

As set out above we are proposing that the regulations would require funds to include their policy on interim valuations and reviews of employer contributions in their Funding Strategy Statement. We would also anticipate that CIPFA would want to reflect these new tools to manage risk in the guidance which it offers to funds on drafting an Funding Strategy Statement and in managing risk. However, to help ensure consistency of approach between funds, we also propose that in setting their policy they would also be required to have regard to advice that we would invite the Scheme Advisory Board to provide. This would include advice in the following areas:

- The exceptional circumstances where the case for an interim valuation could be made to the Secretary of State;
- The process for triggering and timescale for completing interim valuations;

- Best practice in working with scheme employers and other interested parties where an interim valuation is undertaken;
- What level of professional advice is appropriate to deliver the interim valuation.

In relation to action being taken to review employer contributions we would similarly ask the Scheme Advisory Board to consider guidance on the following areas:

- How to work with employers when a request is made for a review of its employer contributions;
- The process for carrying out employer covenant reviews and how to work with employers where the fund feels that further action is needed;
- Communicating with all scheme employers on how risk is being managed and how the cost of reviews will be met;
- What comprises a proportionate level of actuarial and other professional advice.

Question 8 – Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?

Question 9 – Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

Flexibility on exit payments

3.1 Introduction

We know that some smaller and less financially robust employers are finding the current exit payment regime in LGPS onerous. Rather than protecting the interests of members, it may mean employers continue to accrue liabilities that they cannot afford. It can also create the risk that some employers could be driven out of business as a result of inability to meet a substantial exit payment when they finally come to leave. This can have implications for other jobs, the delivery of local services and future support for the scheme.

These problems arise because employer debt is calculated at full buy-out basis[7] on the employer's total accrued liabilities to the scheme, and the amount due up-front or in a short period of time if the last active member leaves an employer can be significantly higher than their on-going contributions. If an employer does not have a source of capital available with which to pay the employer debt, they can effectively find themselves tied to the scheme indefinitely, even if this is not the most prudent way to proceed for all those concerned.

The current regime is designed to protect those scheme employers who remain in the scheme when one or more other employers have ceased to employ active members and who may be left with orphan liabilities. Any changes to the employer debt regime would have to be carefully considered to ensure that they would not result in an increased risk to members or remaining scheme employers.

In recognition of these and other issues, the Scheme Advisory Board has commissioned AON to look at the potential funding, legal and administrative issues presented by the participation of what it calls Tier 3 employers[8] in the scheme, and to identify options to improve the situation. A working group has been established by the Scheme Advisory Board with a view to making recommendations to the Secretary of State later in the year. It is hoped that the Scheme Advisory Board working group will be able to include this consultation in its deliberations.

We have also heard from many in the sector that the time is right to bring LGPS more in line with wider practice in the private pensions sector. Deferred debt arrangements in the private sector enable an employer in a multi-employer pension scheme, who fulfils certain conditions, to defer their obligation to pay an employer debt on ceasing to employ an active scheme member. The arrangement requires the employer to retain all their previous responsibilities to the scheme and continue to be treated as if they were the employer in

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[7] Exit payments are currently based on that employer's share of the deficit in the scheme calculated on a 'full-buy out basis' (i.e. the amount that would need to be paid to an insurer to take on the pension scheme's liabilities).

[8] Scheme Advisory Board defines Tier 3 bodies as being those which are not tax-payer backed ("Tier 1"), academies ("Tier 2") or admitted bodies performing services under contract to local authorities ("Tier4")

relation to that scheme. A key consideration in considering whether to introduce a similar arrangement into LGPS will be how to ensure that employers wanting to take advantage of this option have sufficient and appropriate assets to cover their liabilities and that the arrangement will not adversely affect other employers.

We therefore propose to grant funds more flexibility to manage an employer's liabilities in this situation, by spreading exit payments over a period or by allowing an employer with no active members to defer exit payments in return for an ongoing commitment to meet their existing liabilities.

3.2 Flexibility in recovering exit payments

This proposal aims to enable scheme employers which are ceasing to employ any active members with the flexibility, in agreement with the administering authority, to spread exit payments over a period, where this would also be in the interests of the fund and other employers.

This option would be available in situations where an administering authority considered that some flexibility over the repayment programme would be in the best interests of the fund and other employers. We understand that some funds have been attempting to achieve a similar objective through side-agreements with employers at the time of exit. However, we feel that it would be more appropriate to regularise this approach and put it on a firm legislative footing.

In order to implement this new flexibility we have considered the model implemented by the Scottish Public Pensions Agency. This allows administering authorities to adjust an exiting employer's contributions to ensure that the exit payment due is made by the expected exit date or spread over such a period as the fund considers reasonable. This is set out in their Regulation 61(6)[9]:

> *"(6) Where in the opinion of an administering authority there are circumstances which make it likely that a Scheme employer (including an admission body) will become an exiting employer, the administering authority may obtain from an actuary a certificate specifying the percentage or amount by which, in the actuary's opinion—*
>
> *(a) the contribution at the primary rate should be adjusted; or*
>
> *(b) any prior secondary rate adjustment should be increased or reduced,*
>
> *with a view to providing that assets equivalent to the exit payment that will be due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet that liability by that date, over such period of time thereafter as the administering authority considers reasonable."*

[9] In the Local Government Pension Scheme (Scotland) Regulations 2018

This is a permissive model that gives administering authorities considerable flexibility to use their judgement and local knowledge in balancing the competing interests involved.

We propose to follow this approach but would welcome views from consultees on whether some additional protections are required, such as a maximum time limit over which exit payments could be spread (perhaps three years).

For the avoidance of doubt, we propose that the exit payment in these circumstances would continue to be calculated as now on a full buy-out basis.

Question 10 – Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required ?

3.3 Deferred employer status and deferred employer debt arrangements

These proposals aim to enable scheme employers who are ceasing to employ any active members to defer exit payments in return for an ongoing commitment to meet their existing liabilities, in agreement with the fund. This commitment would protect the fund and other employers. This will be of particular help to smaller employers (such as charities) in managing their obligation to make an exit payment when they cease to employ an active member of the scheme.

Drawing on the model of the S75 approach that was recently introduced by DWP for private sector[10] defined benefit multi-employer funds, we have set out a possible model for the LGPS. We would welcome views from consultees on how to develop the model to best reflect the needs of all parties participating in LGPS.

i) Definition of deferred employer status

Employers taking advantage of this ability to maintain a link with the scheme, despite no longer having active members, would become “deferred employers”. A deferred employer is defined as an employer who, at the point that their last active member leaves the scheme, enters into a deferred employer debt arrangement with the administering authority, and that arrangement has not been terminated by a ‘relevant event’ (see section iii below).

ii) Basis on which a deferred employer debt arrangement would be offered

To enter into a deferred employer debt arrangement, the fund would need to be satisfied that the employer has just, or is about to, become an exiting employer as defined in LGPS regulations and has a sufficient covenant not to place the fund under undue risk. When DWP consulted on the equivalent provisions for private sector schemes (referred to earlier) they considered the introduction of a test whereby employers could only be eligible

[10] These are the employer debt arrangements made under S75 of the Pensions Act 1995. More information is available here: https://www.gov.uk/government/consultations/the-draft-occupational-pension-schemes-employer-debt-amendment-regulations-2017

for the equivalent of a deferred employer debt arrangement if they were already funded above a prescribed level. In line with the decision DWP took in relation to private sector DB schemes, we have considered and rejected the option of setting such a minimum level of funding. We believe that this will be a relevant factor in scheme managers' assessment of covenant and risk and therefore needs to be weighed alongside all the other evidence available.

iii) Termination of a deferred employer debt arrangement

In order to protect the fund, we would expect any deferred employer debt arrangement to set out in the following circumstances which would trigger termination, to be known as "relevant events":

- the employer has new active members;
- the employer and scheme manager both agree to terminate the agreement and an exit payment falls due;
- the scheme manager assesses that the covenant has significantly deteriorated and a relevant event occurs (insolvency, voluntary winding up, CVA);
- the employer restructures and the covenant value is significantly affected in the view of the scheme manager. Restructuring for these purposes occurs where the employer's corporate assets, liabilities or employees pass to another employer;
- the fund serves notice that the employer has failed to comply with any of its duties under LGPS regulations or other statutory provisions governing the operation of a pension fund.

iv) Responsibilities of the deferred employer

An employer in a deferred employer debt arrangement would still be an employer for scheme funding and scheme administration purposes. Funds will continue to carry out regular actuarial valuations to establish whether or not their funding position is on track according to the funding strategy they have adopted, and to put in place a recovery plan where any shortfalls are identified. Deferred employers will be required to make secondary contributions as part of this plan and this requirement will apply to any employer who has entered into a deferred debt arrangement.

We will expect administering authorities to adopt a robust policy to be set out in their Funding Strategy Statement, following consultation with employers and their Local Pension Board and having regard to any guidance issued by CIPFA or the Secretary of State. Our intention is to give funds some flexibility to use their judgement and local knowledge to reach suitable arrangements that balances the competing interests involved.

We would expect administering authorities to offer deferred employer debt arrangements when this is in the interests of the other fund employers and where there is not expected to be a significant weakening of the employer covenant within the coming 12 months.

Question 11 – Do you agree with the introduction of deferred employer status into LGPS?

Question 12 – Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

3.4 Proposed approach to implementation of deferred employer debt arrangements

We do not intend to legislate for every aspect of the model above. Our starting point is that the key obligations and entitlements of parties should be in the regulations. Statutory guidance can be helpful in putting more flesh on the bones and ensuring that there is consistency in application. On the assessment of risk and in balancing competing interests of scheme stakeholders we consider that the Scheme Advisory Board is better placed to offer real-world, credible guidance to funds. We would welcome views from consultees about the appropriate balance to be struck between legal requirements to be set out in regulations, statutory guidance issued under regulation 2(3A) of the 2013 Regulations, and guidance from the Scheme Advisory Board.

Question 13 – Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

3.5 Summary of options for management of employer exits

Implementing the proposals above on exit payments would make the following set of options available to administering authorities when dealing with employer exits:

1. Calculate and recover an exit payment as currently for employers ready and able to leave and make a clean break;

2. Agree a repayment schedule for an exit payment with employers who wish to leave the scheme but need to be able to spread the payment;

3. Agree a deferred employer debt arrangement with an employer to enable them to continue paying deficit contributions without any active members where the scheme manager was confident that it would fully meet its obligations.

We expect that employers will want to see a level of transparency and consistency in the use which administering authorities make of this new power. We expect that that statutory or Scheme Advisory Board guidance will be necessary in addition to a change to regulations and welcome views on which type of guidance would be appropriate for which aspects of the proposals.

Question 14 – Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

Question 15 – Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

Exit credits under the LGPS Regulations 2013

4.1 Introduction of exit credits in May 2018

In April 2018, the Government made changes[11] to the LGPS Regulations 2013 allowing exit credits to be paid from the Scheme for the first time. Following the amendments, which were effective from 14 May 2018, where the last active member of a scheme employer leaves the LGPS, an exit credit may be payable if an actuarial assessment shows that the employer is in surplus on a full buy-out basis at the time of their exit. Prior to the changes, the 2013 Regulations had only provided that a scheme employer would be responsible for any shortfall and where such a shortfall occurred they would be responsible for paying an exit payment.

The amendments to allow exit credits to be paid from the Scheme were intended to address this imbalance. They also followed prior concerns that the lack of such a provision meant some scheme employers who were nearing their exit were reluctant to pre-fund their deficit out of concern that, if they contributed too much, they would not receive their excess contributions back. Accordingly, the government consulted on addressing this via the introduction of exit credits in May 2016[12], as part of a wider consultation exercise.

Feedback from the consultation exercise was broadly supportive of this change. Responses focussed on two technical issues:

- Some respondents suggested that our proposed timescales for payment of an exit credit were too tight (at one month).
- Some also suggested that we should include a clarifying provision noting that where an exit credit had been paid there could be no further claim on the fund.

Both concerns were addressed in the final regulations, which provided that funds would have three months to pay an exit credit and that no further payment could be made to a scheme employer from an administering authority after an exit credit had been paid.

4.2 Exit credits and pass-through

In the period since the 2013 Regulations were amended, some concerns have been raised about a consequential impact of the introduction of exit credits, specifically where a scheme employer has outsourced a service or function to a service provider. In such

[11] S.I. 2018/493
[12] https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations

situations, scheme employers often use a 'pass-through' approach to limit the service provider's exposure to pensions risk to obtain a better contract price. Where pass-through is used, service contracts, or side agreements to service contracts between LGPS employers and their service providers will often be used to set out the terms that apply.

It has been drawn to our attention that where LGPS employers entered into a contract with a service provider before the introduction of exit credits, the terms of the pass-through agreement may cause unforeseen issues to arise. This may occur where an employer has entered into a side agreement with a service provider which includes pass-through provisions, and under this side agreement, the authority has agreed to pay the service provider's LGPS employer contributions for the life of the contract as well as meet any exit payment at the end of the contract. When the contract ceases, the service provider (as the scheme employer) may be significantly in surplus and entitled to an exit credit, even though the employer has borne the costs and the risk in relation to the service provider's liabilities through the life of the contract.

This situation would clearly not have been what was intended when the contract was agreed. It would be unfair for a service provider to receive an exit credit in such a situation and it is our intention to make changes that would mean that service providers cannot receive the benefit of exit credits in such cases.

4.3 Proposal to amend LGPS Regulations 2013

We therefore propose to amend the 2013 Regulations to provide that an administering authority must take into account a scheme employer's exposure to risk in calculating the value of an exit credit. There would be an obligation on the administering authority to satisfy itself if risk sharing between the contracting employer and the service provider has taken place (for example, via a side agreement which the administering authority would not usually have access to). If the administering authority is satisfied that the service provider has not borne any risk, the exit credit may be calculated as nil.

We also intend that such a change would be retrospective to the date that the LGPS Regulations 2013 were first amended to provide for the introduction of exit credits – i.e. to 14 May 2018. This would ensure that where a service provider has not borne pensions risk but has become entitled to an exit credit, they should not receive the benefit of that exit credit.

By making this change retrospective, the revised exit credit provisions would apply in relation to all scheme employers who exit the scheme on or after 14 May 2018.

In the event of any dispute or disagreement on the level of risk a service provider has borne, the appeals and adjudication provisions contained in the LGPS Regulations 2013 would apply.

It should also be noted that the government is consulting on the introduction of a new way for service providers to participate in the LGPS[13]. Use of the deemed employer approach,

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[13] https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection

if introduced, would also prevent exit credits becoming payable to service providers where they have not borne contribution or funding risks.

Question 16 – Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

Question 17 – Are there other factors that should be taken into account in considering a solution?

Employers required to offer LGPS membership

5.1 Further education corporations, sixth form college corporations and higher education corporations

Under the LGPS Regulations 2013, further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

In recent years, a number of changes have taken place in the further education and higher education sectors.

- In 2012, the Office for National Statistics took further education and sixth form college corporations in England out of the General Government sector, reflecting changes introduced by the Education Act 2011 which, in the view of the ONS, took public control away from such organisations.

- The Technical and Further Education Act 2017 provided for the introduction of a new statutory insolvency regime for further education and sixth form college corporations in England and Wales meaning, for the first time, it will be possible for such bodies to become legally insolvent. The Government expects cases of insolvency to be rare.

- The Higher Education and Research Act 2017 established a new regulatory framework and a new single regulator of higher education in England, the Office for Students (the OfS). The OfS adopts a proportionate, risk-based approach to regulating registered higher education providers consistent with its regulatory framework.

Reflecting the independent, non-public sector status, of further education, sixth form colleges, and the autonomous, non-public sector status of higher education corporations, these bodies are responsible for determining their own business models and for ensuring that their financial positions are sound. As such, these bodies may value greater flexibility in determining their own pension arrangements for their own workforces. Indeed, some respondents to the Department for Education consultation 'Insolvency regime for further education and sixth form colleges', held in 2017-18, requested that the obligation to offer LGPS to all eligible staff be removed.

The LGPS is, unlike many public service pension schemes, a "funded scheme". This means that employee and employer contributions are set aside for the payment of pensions and are invested to maximise returns. It is a statutory scheme, with liabilities potentially falling back on other LGPS employers in the event of an employer becoming insolvent. The costs associated with meeting the liabilities of a failed organisation could therefore fall back on local authorities and other scheme employers, meaning there may be a direct impact on the finances of public bodies in a particular area if an organisation fails.

Given the nature of the LGPS and the changes in the further education and higher education sectors, it is right to consider whether it is still appropriate for LGPS regulations to require that these employers offer the LGPS for all eligible staff.

We propose to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS.

Under our proposals each corporation would have the flexibility to decide whether to offer the LGPS to all or some eligible new employees. We recognise that corporations will continue to view offering LGPS as a valuable and important tool in recruitment and retention strategies, but the flexibility as to when to use the tool should be for the corporations themselves.

We also propose that those already in employment with a further education, sixth form college or a higher education corporation in England and who are eligible to be a member of the LGPS before the regulations come into force have a protected right to membership of the scheme. These employees would retain an entitlement to membership of the scheme for so long as they remain in continuous employment with the body employing them when the regulations come into force. These employees would also retain an entitlement to membership of the scheme following a compulsory transfer to a successor body, for example, following the merger of two corporations.

Further and higher education policy is devolved to the Welsh Government. Whilst some of the changes in the sectors highlighted here apply to bodies in Wales as well as in England, at the moment, the Welsh Government does not propose to change the requirements of the LGPS Regulations 2013 in relation to further education corporations and higher education corporations in Wales. These bodies will continue to be required to offer membership of the LGPS to their non-teaching staff.

Question 18 – Do you agree with our proposed approach?

Public sector equality duty

6.1 Consideration of equalities impacts

The Ministry's policies, guidance and procedures aim to ensure that any decisions, new policies or policy changes do not cause disproportionate negative impacts on particular groups with protected characteristics, and that in formulating them the Ministry has taken due regard to its obligations under the Equality Act 2010 and the Public Sector Equality Duty. We have made an initial assessment under the duty and do not believe there are equality impacts on protected groups from the proposals in sections 1 to 4 which set out changes to valuations, flexibilities on exit payments and in relation to exit credits payable under the scheme, as there will be no change to member contributions or benefits as a result.

Our proposals in section 5 to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS may result in a difference in treatment between the staff of an institution who are already in the LGPS when the change comes into force (who would have a protected right to membership of the LGPS), and new employees (who would not). It will be up to each institution to consider the potential equalities impacts when making their decision on which, if any, new employees should be given access to the scheme.

Question 19 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

Summary of consultation questions

Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

Question 2 - Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

Question 3 - Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

Question 4 - Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Question 5 - Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

Question 6 - Do you agree with the safeguards proposed?

Question 7 – Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

Question 8 – Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?

Question 9 – Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

Question 10 – Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?

Question 11 – Do you agree with the introduction of deferred employer status into LGPS?

Question 12 – Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

Question 13 – Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

Question 14 – Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

Question 15 – Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

Question 16 – Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

Question 17 – Are there other factors that should be taken into account in considering a solution?

Question 18 – Do you agree with our proposed approach?

Question 19 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at Annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure.

Annex A

Personal data

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

1. **The identity of the data controller and contact details of our Data Protection Officer**
The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at dataprotection@communities.gov.uk

2. Why we are collecting your personal data
Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

3. Our legal basis for processing your personal data
The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

Section 21 of the Public Service Pension Act 2013 requires the responsible authority, in this case the Secretary of State, to consult such persons as he believes are going to be affected before making any regulations for the Local Government Pension Scheme. MHCLG will process personal data only as necessary for the effective performance of that duty

3. With whom we will be sharing your personal data
We do not anticipate sharing personal data with any third party.

4. For how long we will keep your personal data, or criteria used to determine the retention period.
Your personal data will be held for two years from the closure of the consultation.

5. Your rights, e.g. access, rectification, erasure
The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

a. to see what data we have about you
b. to ask us to stop using your data, but keep it on record
c. to ask to have all or some of your data deleted or corrected

d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/, or telephone 0303 123 1113.

6. Your personal data will not be sent overseas

7. Your personal data will not be used for any automated decision making.

8. Your personal data will be stored in a secure government IT system.

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City of Westminster

Pension Board

Date:	**9 July 2019**
Classification:	**General Release**
Title:	**Investment Strategy Consideration**
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 During 2019/20 and future years, the Pension Fund could receive a substantial sum in forward deficit recovery receipts. This report summaries the current strategic asset allocation and discusses the future investment strategy of the Fund, taking into consideration these potential receipts and the current triennial valuation outcome.

2. Recommendation

2.1 The Board is asked to note:

- the strategy consideration paper prepared by our investment advisor, Deloitte.
- the investment strategy, for the forward funding receipt, approved by the Pension Fund Committee on 20 June 2019.

3. Current Strategic Asset Allocation

3.1 During 2018/19, the benchmark strategic asset allocation of the Fund was: 65% equities, 20% fixed income, 10% property and 5% infrastructure. As at 31 March 2019, the actual asset allocation was: 69%

equities, 21% fixed income, 9% property and 1% infrastructure across seven fund managers.

3.2 The Fund will reach 5% asset allocation to infrastructure as the Pantheon fund draws down the allocation over the coming years, due to be transitioned from the Fund's Longview equities portfolio. The estimated median return of the current allocation is 5.4% p.a., with a standard deviation of 12.0% p.a.

3.3 The Fund has historically allocated a high proportion of equities due to the larger potential returns. However, the Fund has borne a higher level of risk as a result.

4. Future Strategy Considerations

4.1 The estimated funding level for the Westminster City Council Fund as assessed by the actuary at 31 December 2018 was 94.5%, with a £79m deficit. Future forward receipts could bring a full funding position. It is expected a review of the Investment Strategy Statement will take place following the triennial valuation but, in the meantime, the Pension Fund Committee should consider how to allocate these funds.

4.2 The investment advisor has set out the following options for consideration:

- Invest the funds across the current strategic asset allocation - this would maintain a high level of equity risk.

- De-risk the Fund by investing in fixed income - additional funds could be placed within the LCIV Multi Asset Credit (MAC) fund and Insight Buy and Maintain mandate given that both are relatively liquid. It is estimated that if the funds were allocated two-thirds to buy and maintain and one-third to MAC, the expected return would be 5.2% p.a. with a standard deviation of 11.3%, 0.7% lower than the current strategic allocation.

- De-risk the Fund by investing in buy and maintain credit - the forward funding capital could be invested solely in the buy and maintain credit mandate, this would give an expected return of 5.1% p.a. and a lower standard deviation of 11.1%.

5. Pension Fund Committee Outcome

5.1 Following the Pension Fund Committee on 20 June 2019, the Committee opted to de-risk the Fund by investing in buy and maintain credit.

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 Strategy Consideration Report

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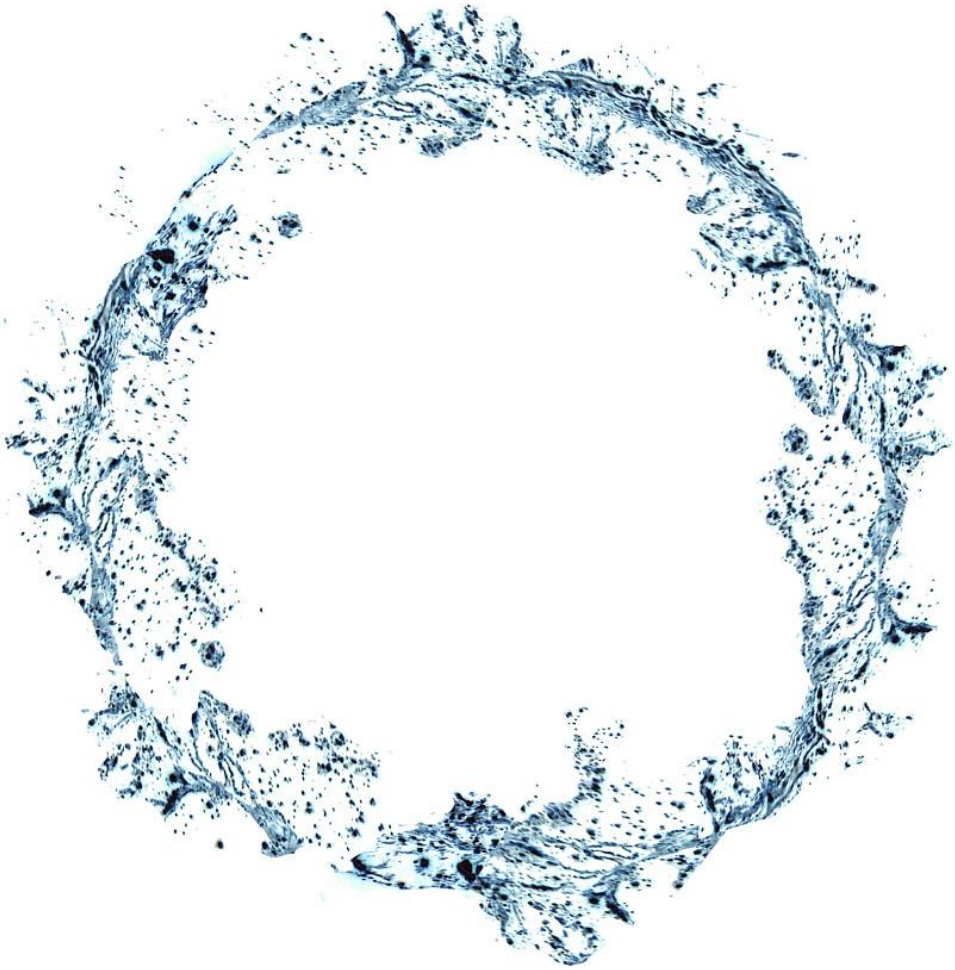
Deloitte.



City of Westminster Pension Fund

Strategy Consideration

June 2019

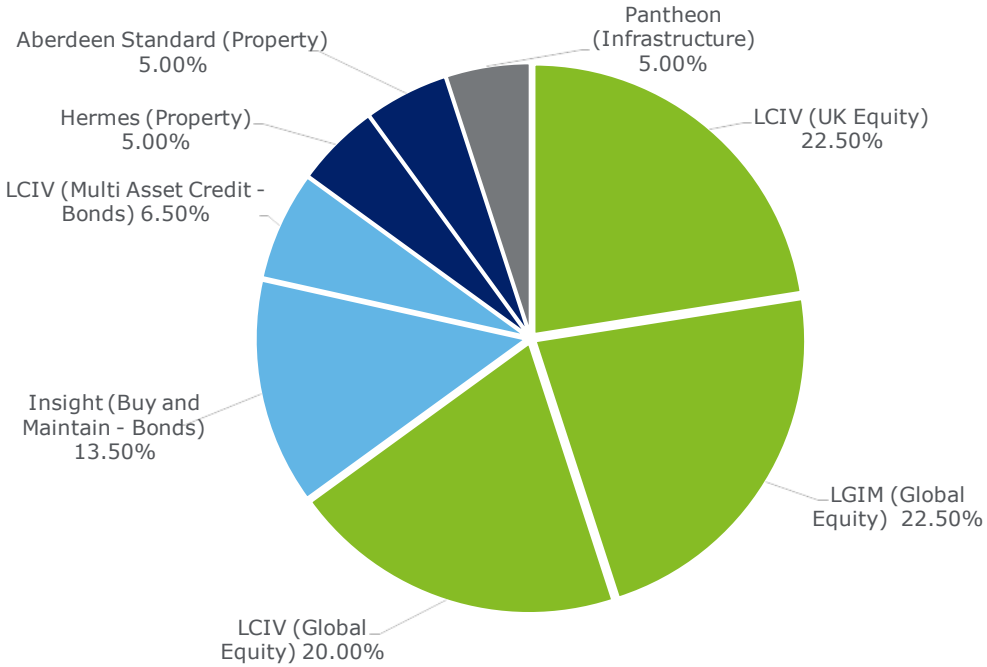
Introduction

This report has been prepared for the City of Westminster Pension Fund Committee ("the Committee") and is a discussion piece on the future investment strategy of the City of Westminster Pension Fund ("the Fund"). The Fund is due to receive £170m through a forward funding agreement, which should bring the funding position to a surplus. The Fund is also currently part through its triennial actuarial valuation. Both of which should be taken into consideration by the Committee when considering strategy changes as well as the more immediate issue of where to invest additional funds as and when they are received.

Current Investment Strategy

Current strategic asset allocation

As at 31 March 2019, the Fund's investment strategy contains an asset mix of equities, bonds, property and infrastructure. The Fund invests in seven strategies with the strategic asset allocation of equities 65%, fixed income 20%, property 10% and infrastructure 5%, as shown below.



The table below shows the current asset allocation (as at 31 March 2019) as well as the strategic benchmark asset allocation of the Fund.

Asset Class	Current Asset Allocation (%)	Benchmark Allocation (%)
UK Equity	20.8	22.5
Global Equity	48.3	42.5
Fixed Income	20.7	20.0
Property	9.3	10.0
Infrastructure	1.0	5.0
Total	100.0	100.0

Figures may not sum due to rounding

During the first quarter of 2019, the Fund committed $91.5m to the Pantheon Global Infrastructure III. As can be seen from the table above, the Fund has a 1.0% allocation to infrastructure as at 31 March 2019, however this allocation will reach 5% as the Pantheon Fund draws down the allocation over the coming years.

Based on the current strategic allocation of the Fund we estimate the median return would be 5.4% p.a. with a standard deviation of 12.0% p.a.

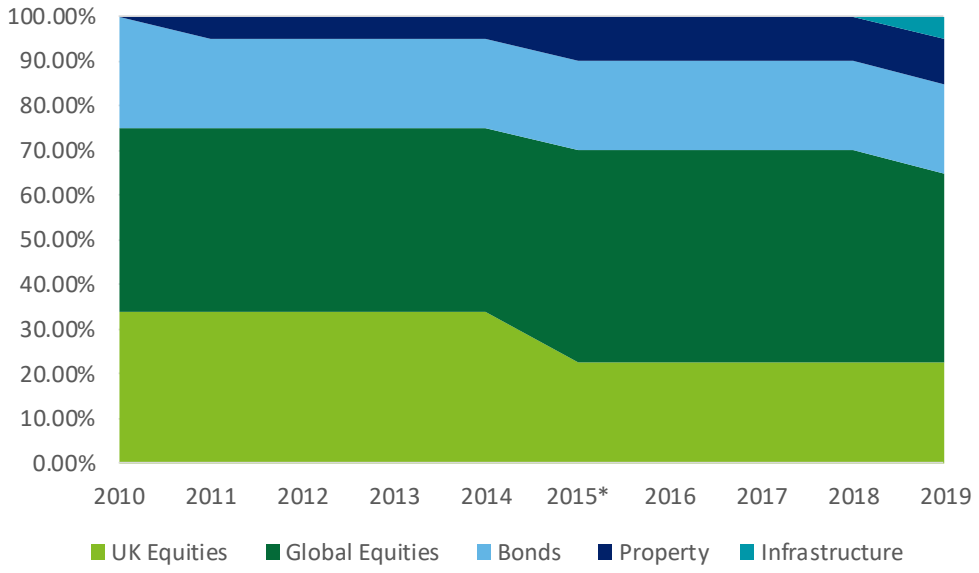
Historic Investment Strategy

Historic strategic asset allocation

The strategic asset allocation of the Fund has evolved over time to reflect its risk and return requirements. Historically the Fund has had a high allocation to return seeking assets, most notably equities and property. This strategic allocation gives the Fund a larger return potential; however, the Fund also bears a higher amount of risk as a result. Overall since the first quarter of 2010 the Fund's strategic allocation to equity has fallen, with bond allocation remaining the same. Property and Infrastructure allocations have increased as they have been implemented to add diversification investment strategy.

Asset Class	Strategic asset allocation (% as at 31 March of year)									
	2010	2011	2012	2013	2014	2015[1]	2016	2017	2018	2019
UK Equity	33.8	33.8	33.8	33.8	33.8	22.5	22.5	22.5	22.5	22.5
Global Equity	41.2	41.2	41.2	41.2	41.2	47.5	47.5	47.5	47.5	42.5
Fixed Income	25.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Property	-	5.0	5.0	5.0	5.0	10.0	10.0	10.0	10.0	10.0
Infrastructure	-	-	-	-	-	-	-	-	-	5.0

[1]During the first quarter of 2015, the Fund underwent a strategy review in which 5.0% of the allocation was to be invested in either a property or infrastructure. This was later invested back into equity.



Thoughts and observations

Future strategy considerations

The Fund's last funding valuation was at 31 March 2016, showing a funding level of 80%. On a basis consistent with the 2016 valuation, the Fund Actuary has estimated that the funding level as at 31 December 2018 is 95%, with a deficit of £79m.

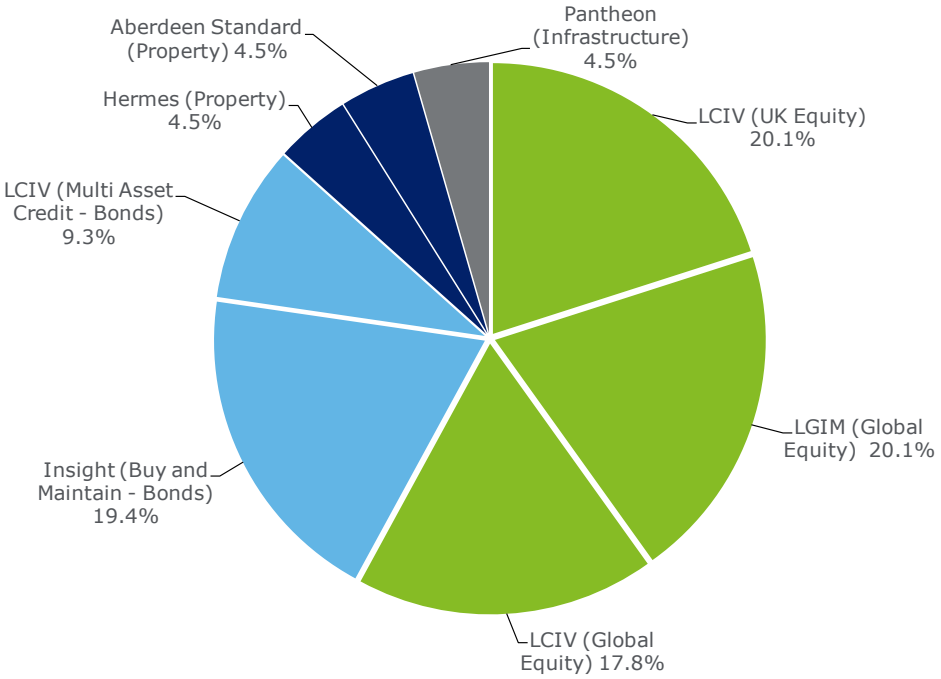
The Fund is expecting a £170m payment over the next 12 months (£20m in Q2 2019 and £150m in Q2 2020) through a forward funding agreement, which is expected to take the overall funding position into surplus. While the investment strategy should be considered more thoroughly following the final actuarial valuation, the Committee must also consider where to allocate these funds as and when they are received. We have outlined some options below for consideration and discussion at the next Pension Fund Committee Meeting.

1. <u>Use the funds to invest across the current strategic asset allocation.</u>

   The Fund is currently running a lot of equity risk, which would not be appropriate for a funding position of above or near 100%. There would also be significant transaction costs of investing across all asset classes as well as a delay to getting money invested (c. 6-12 months for property and c. 24 – 36 months for infrastructure).

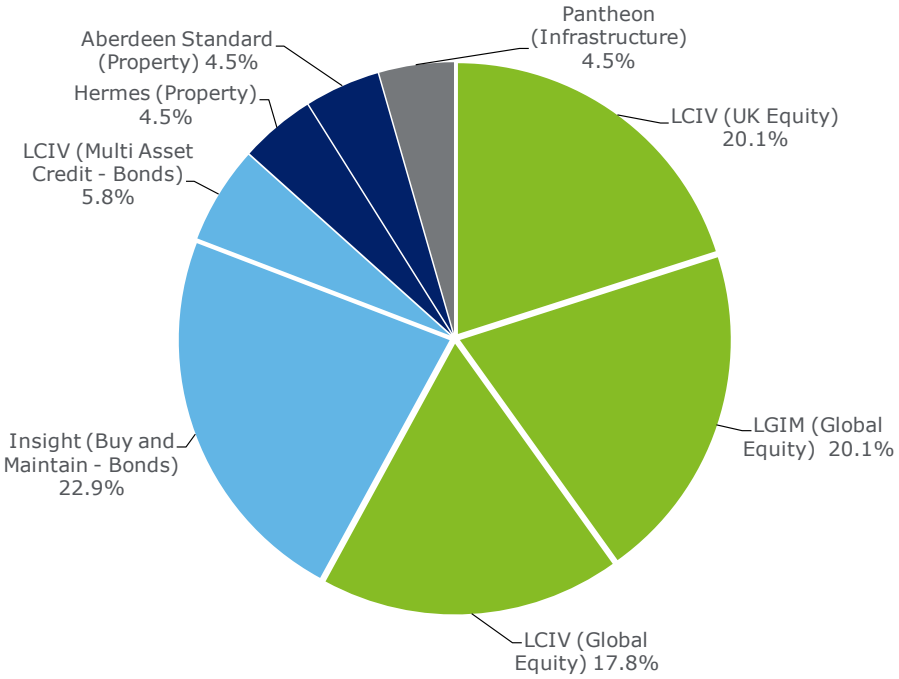
2. <u>De-risk the Fund by investing in fixed income.</u>

   Both the buy and maintain credit and multi-asset credit strategies are relatively liquid and could take additional investments. If the Fund were to invest the forward funding capital into fixed income in the same split as is currently in place (two-thirds buy and maintain and one third multi-asset credit), we estimate the resulting portfolio would have an expected return of 5.2% p.a. with a standard deviation of 11.3% p.a. The overall allocation as a result of this is shown in the pie chart below.



3. <u>De-risk the Fund further by invest in buy and maintain credit only.</u>

   The Fund's buy and maintain credit carries the lowest expected risk (and return), investing in investment grade liquid credit only with the aim of holding securities until maturity. The expected yield is 1%-1.5% above that of UK government bonds. If the Fund were to invest the forward funding capital into buy and maintain credit only, we estimate the resulting portfolio would have an expected return of 5.1% p.a., with a standard deviation of 11.1%. The overall allocation as a result of this is shown in the pie chart below.



Estimated Asset Allocation

Asset class	Current strategic asset allocation (%)	Estimated asset allocation following de-risking (%)
UK Equity	22.5	20.1
Global Equity	42.5	37.9
Fixed Income	20.0	28.7
Property	10.0	8.9
Infrastructure	5.0	4.5
Total	100.0	100.0

Conclusion

The Fund's current allocation to equity is high, and although investing the forward funding capital in fixed income will reduce the equity allocation (to c. 60%), there may still be scope to reduce this further.

If the Fund were to reduce the equity allocation and invest this as well as all of the forward funding capital in buy and maintain credit, this may reduce the expected return by too great an extent.

The Committee may wish to consider other fixed income asset classes that still achieve the desired de-risking of the overall strategy while also delivering a level of return, and importantly income, required by the Fund. Asset classes such as private debt/illiquid credit are areas which may be worth considering.

Deloitte.