



City of Westminster

# Committee Agenda

Title: Pension Fund Committee

Meeting Date: Thursday 24th June, 2021

Time: 7.00 pm

Venue: Rooms 18.01 & 18.03, 18th Floor, 64 Victoria Street, London, SW1E 6QP.

In line with legislation and continuing Covid-19 precautions, Committee members will attend the meeting in person at Westminster City Hall. Members of the public and press are invited to attend virtually using the link to the live meeting.

Members: Councillors:

Eoghain Murphy (Chairman)      Angela Harvey  
Barbara Arzymanow                  Patricia McAllister



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

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



An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee Officer, Matt Gaskin, [mgaskin@westminster.gov.uk](mailto:mgaskin@westminster.gov.uk).

Corporate Website: [www.westminster.gov.uk](http://www.westminster.gov.uk)

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

## **AGENDA**

### **PART 1 (IN PUBLIC)**

#### **1. MEMBERSHIP**

To note any changes to the membership.

#### **2. DECLARATIONS OF INTEREST**

To receive declarations of interest by Members and Officers of any pecuniary interest or any other significant interest in matters on this agenda.

#### **3. MINUTES**

To approve the minutes of the Pension Fund Committee meetings held on 29 October 2020, 7 December 2020 and 11 March 2021 respectively.

**(Pages 5 - 18)**

#### **4. PENSION ADMINISTRATION UPDATE**

Report of People Services.

**(Pages 19 - 28)**

#### **5. ANNUAL PENSION FUND ACCOUNTS AND ANNUAL REPORT**

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

**(Pages 29 - 192)**

#### **6. ACTUARY CONTRACT**

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

**(Pages 193 - 196)**

#### **7. ASSET ALLOCATION UPDATE AND RESIDENTIAL PROPERTY REVIEW**

Report of Tri-Borough Director of Treasury and Pensions.

**(Pages 197 - 212)**

#### **8. FUND FINANCIAL MANAGEMENT**

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

**(Pages 213 - 234)**

<b>9. FUND COST ANALYSIS</b>	<b>(Pages 235 - 242)</b>
Report of the Tri-Borough Director of Treasury and Pensions.	
<b>10. GOVERNMENT ACTUARY DEPARTMENT (GAD) REVIEW</b>	<b>(Pages 243 - 246)</b>
Report of the Tri-Borough Director of Treasury and Pensions.	
<b>11. LCIV MULTI ASSET CREDIT UPDATE</b>	<b>(Pages 247 - 262)</b>
Report of the Tri-Borough Director of Treasury and Pensions.	
<b>12. NORTHERN TRUST ULTRA SHORT BOND FUND</b>	<b>(Pages 263 - 270)</b>
Report of the Tri-Borough Director of Treasury and Pensions.	
<b>13. QUARTERLY PERFORMANCE REVIEW</b>	<b>(Pages 271 - 330)</b>
Report of the Tri-Borough Director of Treasury and Pensions.	
<b>14. RESPONSIBLE INVESTMENT STATEMENT</b>	<b>(Pages 331 - 346)</b>
Report of the Tri-Borough Director of Treasury and Pensions.	
<b>15. S113 AGREEMENT REVIEW</b>	<b>(Pages 347 - 432)</b>
Report of the Tri-Borough Director of Treasury and Pensions.	
<b>16. THE PENSIONS REGULATOR: SINGLE CODE</b>	<b>(Pages 433 - 474)</b>
Report of the Tri-Borough Director of Treasury and Pensions.	
<b>17. EXCLUSION OF PRESS AND PUBLIC</b>	
<b>RECOMMENDED:</b> 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:

**18. SURREY PENSION / HEYWOOD / HAMPSHIRE**

**(Pages 475 - 478)**

**19. CONFIDENTIAL MINUTES**

**(Pages 479 - 486)**

To approve the confidential minutes of the Pension Fund Committee meetings held on 29 October 2020, 7 December 2020 and 21 March 2021.

**Stuart Love**  
**Chief Executive**  
**16 June 2021**





**CITY OF WESTMINSTER**

## **MINUTES**

### **Pension Fund Committee**

#### **MINUTES OF PROCEEDINGS**

Minutes of a meeting of the **Pension Fund Committee** held on **Thursday 29th October, 2020**. This meeting will take place virtually.

**Members Present:** Councillors Eoghain Murphy (Chairman), Barbara Arzymanow, Angela Harvey and Patricia McAllister

**Also Present:** Gerald Almeroth (Executive Director – Finance and Resources), Phil Triggs (Tri-Borough Director of Treasury and Pensions), Billie Emery (Pension Fund Manager), Matthew Hopson (Strategic Investment Manager), Mathew Dawson (Strategic Finance Manager), Lee Witham (Director of People Services), Sarah Hay (Senior Payroll and Pensions Officer), Eleanor Dennis (Lead Pensions Specialist, People Services), Kevin Humpherson (Deloitte) 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 Councillor Eoghain Murphy declared that he is an employee of HSBC Global Asset Management, however, this did not directly involve any business for this meeting.

#### **3 MINUTES**

##### **RESOLVED:**

That the minutes of the meetings held on 19 March 2020 and 13 May 2020 respectively be signed by the Chairman as a correct record of proceedings, subject the Chairman's comments made in respect of the 13 May 2020 minutes.

#### **4 PENSION ADMINISTRATION UPDATE**

Sarah Hay (Senior Payroll and Pensions Adviser) updated the Committee on the pension administration service. Members noted the current performance and that there was a confidential report to consider in respect of a future pension administration service provider.

## **5 PENSION DATA QUALITY ISSUES**

Eleanor Dennis (Pensions Manager) updated the Committee on data quality issues.

## **6 FUND FINANCIAL MANAGEMENT**

The Committee noted the current position concerning the Fund's risk register and cashflow situation.

## **7 QUARTERLY PERFORMANCE REPORT**

The Committee noted the current performance of the Fund.

## **8 LOCAL GOVERNMENT PENSION SCHEME MCCLOUD CONSULTATION - AMENDMENTS TO THE STATUTORY UNDERPIN**

The Committee received the latest update with regards to the McCloud issue.

## **9 SUPREME COURT DECISION ON LOCAL GOVERNMENT PENSION SCHEMES INVESTMENT GUIDANCE**

The Committee noted the report.

## **10 SHAREACTION HEALTHY MARKETS COALITION**

The Committee welcomed and noted the report.

## **11 RENEWABLE INFRASTRUCTURE**

The Committee considered a confidential report on renewable infrastructure.

## **12 PENSION ADMINISTRATION PROVIDER**

The Committee considered the confidential report and agreed the recommendations.

## **13 OVERPAYMENTS**

The Committee noted the confidential report.

## **14 LONDON COLLECTIVE INVESTMENT VEHICLE CQS MULTI ASSET CREDIT FUND**

The Committee had before them the confidential report and agreed that this matter be considered again at a future meeting.

The Meeting ended at 7.33 pm

**CHAIRMAN:** \_\_\_\_\_ **DATE** \_\_\_\_\_



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CITY OF WESTMINSTER

# MINUTES

## Pension Fund Committee

### MINUTES OF PROCEEDINGS

Confidential Minutes of a meeting of the **Pension Fund Committee** held on **Monday 7th December, 2020**. This confidential meeting took place virtually.

**Members Present:** Councillors Eoghain Murphy (Chairman), Barbara Arzymanow, Angela Harvey and Patricia McAllister

**Also Present:** Phil Triggs (Tri-Borough Director of Treasury and Pensions), Billie Emery (Pension Fund Manager), Matthew Hopson (Strategic Investment Manager), Kevin Humpherson (Deloitte) 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 Councillor Eoghain Murphy declared that he is an employee of HSBC Global Asset Management, however, this did not directly involve any business for this meeting.

#### 3 EXCLUSION OF PRESS AND PUBLIC

##### 3.1 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.

#### 4 INTERVIEWS FOR RENEWABLE ENERGY MANAGERS

- 4.1 The Committee considered the confidential report.

The Meeting ended at 8.50 pm.

**CHAIRMAN:** \_\_\_\_\_

**DATE** \_\_\_\_\_



CITY OF WESTMINSTER

# MINUTES

## Pension Fund Committee

### MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Fund Committee** held on **Thursday, 11th March 2021**, This was a virtual meeting.

**Members Present:** Councillors Eoghain Murphy (Chairman), Barbara Arzymanow, Angela Harvey and Patricia McAllister

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

**Also Present:** Kevin Humpherson and Jonny Moore (Deloitte Total Reward and Benefits Ltd)

**Apologies for Absence:** There were no apologies for absence.

#### 1 MEMBERSHIP

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

**Also Present:** Kevin Humpherson and Jonny Moore (Deloitte Total Reward and Benefits Ltd)

There were no changes to the Membership.

#### 2 DECLARATIONS OF INTEREST

The Chairman declared the following interest: that his employer was HSBC Global Asset Management.

#### 3 MINUTES

Consideration of the minutes of the last meeting of the Pensions Fund Committee ("the Committee") was deferred until the next meeting of the Committee.

#### 4 PENSION ADMINISTRATION UPDATE

The Committee considered a report of the Strategic Pension Lead Officer, Sarah Hay, WCC Operational People Services, which provided a summary of the Key Performance Indicators (KPIs) of Surrey County Council (SCC) for the period October 2020 to January 2021. Also included in the report was an update on the Western Union Existence project which had closed early due to the increasing numbers of Covid-19 cases across the world; an update on the Operational People Services' two main data projects; the ongoing work in tracing addresses for different groups of Pension Fund members and former members; and the now closed-down status two project with ITM<sup>1</sup>. The report also included an update on Central Government's proposed "Exit Cap" which had subsequently been revoked by the Treasury due to unforeseen consequences; and confirmation that Central Government was consulting on increasing the minimum retirement age to 57.

Ms Hay presented the report. In response to a number of questions, Ms Hay provided the following information.

- (a) Regarding Central Government's proposals to increase the minimum retirement age to 57, Ms Hay noted that the age at which individuals were entitled to retire might vary depending on the retirement age provisions within the Local Government Pension Scheme (LGPS) at the time they joined the scheme.
- (b) Regarding recovering costs in relation to Status 2 – Undecided Leavers, the Pensions Administration Strategy made provision to recover costs. However, the administering authority, SCC, had been slow to seek to recover costs.

Consideration was being given to moving the administration of the scheme to Hampshire County Council (HCC) and aligning the Pensions Administration Strategy with that of HCC. In addition, it was proposed that the Committee, in an effort to recover some of the costs that had been incurred, should consider imposing fines on employers who had been slow in responding to requests for information.

**Agreed:** consideration be given to imposing fines to recover some of the Status 2 costs incurred.

- (c) Regarding the transition to HCC, a Project Manager, Ms Diana McDonnell-Pascoe had been appointed and it was anticipated that the project would go live in November of this year. Project Board meetings were taking place with HCC and Ms McDonnell-Pascoe would be submitting progress reports to meetings of the Committee.
- (d) In the transition to HCC, no records would be deleted and efforts would continue to be made to trace persons who had left the Fund and process refunds to these Members.
- (e) Regarding any outstanding Guaranteed Minimum Pension (GMP) work, this would be transferred to HCC. It was the preference of officers not to start any work in relation to the government consultation following the McCloud/Sargeant litigation until such time as the transfer to HCC had taken place.

**Noted**

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<sup>1</sup> Independent consultants who provide data services to the Pensions and Insurance industries.



## 5 PENSION FUND BUSINESS PLAN AND INVESTMENT CONSULTANT PERFORMANCE REVIEW

The Committee considered a report of the Tri-Borough Director of Pensions and Treasury, Phil Triggs, regarding the City of Westminster Pension Fund Business Plan and Budget for 2021/22. The report was presented by Matthew Hopson, Strategic Investment Manager.

It was noted that the purpose of the report was to recommend that the Pension Fund Committee adopt a Business Plan for the year 2021/22 which would record everything that was being done by the Committee and officers to ensure that the aims and objectives of the Pension Fund were being met.

In response to a number of questions, the following information was provided.

- (a) Mr Triggs stated that information on the budgetary costs of administering the Pension Fund had been included in the report in response to a requirement to divulge as much information on costs as was possible, including requesting Investment Managers to provide the necessary manager fee information.

**Agreed:** that a briefing note on Administrative Costs be prepared for circulation to Members of the Committee.

- (b) The performance of the Fund Managers was benchmarked in the quarterly reports to the Committee.
- (c) The reason for the increase in administrative costs included the one-off cost of transitioning to HCC.

[There then followed a discussion about the relative increase and decreases in costs, issues of cost transparency and the requirements of the LCIV<sup>2</sup>].

**RESOLVED:** To Approve the Pension Fund Business Plan.

## 6 DWP PENSION SCHEMES ACT 2021

The Committee considered a report of the Tri-Borough Director of Treasury and Pensions, Phil Triggs, on the implications of the statutory provisions of the Pensions Schemes Act 2021 which introduced measures ensuring that trustees were legally required to access and report on the financial risks of climate change within their portfolios, in line with the Task Force on Climate-Related Financial Disclosures (TCFD) recommendations.

It was recommended that the Pension Fund Committee note and comment on the Pension Schemes Act 2021 climate risk reporting disclosures and the Deloitte paper, attached as an appendix to the report, on the Financial Stability Board's TCFDs.

Mr Triggs introduced the report. He then invited Kevin Humpherson of Deloitte Total Reward and Benefits Ltd ("Deloitte") to present the appendix attached to the report.

Having heard the presentation, which including a contribution from Richard Slater of Deloitte, the following points were raised in the subsequent discussion.

- (a) Regarding the standardisation of metrics and reporting measures, Deloitte's risk assurance managers were working on systems of reporting which would

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<sup>2</sup> London LGPS CIV Ltd which is responsible for managing London Local Government Pension Scheme ("LGPS") assets.

allow businesses to report on a level playing field and in an appropriate manner.

- (b) The response of the Department for Work and Pensions (DWP) to the consultation on the TCFD recommendations confirmed the phased introduction of new climate-related governance requirements. These requirements would include any private sector occupational pension scheme with more than £1 billion of net assets having to comply with the requirements from 1 October 2022. The Westminster City Council Fund was about £1.7 billion, but the government's proposed phased introduction did not, as yet, include the LGPS. This will be implemented by the MHCLG, once approved by the LGPS Scheme Advisory Board.

**Noted**

## **7 FUND FINANCIAL MANAGEMENT**

The Committee considered a report of the Tri-Borough Director of Treasury and Pensions, Phil Triggs, regarding the Risk Register, which it was noted was divided into two sections: governance (investment and funding), and pensions administration. The report highlighted the top five risks, noting that the cash flow forecast for the next three years had been updated with actuals to 31 December 2020; the bank position continuing to be stable.

It was recommended that the Committee note –

- (i) The risk registers for the Pension Fund; and
- (ii) The cash flow position; the rolling 12-month forecast; and the three-year forecast.

In response to a question by the Chairman, Matthew Hopson, Strategic Investment Manager gave an overview of the cash balances as set out in Paragraph 4 of the report.

In response to a number of questions, officers provided the following information.

- (a) Regarding the “Special Contribution” referred to in the table in Paragraph 4.4 of the report, it was noted that this was the Council's Deficit Recovery Contributions which had been paid over in February/March 2021 but which was not reflected in the figures up to December 2020.<sup>3</sup>
- (b) Regarding the risk identified in Admin Row 4 of the table on Page 59 that “an employer ceases to exist with insufficient funding or adequacy of bond placement”, it was noted that this related to how financial risks were calculated and the impact on the Fund in terms of reputational damage, and how the risk would be managed by way of the mitigating measures identified in the table.
- (c) Regarding the table headed “Current Account Cash Flows Actuals and Forecast for Period April 2020 – March 2021” on page 54, and the row detailing “Withdrawal/Deposit with Fund Managers”, it was stated that the £12 million in the column for March 2021 represented the deficit recovery funds that were in the Pension Fund bank account and subsequently transitioned over to The Fund's Custodian, Northern Trust.

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<sup>3</sup> Paragraph 4.7 of the report noted that the deficit recovery receipt expected during 2020/21 totalled £22.7 million. A final deficit recovery payment of £80 million was expected to be received during 2021/22.

- (d) The figures in the table referred to the Pension Fund current account. It was noted that it was desirable not to have too much money in that account and, if there was a significant payment into the account, to transfer funds as soon as possible to Northern Trust as the global custodian of the Trust.

**Agreed:** Future Fund Financial Management reports would include a paragraph about the total cash position, including money in custody.

## **8 PERFORMANCE OF THE COUNCIL'S PENSION FUND**

The Committee considered a report of the Tri-Borough Director of Treasury and Pensions, Phil Triggs, regarding the performance of the Pension Fund investments to 31 December 2020, together with an update of the funding position.

The report recommended that the Pension Fund Committee –

- (i) Note the performance of the investments and the funding position; and
- (ii) Approve the updated Investment Strategy Statement (attached to the report at Appendix E).

Matthew Hopson, Strategic Investment Manager, introduced the report, noting that officers wanted to bring to the attention of Members future investment strategies, and that Deloitte had prepared a presentation on investment themes that the Committee may wish to consider. The Chairman then invited the Deloitte representatives present at the meeting to make their presentation.

[The Committee then received a detailed presentation by Kevin Humpherson of Deloitte Total Reward and Benefits Ltd].

In response to a number of questions, Mr Humpherson provided the following information.

- (a) Social and Affordable Housing was an opportunity where the case for investment was strong, as were the social aspects of such investment given the need in this area. He stated that this could be a substitute for some of the Council's fixed income portfolio and one which provided a link to inflation unlike a fixed income portfolio.
- (b) Regarding Evergreen Funds, there were a range of fund structures available including both closed and open-ended structures. The assets in both structures would be used to buy property assets which need not be new build, as would be the case for supported living purpose-built accommodation. Income from ground rent on property could be from investment in a property that already existed.
- (c) There were a number of drivers that lent support to the investment recommendations including government backing and which afforded protection against inflationary risks, as well as market demand in these areas, giving rise to a strong return; and the societal impact and the inclusion of Environmental, Social and Governance (ESG) considerations which, although not a driving force, was a key element.
- (d) There was a significant difference in the supply and demand dynamics of ground rent and affordable and supported housing to make these subsectors of the property asset classes in their own right. However, investment in property was not the only way of gaining exposure to inflation [a theme which Mr Humpherson then expanded upon].

- (e) The purpose of the presentation was to give an idea of where there might be inflation linked opportunities.
- (f) Investments providing a return by way of ground rent would apply to commercial properties only, not residential properties.

Councillor Harvey stated that, given the wider social and economic benefits of ESG investing, she was in support of the approach presented in the presentation by Deloitte. However, she had significant misgivings about investments giving a return by way of ground rent.

Mr Humpherson confirmed that any investment in property providing income by way of ground rent would be restricted to commercial properties.

In response to a question by Councillor McAllister, Mr Humpherson stated that the way in which to approach investments in affordable and supported housing would be to look at various investment managers who were raising funds to invest in this market, typically pension scheme investors. The ownership and responsibility of sourcing assets would be that of the investment manager. Therefore, it would be necessary to find an appropriate investment manager with the relevant background, knowledge, and experience.

In response to a further question by Councillor McAllister, Mr Humpherson stated that the Retail Price Inflation (RPI) would be aligned with the new CPIH<sup>4</sup> measure of inflation in 2030.<sup>5</sup>

In response to a question by the Chairman, Mr Humpherson stated that a further presentation with more detailed proposals would be submitted to the Committee, including the type of fund managers that may be recommended to the Committee, and addressing some of the issues about complexity that had been raised during the course of the discussion following the presentation.

**RESOLVED:** that a further presentation on possible investment structures with more detailed proposals and recommendations be presented to a future meeting of the Committee.

## 9 RESPONSIBLE INVESTMENT STATEMENT

The Committee considered a report of the Tri-Borough Director of Treasury and Pensions, Phil Triggs, introducing the Responsible Investment Statement for the Westminster Pension Fund which was in response to the Local Government Pension Scheme (LGPS) Scheme Advisory Board (SAB) draft guidance on Responsible Investments in the LGPS.

The report recommended that the Pension Fund Committee –

- (i) Note and comment on the Responsible Investment (RI) Statement; and
- (ii) Delegate authority to the Tri-Borough Director of Treasury and Pensions to publish the final version of the RI Statement.

The Chairman invited Members of the Committee to make any comments they might have on the “Responsible Investment Statement: City of Westminster Pension Fund 2021”.

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<sup>4</sup> Consumer prices index including owner-occupiers’ housing costs

<sup>5</sup> See page 124 of the reports before the Committee.

Councillor Harvey stated she had concerns regarding two of the three ESG Case Studies set out in the report viz Ingenuity House and Amazon. In response to Councillor Harvey's concerns, Mr Triggs, stated that there were many examples of success stories within the Council's portfolio that could be used and that research would be carried out to find alternative suitable examples.

Councillor McAllister concurred with the comments made by Councillor Harvey and proposed that better examples should be found. Councillor Arzymanow noted that Manchester University had won a Nobel Prize for graphite [graphene] technology and developments in battery technology represented opportunities for ESG investment.

After a further brief discussion, it was **Agreed** efforts should be made to find examples of suitable ESG case studies and projects.

## **10 SHAREACTION HEALTHY MARKETS COALITION**

The Committee considered a report of the Tri-Borough Director of Treasury and Pensions, Phil Triggs, seeking approval from the Pension Fund Committee for the Pension Fund to -

- (i) Formally join the ShareAction Healthy Markets Coalition; and
- (ii) Provide officers with delegated authority to co-sign letters to target retailers and manufacturers on the Committee's behalf.

The Chairman asked if Members were minded to approve the recommendations set out in the report. The Members of the Committee confirmed that they agreed with the recommendations.

**RESOLVED:** to approve the recommendations set out in the report.

## **11 ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT**

The Chairman did not have any items of business that he considered to be urgent.

### **Adjournment**

At this stage of the proceedings, the Chairman adjourned the meeting and the Members retired to consider those items of business that were deemed to be exempt under the Access to Information regulations.

### **SUMMARY OF ITEMS CONSIDERED WHILE THE PUBLIC WERE EXCLUDED FROM THE MEETING UNDER THE PROVISIONS OF THE ACCESS TO INFORMATION REGULATIONS**

#### **Item 12: Investment Consultancy Procurement**

The Committee considered a report of the Tri-Borough Director of Treasury and Pensions in relation to the appointment of an Investment Consultant.

**RESOLVED:** To approve the recommendation set out in the report.

#### **Item 13: Surrey Pension / Heywood / Hampshire**

The Committee considered a report of the Pensions Officer, People Services, updating the Committee on issues affecting the Pension Fund.

**RESOLVED:** To note the report.

The Meeting ended at 7.10pm

**CHAIRMAN**

**DATE**



## Pension Fund Committee

**Date:** 24 June 2021

**Classification:** General Release

**Title:** Pension Administration Update

**Report of:** Sarah Hay, Pensions Officer People Services

**Wards Involved:** All

**Policy Context:** Service Delivery

**Financial Summary:** Negligible

### 1. Introduction

- 1.1. This report provides a summary of the performance of Surrey County Council (SCC) with the Key Performance Indicators (KPIs) for the period February 2021 to April 2021. The detailed KPIs are shown in Appendix 1. I will update the Committee on the address tracing project, general administration update on Surrey followed by a brief update on the McCloud solution.

### 2. KPI 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 board and committee members.
- 2.2 This paper covers the period of February 2021 to April 2021.
- 2.3 KPI performance in appendix 1 is summarised below. Overall, the KPI data is reasonable with some areas of concern. There was a decline in some KPIs during March and April as the service moved from East Sussex to Kingston and some workflow issues were discovered. The majority of cases were processed on time according to the KPI report.
- 2.4 The main concern remains the late processing of some retirement cases, although the majority of cases are processed on time and within KPI. Those that fall outside of KPI tend to be by only a few days. No complaints have been received regarding late payment.

### **3. Data Work**

- 3.1 The committee have previously been advised that we are working with a company called Target to complete address tracing on nearly 3000 records. Tracey Fuller in the pension and payroll team is managing the project. We have been breaking down our data and sending it for tracing in batches.

#### **3.2 325 records for Deferred – Age population 45- 49**

At the time of the last Committee meeting we had just started to work though this part of the population. At the time of writing this report I am pleased to confirm that we have traced 166 members of this population with a success rate of 51%. The tracing will continue for this group as we open other batches for the population at a younger age range.

- 3.3 The tracing project with Target will remain in place until approximately the end of August 2021. Our aim will be to complete as many traces and update those onto the Altair system in Surrey. We will cease the project in August to help limit data changes as we approach the final data cuts for the transfer project in September and then in late October. Any tracing results that come back after we close the project down will still be updated.
- 3.4 For information we remain within the budget of £24,000 allocated to this project. The costs per case vary depending on the type of trace the member needs and these range from £20 - £70. We will review our spend going forward as we get close to our agreed cost.
- 3.5 We will discuss future address tracing with the Hampshire Pension Service (HPS) after transfer.

### **4. Surrey General Admin update**

- 4.1 The Strategic Pension Officer agreed with Surrey that they should implement a module of Altair called Admin 2 Pay with effect from the first week of May. This module should ensure that the admin section of Altair and the payroll side of Altair match and in theory this should prevent any future over or under payments occurring. Westminster was not offered this module previously. Whilst there is no ongoing fee for this module, we agreed a discounted implementation of £1832.00 as we will only benefit from it until we exit to HPS. I took the view that the investment would be of value to the fund to prevent additional issues occurring prior to transfer.
- 4.2 Surrey contacted me on the 20<sup>th</sup> of May to outline that they had identified a range of potential data issues following admin 2 pay work and other data work ahead of the first planned data cut on the 17<sup>th</sup> of June. They have advised me that there are similar issues across all funds including Surrey, Hammersmith and Fulham and Hillingdon. Surrey's solution to dealing with the data issues is that they intend to create a new team that will focus on the London Borough's



administration and the data backlog work whilst the existing teams will focus on Surrey. Staff will be taken from the existing teams to create the new one.

- 4.3 Surrey have made it clear that not all the data issues will be resolved prior to transfer. I have been asked to prioritise the issues I want them to focus upon. A conversation has already taken place where I have instructed them to take certain immediate actions to chase on some death cases and review contacts where we have members in the fund over 75 who have not drawn their pension.
- 4.4 The main area of concern is that they have identified 187 pension increase queries. This is where the admin side of Altair and the payroll side of Altair have different values. This could mean the member is being over or under paid, but it could also simply mean that the data held on the admin side of Altair is incorrect. Surrey will not be able to advise me until the new team is set up and resource is dedicated to reviewing all the cases in detail.
- 4.5 Surrey also identified 30 potential underpayments and 12 possible overpayments. They will not know for sure if each case is as initially identified until the new team is set up and the review of each case above is made. I have been advised that potential issues are not as significant as the cases previously notified to WCC.
- 4.6 The above cases will be the priority for our fund to resolve with Surrey between now and go live with Hampshire. Our priority is to ensure correct payment to our pensioners and the UPM system that Civica use is one system that links administration and payroll.

## **5. McCloud**



- 5.1 The Government have responded to consultation and simply have advised that they accept the recommendation of an extended underpin solution for younger members of the fund. The good news is that no timetable has been set out and therefore we should be able to proceed and fit the McCloud work in with our move to HPS. There are plans within the project work to approach employers for the relevant data.

## **6. Summary**


- 6.1 The KPI data is reasonable with the emphasis will be on ensuring that retirement cases are processed efficiently between now and our exit to HPS.
- 6.2 Address tracing remains positive with member details being updated on a regular basis.
- 6.4 Surrey are creating a new team to deal with the admin work of the London Boroughs. This team will also be tasked with looking at data issues prior to the transfer and the priority will be to look at cases that impact member entitlement with a pension in payment.




- 6.4 McCloud planning will continue with HPS as we move closer to go live. We are pleased that we have no immediate timetable to have to complete work by so can effectively ensure our resource concentrates on a successful implementation of the HPS service.

## Westminster County Council - April 2020 to Feb 2021 Results on KPI Reporting

Description	Target time/date as per Partnership Agreement	Target	Actual Score for Quarter	Quantity February 2021	Actual Score February 2021	Quantity March 2021	Actual Score March 2021	Quantity April 2021	Actual Score April 2021	Comments	Trend	People services Comments
<b>Pension Administration</b>												
<b>Death Benefits</b> Notify potential beneficiary of lump sum death grant	5 days	100%	%	1	100%	13	100%	13	100%			In March 2021 the two death KPI were combined into one as a result of an administration move. KPI for death cases appears to be on track.
Write to dependant and provide relevant claim form	5 days	100%	%	7	100%							We are pleased that everything remains within KPI.
Set up any dependants benefits and confirm payments due	14 days	100%	%	2	100%	5	100%	8	63%	3 cases exceeded the SLA target, one by 28 days, one by 16 days and the other by 5 days. (28 days - forms returned on 25 Feb and due to be complete on 5 March prior to migration to Surrey team, case completed on 19 April. 16 days over - forms received 4 March, calcs completed on 19 April)(5 days - complicated case where pension hadnt been claimed back to 2009)		We are disappointed by the three late cases in April. The transfer of the admin service from East Sussex to Kingston appears to have impacted this. Additionally I was aware of the complicated death case and we do need to ensure that this one is checked carefully before payment released.

Description	Target time/date as per Partnership Agreement	Target	Actual Score for Quarter	Quantity February 2021	Actual Score February 2021	Quantity March 2021	Actual Score March 2021	Quantity April 2021	Actual Score April 2021	Comments	Trend	People services Comments
<b>Retirements</b> Retirement options issued to members	5 days	100%	%	4	100%	4	75%	7	57%	4 cases missed the SLA target. 2 cases missed the target by 1 day and another case missed the target by 2 days. The 4th case exceeded the SLA target by 9 days.		Slippage in retirement processing is a concern in both March and April 2021. Most cases the delay appears to be minimal.
New retirement benefits processed for payment following receipt of all necessary documents	5 days	100%	%	12	100%	10	100%	4	100%	1 case was a tier 1 ill health retirement completed.		We are pleased that payment of retirement benefits appears to be within KPI.
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		%	12	100%	10	100%	4	100%			Overall we are pleased that the vast majority of these cases were processed on time.

Description	Target time/date as per Partnership Agreement	Target	Actual Score for Quarter	Quantity February 2021	Actual Score February 2021	Quantity March 2021	Actual Score March 2021	Quantity April 2021	Actual Score April 2021	Comments	Trend	People services Comments
<b>Refunds of Contributions</b> Refund paid following receipt of claim form	14 days	100%	%	11	100%	18	100%	6	100%			Refunds is another identified priority in the COVID Pandemic. We are pleased that this KPI remains 100%. The fund does have a number of frozen refunds that will need reviewing in due course.
<b>Deferred Benefits</b> Statements sent to member following receipt of leaver notification	30 days	100%	%	30	100%	10	100%	4	50%	2 cases missed the SLA target. Both cases were deferred in 2019 by Surrey and migrated to East Sussex, however neither were checked during this period and only checked & workflow completed upon return to Surry admin. The members did receive an annual statement during this period because the statement is issued once the status changes to deferred.		On a positive note at least Surrey identified that the workflow in these two cases has not been completed all be it 2 years later. The majority of cases are processed in a timely manner.

Description	Target time/date as per Partnership Agreement	Target	Actual Score for Quarter	Quantity February 2021	Actual Score February 2021	Quantity March 2021	Actual Score March 2021	Quantity April 2021	Actual Score April 2021	Comments	Trend	People services Comments
Notification to members 2 months before payments due	2 months		%	45	100%	28	100%	43	98%	1 case exceeded the SLA target. Was picked up in diary report to complete a retirement quote age 60 (not requested by member), NRA = 65. No response from member to take benefits early.		Overall we are pleased that the vast majority of these cases were processed on time.
Lump Sum ( on receipt of all necessary documentation)	5 days		%	11	82%	20	75%	18	94%	1 case exceeded the SLA target by 1 day. Forms received on 1 Feb 2021, no case was created. Retirement date 16 March not put into payment before migration to Surrey team.		We are dissapointed by this KPI and note that most months we seem to gert some failures to meet the deadline although in April the KPI was improved from the prior months. Overall consider this a negative trend.
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		%	11	100%	20	100%	18	94%	See note above.		We had seen an improvement in this KPI in the last few months. The late processing of one case is a disappointment.
<b>New Joiners</b> New starters processed	30 days	100%	%	2	100%	70	100%		32	100%		

Description	Target time/date as per Partnership Agreement	Target	Actual Score for Quarter	Quantity February 2021	Actual Score February 2021	Quantity March 2021	Actual Score March 2021	Quantity April 2021	Actual Score April 2021	Comments	Trend	People services Comments
<b>Transfers In</b>												
Non LGPS transfers-in quotations	30 days	100%	%	4	100%	3	100%		4	100%		
Non LGPS transfers-in payments processed	30 days	100%	%	1	100%	0	N/A		1	100%		
<b>Transfers Out</b>												
Non LGPS transfers-out quotations processed	30 days	100%	%	17	100%	7	85%		2	100%		March KPI data dissapointing. Hopefully with admin transfer from East Sussex complete this will not reoccur.
Non LGPS transfers out payments processed	30 days	100%	%	1	100%	1	100%		0	N/A		
Interfunds In - Quotations	30 days	100%	%	4	100%	3	100%		6	100%		
Interfunds In - Actuals	30 days	100%	%	2	100%	3	67%		1	100%		March KPI data dissapointing
Interfunds Out - Quotations	30 days	100%	%	5	100%	17	76%		15	100%		March KPI data dissapointing
Interfunds Out - Actuals	30 days	100%	%	7	100%	16	88%		4	100%		March KPI data dissapointing
<b>Estimates</b>												
1-10 cases	5 Days		%	5	100%	1	100%		6	83%		1 case exceeded the SLA target by 1 day. This case was within a batch of 6 case requests for efficiency estimates, it is not clear why 1 was not completed within 5 days, other 5 on the request exceeded target.
11-50 cases	Agreed with WCC		%									
51 cases or over	Agreed with WCC		%									
<b>Material Changes</b>												
Any changes to data which materially affect actual or potential benefits to be processed within 30 days of receiving all necessary data	30 days		%	130	100%	18	100%		10	100%		We are pleased this remains 100%.
Members notified of terms of purchasing additional pension	15 days		%	1	100%	1	100%		0	N/A		
<b>Monthly Pensioner Payroll</b>												
Monthly Pensioner Payroll	Last day of month				100%		100%			100%		We are pleased this remains 100%.
Issue of monthly payslips	3 days before pay day				100%		100%			100%		We are pleased this remains 100%.

Description	Target time/date as per Partnership Agreement	Target	Actual Score for Quarter	Quantity	Actual	Quantity	Actual	Quantity	Actual	Comments	Trend	People services Comments
				February 2021	Score February 2021	March 2021	Score March 2021	April 2021	Score April 2021			
RTI file submitted to HMRC	3 days before pay day				100%		100%			100%		We are pleased this remains 100%.
BACS File submitted for payment	3 days before pay day				100%		100%			100%		We are pleased this remains 100%.
P35	EOY				31-Mar-20		31-Mar-20			31-Mar-21		
Annual Exercises			Date Achieved									
Annual Benefit Statements Issued to Active members	31 August each year				Annual		Annual			Annual		
Annual Benefit Statements Issued to Deferred members	31 August each year				Annual		Annual			Annual		
P60s Issued to Pensioners	31 May each year				100%		100%					Issued April 2021
Non LGPS transfers-in quotations processed within 20 days												
Apply Pensions Increase to Pensioners	April each year				100%		100%			100%		Pension Increase applied for 21/22
Pensioners Newsletter	April each year				100%		100%					Pensioner newsletter sent in April 2021
Customer Service Correspondence												
Response	10 days			18	100%	26	77%		16	100%		issue in March 2021
Helpdesk Enquiries												
					-							
							-					





# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>24 June 2021</b>
<b>Classification:</b>	<b>Public</b>
<b>Title:</b>	<b>Pension Fund Annual Report and Statement of Accounts 2020-21</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Policy Context:</b>	<b>Effective control over Council Activities</b>
<b>Financial Summary:</b>	<b>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.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b> <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

## 1. Executive Summary

- 1.1 This report presents the draft Westminster Pension Fund Annual Report and Statement of Accounts for the year ended 31 March 2021.

## 2. Recommendations

The Committee is recommended to:

- 2.1 Approve the draft Pension Fund Annual Report for 2020/21.
- 2.2 Delegate completion and approval of the final document to the Tri-Borough Director of Treasury and Pensions in consultation with the Chairman.
- 2.3 Note the Pension Fund accounts for 2020/21.

### **3. Background**

- 3.1 The Pension Fund's Annual Statement of Accounts for 2020/21, were prepared and ready to be submitted to the Council's external auditors for external audit on 30 April 2021. The Fund is still awaiting the commencement of the external audit. It is anticipated that there will be no significant findings.
- 3.2 The accounts were prepared four weeks in advance of the statutory requirement of 31 May 2021 (although due to continued COVID-19 interruptions, this deadline is currently extended to 31 July 2021). The draft Statement of Accounts was presented at the Audit and Performance Committee on 17 June 2021 and are due to be represented once the external audit process is finalised.
- 3.3 The production of the Pension Fund Annual Report, which includes the Pension Fund Accounts, is a regulatory requirement and needs to be approved by the Pension Fund Committee by 1 December following the year end. The draft Pension Fund Annual Report for 2020/21 is attached at Appendix 1.
- 3.4 Committee members are asked to comment on any matters in the draft Pension Fund Annual Report and delegate approval of the final document to the Tri-Borough Director of Treasury and Pensions in consultation with the Chairman.

### **4. Annual Report Overview**

- 4.1 Following the outbreak of COVID-19 during early 2020, the Fund's market value fell significantly with assets valued at £1.320bn at 31 March 2020. However, in the period since, the Fund has performed exceptionally well with the asset value increasing to £1.747bn at 31 March 2021.
- 4.2 The Fund returned 32.7% over the financial year to 31 March 2021, outperforming its benchmark by 4.6% gross of fees. This was largely as a result of excellent performance within the equity and fixed income mandates. Baillie Gifford returned 56.2% gross of fees over the year, outperforming the MSCI World index by 17.2% and CQS outperformed its benchmark by 4.4% returning 25.2% gross of fees to 31 March 2021.
- 4.3 The Pension Fund has benefitted from its continuing deficit recovery contributions, with improving cash flow, and no need to liquidate assets in the short term to pay benefits. The Fund received £22.75m in deficit recovery contributions during 2020/21, of which £12m was paid over to Northern Trust to hold at custody.

- 4.4 The estimated funding level for the Westminster Pension Fund has increased by 0.9% to 99.4% at 31 December 2020 (98.5% at 30 September 2020). The funding level for Westminster City Council as an employer has also increased, with a funding level of 89.0% at 31 December 2020 (88.0% at 30 September 2020). The Council plans to pay off its deficit by 2022, with a final payment of £80m in the financial year 2021/22.
- 4.5 The Pension Fund administration has seen significant improvements over the last few years in its KPIs as a result of focused work from both Westminster's internal officers and its external partners, Surrey County Council and Orbis. The performance indicators for 2020/21 show performance is broadly in line with 2019/20 and an improvement from 2018/19.
- 4.6 A switch to working from home, following the outbreak of COVID-19, had a slightly negative impact on the performance indicators, including notifying of retirement benefits and letters acknowledging the death of a member. However, there have been no delays in the processing of pension payments and no impact on the accuracy of final calculations made.
- 4.7 Administration costs during 2020/21 have increased further above the average for London borough pension funds. This is largely due to the increased Surrey County Council annual contract fee, alongside payment of Aquila Heywood's five-year licence fee for the administration software.

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

**Billie Emery** [bemery@westminster.gov.uk](mailto:bemery@westminster.gov.uk)

**BACKGROUND PAPERS:** None

## **APPENDICES**

**Appendix 1: Pension Fund Annual Report and Statement of Accounts 2020/21**

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# Annual Report

City of Westminster Pension Fund • **2020/21**





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1.

# Preface



# Report from Chairman of the Pension Fund Committee

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

The Pension Fund Committee is responsible for overseeing the governance of the Westminster City Council Pension Fund, including investment management and pensions administration. As the Chairman of this Committee, I am pleased to introduce the Pension Fund's Annual Report for the year 2020/21.

During the year, the value of the Fund increased by £428m to £1,751m, reflecting the complete recovery of assets from the impact of the COVID-19 pandemic shock at the end of 2019/20 and leading the fund to all time high asset valuations. Markets have stabilised across all asset classes, but the Pension Fund Committee continues to monitor the Fund closely at every meeting and challenges the officers, investment advisers and investment managers as necessary to ensure the Fund's investments are being managed effectively.

The Pension Fund was last valued by the Fund's actuary, Barnett Waddingham, at the 31 March 2019 triennial actuarial valuation. The actuary reported that the Fund has sufficient assets to cover 99% of the liabilities. Preparations are commencing for the next actuarial valuation as at 31 March 2022 with planned improvements to the Fund's membership data. The City Council's deficit recovery plan is continuing to pay enhanced deficit contributions to the Fund throughout 2021/22, with the aim of improving the overall funding level and reducing the deficit recovery period.

The Fund continues to work closely with its LGPS pool, the London Collective Investment Vehicle (LCIV), to achieve efficiencies through pooling of Pension Fund assets. The Fund continues to benefit from the lower fees negotiated by LCIV on its Legal and General Passive Equities Portfolio, as well as benefitting from lower fees in active equity and alternative investment managers. The Fund's proportion of assets pooled now is over 72%, making the City of Westminster Pension Fund one of the biggest investors within the London CIV pool.

The Pension Fund is committed to being a responsible investor and has made great strides within renewable energy infrastructure and other Environment, Governance and Social (ESG) investments in the last year. The Pension Fund has committed 6% of its total allocation to renewable infrastructure investments which, alongside the positive environmental externalities, will secure genuine diversification of portfolio risk and long term stable cash flows for the Fund.

The Fund has also reorganised its equity portfolio to reduce its carbon exposure which is a considerable long term investment risk. This has been achieved by transferring its previous active UK equity portfolio to the LCIV Global Sustain Fund managed by Morgan Stanley Investment Management, which excludes investment in fossil fuels, alcohol, firearms, weapons and tobacco. In addition, the Fund's passive equity portfolio has been reorganised to allocate more capital to companies that are better aligned to the UN sustainable development goals.

The Pension Fund launched its inaugural Responsible Investment Statement in 2021, setting out the Fund's commitment to environmental, social and governance factors as a core part of its investment decision making. Since 2018, the Fund has reduced its carbon to value invested by over 60% in its equity portfolio as part of this core investment strategy.

In addition, as the Chairman of the Westminster City Council Pension Fund, I regularly attend the Responsible Investment working group at the London CIV, where discussions on ESG and responsible investment issues with other London Borough funds are being explored further.

The Pension Fund's annual general meeting will likely be held in early 2022 as the situation allows with Covid-19 restrictions.

I would like to thank all those involved in the governance of the Westminster Pension Fund during the year during 2020/21.



Councillor Eoghain Murphy  
Chairman of the Pension Fund Committee

# Introduction

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

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and returns from the Fund's investments. Contribution rates for employees and employers are set by the Fund's actuary at the actuarial valuation which is carried out every three years. The most recent revaluation, carried out as at 31 March 2019, was used to set contribution rates with effect from 1 April 2020 through to April 2023.

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

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

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

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

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

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

Detailed guidance on the accounting and disclosure requirements for LGPS financial statements and annual report is published by CIPFA annually and can be found online. This guidance includes a Code disclosure checklist, listed by must, should and may, which the City of Westminster has applied in the preparation of the annual report and accounts.

## Introduction (continued)

This annual report comprises the following sections:

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

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

- **The Fund's annual accounts** for the year ended 31 March 2021
- **Asset Pools** and their governance structure including costs
- **List of contacts** and a glossary of some of the more technical terms
- **Appendices** setting out the various regulatory policy statements of the Fund:
  - Governance Compliance Statement
  - Investment Strategy Statement
  - Communication Policy
  - Funding Strategy Statement

- Further information about the Local Government Pension Scheme can be found at <https://www.westminster.gov.uk/about-council/city-westminster-pension-fund>

# 2.

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## Management and Financial Performance



# Governance Arrangements

## PENSION FUND COMMITTEE

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

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

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

The current membership of the Pension Fund Committee is:

- Councillor Eoghain Murphy (Chairman)
- Councillor Barbara Arzymanow
- Councillor Angela Harvey
- Councillor Patricia McAllister

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

## LOCAL PENSION BOARD

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

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

<https://www.westminster.gov.uk/media/document/terms-of-reference-city-of-westminster-pension-board>

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

The Board membership during 2020/21 was as follows:

- Councillor Tim Mitchell (Chairman)
- Councillor Guthrie McKie (Vice-Chairman)
- Terry Neville (Member Representative)
- Marie Holmes (Employer Representative)
- Christopher Smith (Member Representative)
- Chris Walker (Member Representative)

## CONFLICTS OF INTEREST

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

The Code includes general provisions on ethics and standards of behaviour which require elected members to treat others with respect and not to bully, intimidate or do anything to compromise the impartiality of those who work for or on behalf of the Council. The Code also contains rules about "disclosable pecuniary interests" and sets out the action an elected member must take when they have such an interest in Council business, for instance withdrawing from the room or chamber when the matter is discussed and decided in committee, unless dispensation has been obtained from the Council's Monitoring Officer.

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

## GOVERNANCE COMPLIANCE STATEMENT

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

The key issues covered by the best practice principles are:

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

The Fund's Governance Compliance statement can be found in Section 9.

# Scheme Management and Advisors

## EXTERNAL PARTIES

Investment Adviser	Deloitte	
Investment Managers	<b>Equities (Active)</b> London LGPS CIV Ltd - Baillie Gifford Longview London LGPS CIV Ltd - Morgan Stanley <b>Equities (Passive)</b> Legal and General Investment Management <b>Infrastructure</b> Pantheon Ventures	<b>Renewable Infrastructure</b> Macquarie Asset Management Quinbrook Partners <b>Fixed Income</b> Insight Investment London LGPS CIV Ltd - CQS <b>Property</b> Hermes Investment Management Ltd* Standard Life Investments
Asset Pool	London CIV	
Custodian	Northern Trust	
Banker	Lloyds Bank	
Actuary	Barnett Waddingham	
Auditor	Grant Thornton UK LLP	
Legal Adviser	Eversheds	
Scheme Administrators	Surrey County Council	
AVC Providers	Aegon	Utmost Life and Pensions

## OFFICERS

Executive Director - Finance and Resources & Section 151 Officer Director of People Services	Gerald Almeroth Lee Witham	
Tri-Borough Pensions Team	Phil Triggs Matthew Hopson Mathew Dawson Billie Emery	Julia Stevens Tim Mpofu to Jan 2021 Patrick Rowe from Feb 2021 Alastair Paton
Pensions and Payroll Officer	Sarah Hay	

Contact details are provided in Section 8 of this report. \*Hermes Investment Management Ltd was terminated during 2020/21.

# Risk Management

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

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

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

The key risks identified within the Pension Fund risk register, as updated on 5 May 2021, are:

Objective area at risk	Risk	Risk rating	Mitigating actions
Asset and Investment Risk	The global outbreak of COVID-19 poses economic uncertainty across the global investment markets.	High	TREAT 1) Officers will continue to monitor the impact lockdown measures have on the Funds' investments. 2) The Fund holds a diversified portfolio, which should reduce the impact of stock market movements. 3) Asset allocation was reviewed during June 2020, a new strategy was agreed in light of COVID-19 with ESG focused equity and renewable infrastructure mandates agreed. 4) Pension Fund Officers in frequent contact with Fund Managers and the Fund's investment advisor.
Asset and Investment Risk	Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty. Increased risk to global economic stability.	High	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 took place during June 2020 and a new strategic asset allocation was agreed.
Administrative and Communicative Risk	Failure to successfully transition the pensions administration service to Hampshire County Council by 1 December 2021, following termination of Surrey contract. Alongside this the administration software is to be moved from Heywood's Altair to Civica.	High	TREAT 1) The Pension Fund is moving the pensions administration service to Hampshire CC following termination of the Surrey contract. 2) Officers maintain regular contact with Surrey CC and Hampshire CC administration team during this time. 3) Project manager to join Westminster City Council on 25 February 2021, to lead the pensions administration transfer project including administration software.



## Risk Management (continued)

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

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

Objective area at risk	Risk	Risk rating	Mitigating actions
Administrative and Communicative Risk	Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints. There is a concern regarding the high level of senior management departures.	Medium	TREAT 1) Surrey CC administers pensions for Surrey, East Sussex, LB Hillingdon and the Tri-Borough. All Tri-Borough Pension Funds are transitioning their pensions administration from Surrey CC. 2) Officers will continue to monitor ongoing staffing changes at Surrey CC. 3) Ongoing monitoring of contract and KPIs.
Asset and Investment Risk	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 £1.7m. Following COVID-19, there was some concern around Fund Managers outperforming their benchmarks.	Medium	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.
Liability Risk	Scheme members live longer than expected leading to higher than expected liabilities.	Medium	TOLERATE 1) The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.
Liability Risk	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 0.47%.	Medium	TREAT 1) Actuarial valuation results show an increase in the CPI assumption of 0.2% from the 2016 valuation. 2) 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.

## Risk Management (continued)

### THIRD PARTY RISKS

The Council has outsourced the following functions of the Fund:

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

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

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

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

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

<sup>1</sup> Aberdeen Standard – "With reference to the Aberdeen Standard Investments Internal Controls Report for the period ended 30 September 2020; to the best of my knowledge there have been no material changes in the operation of the internal controls covered within the report that would be likely to impact the auditors' opinion for the period 1 October 2020 to 31 March 2021."

<sup>2</sup> Baillie Gifford – "We confirm that since 30 April 2020 the controls in operation continue to be designed effectively in order to meet the control objectives and we are not aware of any significant weaknesses identified

The results of these reviews are summarised below and cover 100% of investment holdings at 31 March 2021.

Fund manager	Type of assurance	Control framework	Compliance with controls	Reporting accountant
Aberdeen Standard <sup>1</sup>	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Baillie Gifford (LCIV) <sup>2</sup>	ISAE3402	Reasonable assurance	Reasonable assurance	PwC LLP
CQS (LCIV) <sup>3</sup>	ISAE3402	Reasonable assurance	Reasonable assurance	Deloitte
Hermes <sup>4</sup>	ISAE3402	Reasonable assurance	Reasonable assurance	EY LLP
Insight <sup>5</sup>	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
LGIM	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Longview	ISAE3000	Reasonable assurance	Reasonable assurance	EY LLP
Macquarie	ISAE3402	Reasonable assurance	Reasonable assurance	PwC LLP
Morgan Stanley (LCIV) <sup>6</sup>	ISAE3402	Reasonable assurance	Reasonable assurance	Deloitte
Pantheon Ventures	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Quinbrook <sup>7</sup>	ISAE3402	Reasonable assurance	Reasonable assurance	BDO
<b>Custodian</b>				
Northern Trust	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP

within our internal control environment, which would result in a qualified opinion within the Report for the year to 30 April 2021."

<sup>3</sup> CQS – "On behalf of CQS, we note that we do not believe there have been any changes to the procedures and controls described in that report for the period 1 January 2020 to 31 March 2021 that would result in a change in results of the assurance report."

<sup>4</sup> Hermes – "To the best of my knowledge, the ISAE 3402 Report for the year to 31 December 2019 continues to provide a substantially accurate description of the internal controls environment within Hermes Fund Managers Limited for the period 1 January 2020 to 31 March 2021."

<sup>5</sup> Insight – "To the best of our knowledge there have been no material adverse changes to the control environment and/or objectives, and the control environment continued to operate substantially in accordance with the objectives, policies and procedures as stated and tested in the latest available report, between 1st October 2020 and 28th February 2021."

<sup>6</sup> Morgan Stanley – "To the best of our knowledge, the internal control environment covered in the SSAE18 report provided has not changed materially through the period of July 1, 2020 to March 31, 2021."

<sup>7</sup> Quinbrook – "can confirm that there were no significant changes in the policy, procedures and control environment from 1st October 2019 to 31st March 2021."

Risk Management (continued)

INTERNAL AUDIT TESTING

The Council’s Internal Audit function provides a level of assurance over the Pension Fund’s activities, including investment records, financial and performance reporting, pensions administration, systems and controls and organisational and management requirements. The most recent internal audit of the Pension Fund investment process took place during March 2018 and was followed up in April 2019, whereby the Fund was awarded a satisfactory audit opinion.

ASSURANCE OPINION

	Nil	Limited	Satisfactory	Substantial
Audit Opinion			☑	

RECOMMENDATIONS SUMMARY

Area of Scope	Frequency	Adequacy	Effectiveness
Regulatory, Organisational and Management Requirements	Every 2-3 years		
Pension Fund Investment Transactions and Records	Every 2-3 years		
Financial and Performance Management Reporting	Every 2-3 years		
Controls over Systems and Records	Every 2-3 years		

A number of audit recommendations were raised following the internal audit, as of 31 March 2021 all recommendations have been fully or partially implemented.

# Financial Performance

The Fund asset value increased by £428m to £1,752bn as at 31 March 2021 from £1,324bn as at 31 March 2020. This was largely as a result of exceptional performance within the equity funds, following the COVID-19 outbreak during the first quarter of 2020.

The most recent triennial valuation took place as at 31 March 2019, this will cover the three financial years from 2020/21. The funding level has increased greater than anticipated during the 2019 valuation to a 99% funding level as at 31 March 2019, up 19% from the 2016 valuation. However, funding levels for different employers vary significantly.

## ANALYTICAL REVIEW

	2017/18	2018/19	2019/20	2020/21
Fund Account	£'000	£'000	£'000	£'000
Dealings with members				
Contributions	(58,868)	(61,242)	(72,616)	(61,192)
Pensions	57,350	58,189	63,697	64,076
Net (additions)/withdrawals from dealings with members	(1,518)	(3,053)	(8,920)	2,884
Management expense	5,734	5,823	6,834	10,087
Net investment returns	(15,785)	(12,242)	(17,975)	(8,665)
Change in market value	(56,708)	(72,883)	114,858	(432,486)
Net (increase)/decrease in the Fund	(68,277)	(82,356)	94,798	(428,181)

Over the four-year period, contributions received have exceeded pensions paid by £10.6m. This is due to the increased level of deficit recovery contributions to bring the funding level to 100% as at 31 March 2019.

Net investment returns in 2020/21 have decreased from 2019/20, this is due to switching part of the equity holdings into accumulation funds, whereby distributions are reinvested.

During 2020/21, the net increase in Fund value was £428m, compared to a decrease in value of £94m during the 2019/20. This is due to equities performing exceptionally well during the year.

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

## Financial Performance (continued)

	2017/18	2018/19	2019/20	2020/21
<b>Net Asset Statement</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fixed Interest Securities	183,879	-	-	-
Equities	150	150	150	150
Pooled Investment Vehicles	1,129,276	1,402,288	1,300,427	1,684,306
Cash Deposits	10,321	5,802	19,044	62,788
Other	6,453	120	119	109
<b>Total Investment Assets</b>	<b>1,330,079</b>	<b>1,408,360</b>	<b>1,319,740</b>	<b>1,747,353</b>
Current assets	6,728	11,293	4,640	5,198
Current Liabilities	(831)	(1,321)	(846)	(836)
<b>Total Net Assets available to fund benefits</b>	<b>1,335,976</b>	<b>1,418,332</b>	<b>1,323,534</b>	<b>1,751,715</b>

The points to note are:

- 73% of pooled investment vehicles comprise of global equity shareholdings, 20% within fixed income funds, 4% in property pooled funds while the remaining 3% is invested in Infrastructure (65% within equity pooled funds, 23% in fixed income, 10% within property pooled funds and 2% in infrastructure in 2019/20).
- The overall value of pooled investment vehicles increased by £384m (30%) during the year.
- Cash deposits increased by £44m due to the sale of the Hermes Property Fund during the year.
- The Fund no longer holds direct investments within fixed interest securities.

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

## Financial Performance (continued)

### ANALYSIS OF DEALINGS WITH SCHEME MEMBERS

	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
<b>Contributions receivable</b>				
- Members	(8,894)	(8,982)	(10,105)	(10,854)
- Employers	(44,982)	(45,363)	(54,244)	(46,660)
- Transfers in	(4,992)	(6,897)	(8,267)	(3,678)
<b>Total Income</b>	<b>(58,868)</b>	<b>(61,242)</b>	<b>(72,616)</b>	<b>(61,192)</b>
<b>Benefits/Expenses</b>				
Pensions	43,802	45,610	47,628	49,146
- Lump sum retirements and death benefits	8,674	7,464	7,092	8,677
- Transfers out	4,807	4,919	7,480	5,602
- Refunds	67	196	306	130
- Payments in respect of tax	-	-	1,190	521
<b>Total Expenditure</b>	<b>57,350</b>	<b>58,189</b>	<b>63,697</b>	<b>64,076</b>
<b>Net Dealings with Members</b>	<b>(1,158)</b>	<b>(3,053)</b>	<b>(8,920)</b>	<b>2,884</b>

The key variances were due to the following:

- Employer contributions decreased by £7.6m during 2020/21, this was due to the reduced level of deficit recovery receipts during the year.
- Transfers out decreased in 2020/21 because less members chose to transfer their benefits to another employer or remove them under the freedom of choice legislation.
- Transfers in also decreased during the year, reflecting a lower number of new starters joining the scheme and members choosing to transfer in benefits on commencement of employment.
- There were payments in respect of tax of £521k during 2020/21, this relates to VSP tax payments in respect of members' annual/lifetime allowances.

## Financial Performance (continued)

### ANALYSIS OF OPERATIONAL EXPENSES

The costs of running the pension fund are shown below.

	2018/19	2019/20	2020/21
	£'000	£'000	£'000
<b>Administration</b>			
Employees	184	352	308
Supplies and services	363	398	673
	<b>546</b>	<b>750</b>	<b>981</b>
<b>Governance and Oversight</b>			
Employees	240	183	236
Investment advisory services	100	78	92
Governance and compliance	44	73	43
External audit	16	16	25
Actuarial fees	36	72	32
	<b>437</b>	<b>423</b>	<b>428</b>
<b>Investment Management</b>			
Management fees	4,572	4,779	6,211
Performance fees	0	85	45
Custodian fees	38	31	54
Transaction Costs	230	768	2,368
	<b>4,840</b>	<b>5,662</b>	<b>8,678</b>
<b>Total</b>	<b>5,823</b>	<b>6,834</b>	<b>10,087</b>

The key variances were due to the following:

- Increased costs for administrative services in 2020/21 from 2019/20, due to an increase in the Surrey County Council administration contract fees, along with payment of the 5-year license fee for the administration software, Altair.
- Governance and oversight costs during 2020/21 have remained in line with 2019/20. However, employee costs have increased due to changes in the recharge split within the Tri-Borough S113 agreement.
- The increase in investment management costs in 2020/21 reflects the increased market value of the assets. Additionally, the cost transparency code has led to greater disclosure of transaction costs, as well as investment within more complex asset classes, which carry a higher management charge.

# Administration Management Performance

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

## PERFORMANCE INDICATORS

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

Performance Indicators	Target	Performance		
		2018/19	2019/20	2020/21
Letter detailing transfer in quote	30 days	100%	100%	100%
Letter detailing transfer out quote	30 days	99%	98%	99%
Process refund and issue payment voucher	14 days	96%	100%	100%
Letter notifying estimate of retirement benefit	5 days	99%	91%	91%
Letter notifying actual retirement benefit	5 days	99%	100%	96%
Letter acknowledging death of member	5 days	95%	100%	98%
Letter notifying amount of dependant's benefits	5 days	98%	100%	100%
Calculate and notify deferred benefits	30 days	98%	100%	100%

The performance indicators for 2020/21 show performance is broadly in line with 2019/20 and still an improvement from 2018/19.

A switch to working from home, following the outbreak of COVID-19, had a slightly negative impact on the performance indicators including notifying of actual retirement benefits and letters acknowledging the death of a member. However, there have been no delays in processing pension payments and no impact on the accuracy of final calculations made.

Looking forward, the pensions administration service will be transitioned from Surrey County Council to Hampshire County Council from 1 December 2021. This includes a change in administration software from Heywood's Altair to Civica.

## ORBIS

The Pension Fund uses the ORBIS on-line pension system, which enables members to:

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

Scheme employers can use the new system to:

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

## COMPLAINTS RECEIVED

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

There have been three stage 1 IDRP cases during 2020/21.

Of those cases:

- one accepted compensation
- the second was offered compensation but elected to go to the Ombudsman, however no decision has yet been made

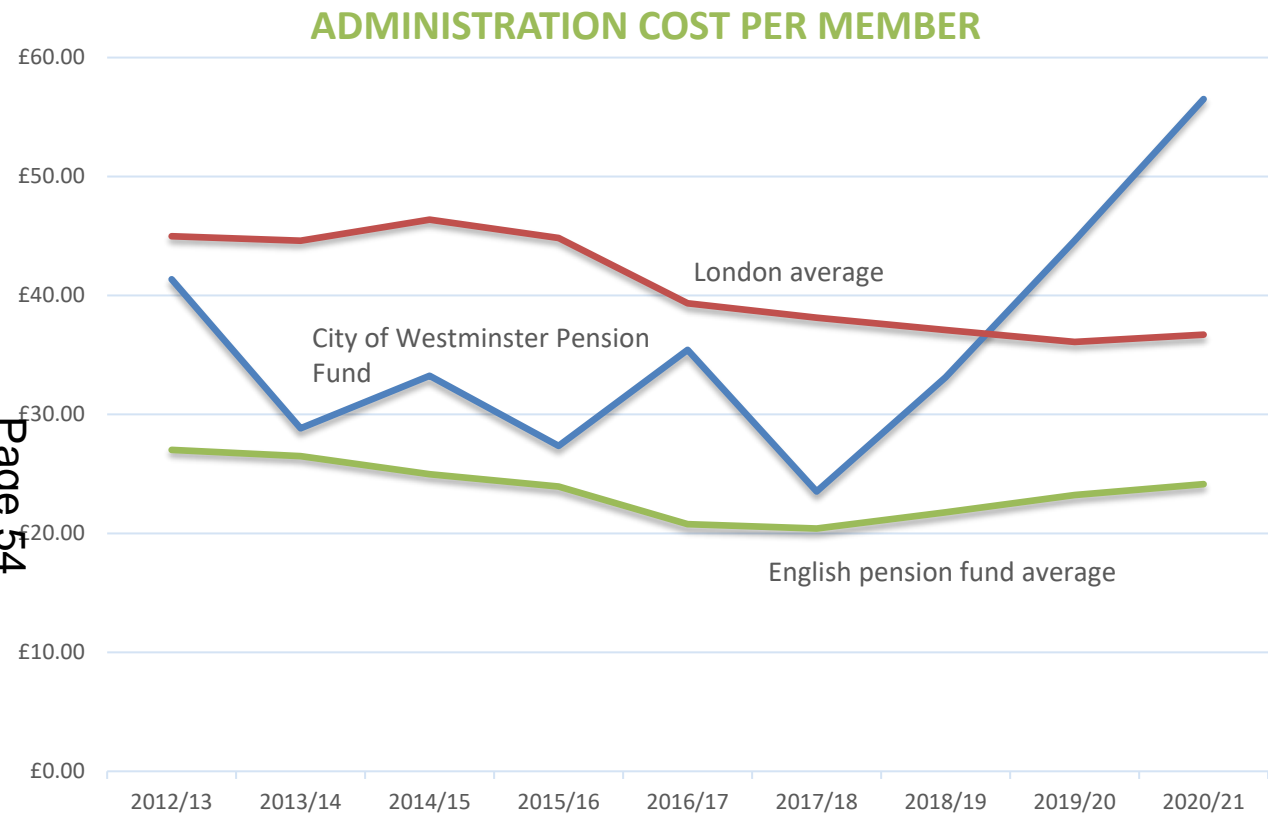


- the third case was rejected and there is a stage 2 IDRP case ongoing, but this is not yet completed.

There has also been one additional stage 2 IDRP, a compensation offer was made, and the case is now closed.

In addition, there was one Ombudsman case where the members' complaint was partially upheld, and a compensation payment made.

# Administration Management Performance (continued)



## STAFFING INDICATORS

The administration of the Fund comprises:

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

The contract for administering the Fund was tendered in 2014 resulting in Surrey County Council being appointed. Costs rose slightly in 2014/15 as a result of the changeover of administrator, and again in 2016/17 reflecting the implementation of the ORBIS online portal. Although this reduced in 2017/18, this has increased in the years to 2020/21 due to ad hoc administration works in relation to data cleansing, GMP reconciliation, microfiche retrieval works and an increase in the Surrey annual administration charge. In addition to this the number of FTE Westminster HR personnel has increased from 2.5 FTE in 2018/19 to 4.45 FTE in 2020/21.

During 2019/20, costs increased above the average for London borough pension funds. This was largely due to the increased size of the HR administration function following the end of the BT finance contract and works relating to data cleansing. This rose again significantly during 2020/21, this relates to an increase in the annual administration charge, as well as payment relating to the administration software 5-year license fee.

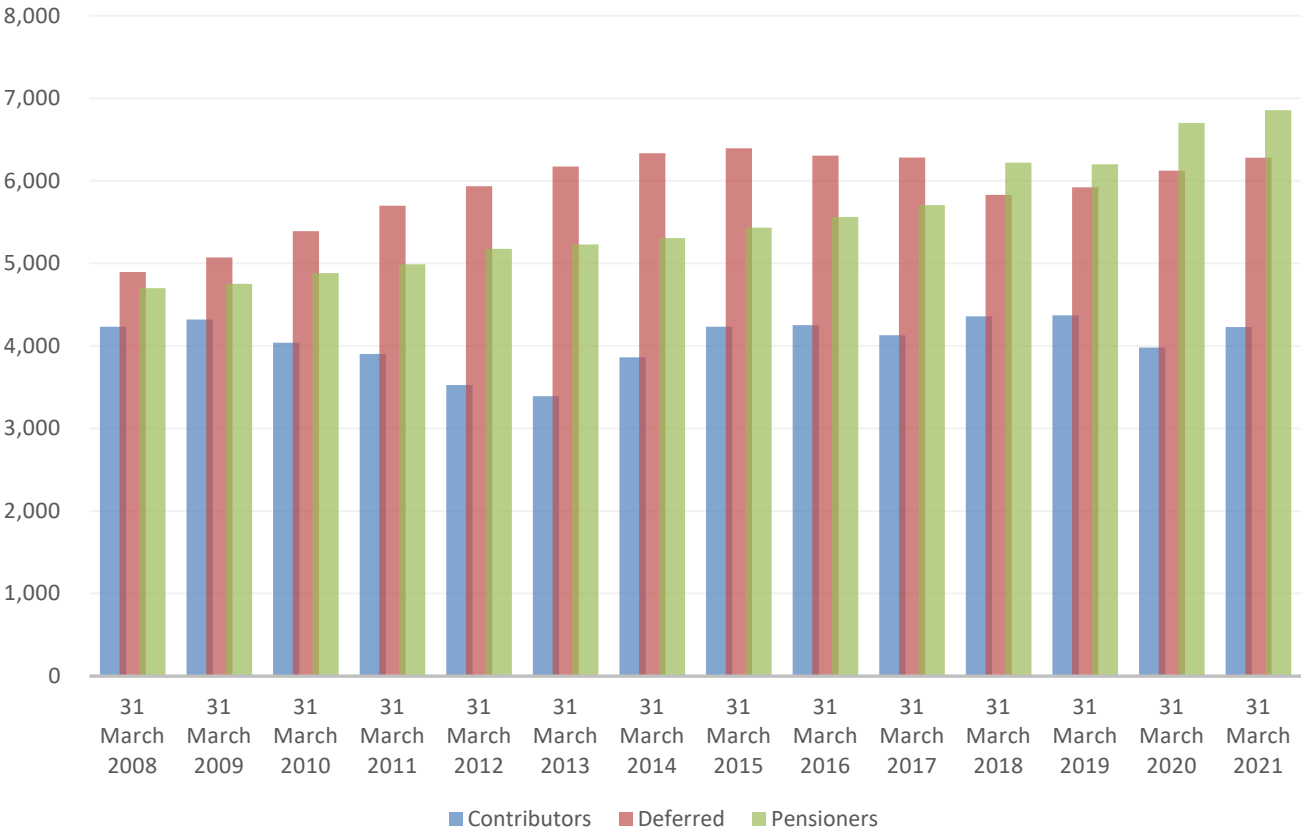
Administration Management Performance (continued)

MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased 25.6% over the past 14 years from 13,827 to 17,364.

However, over this period, the number of contributing members to the Pension Fund has declined steadily from 2008/09 to 2012/13 and again during 2016/17 and 2019/20, as shown in the chart below. The introduction of auto-enrolment in 2013 and the increase in employers admitted into the Scheme has reversed this trend somewhat. Nonetheless, the number of pensioners and deferred members has continued to rise in common with other local government pension funds, reflecting the increasing maturity of the Fund.

FUND MEMBERSHIP



## Administration Management Performance (continued)

The total number of pensioners in receipt of enhanced benefits due to ill health or early retirement on the grounds of redundancy or efficiency of the service is given below as at each year on 31 March. This has decreased significantly year on year to 31 March 2021.

Reason for Leaving	2017/18	2018/19	2019/20	2020/21
Ill Health Retirement	5	1	1	2
Early Retirement	39	23	15	10
<b>Total</b>	<b>44</b>	<b>24</b>	<b>16</b>	<b>12</b>

## Administration Management Performance (continued)

### CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

Below is a list of the current active contributing employers and the contributions received for 2020/21 (figures include early retirement and deficit funding contributions).

	Employees Contributions	Employers Contributions	Total Contributions
	£'000	£'000	£'000
<b>Administering Authority Employers</b>			
Westminster City Council	(8,040)	(37,678)	(45,718)
All Souls	(14)	(57)	(70)
Barrow Hill Junior	(19)	(66)	(85)
Burdett Coutts	(12)	(51)	(63)
Christ Church Bentinck Primary	(17)	(69)	(86)
College Park	(37)	(139)	(176)
Dorothy Gardner Centre	(27)	(137)	(165)
Edward Wilson	(21)	(81)	(101)
Essendine Primary	(31)	(122)	(153)
George Eliot	(23)	(165)	(188)
Hallfield	(43)	(169)	(212)
Hampden Gurney Primary	(12)	(50)	(62)
Mary Paterson Nursery School	(16)	(66)	(82)
Our Lady of Dolours Primary School	(22)	(86)	(108)
Portman Early Childhood Centre	(43)	(169)	(212)
Queen Elizabeth 11	(35)	(149)	(184)
Queen's Park	(16)	(63)	(79)
Robinsfield	(12)	(41)	(53)
Soho Parish	(22)	(90)	(112)

	Employees Contributions	Employers Contributions	Total Contributions
St Augustine's High School	(78)	(310)	(388)
St. Augustine's Primary School	(15)	(63)	(78)
St Barnabas	(7)	(29)	(36)
St Clement Danes	(15)	(60)	(75)
St Gabriel's	(12)	(46)	(58)
St George Hanover Square	(7)	(29)	(36)
St James & St Michaels	(9)	(37)	(46)
St Joseph's RC Primary School	(19)	(81)	(100)
St Lukes	(8)	(33)	(41)
St Mary Bryanston Square	(12)	(52)	(64)
St Mary Magdalene	(17)	(65)	(82)
St Mary of the Angels	(27)	(111)	(138)
St Matthew's	(15)	(58)	(73)
St Peters CE	(16)	(64)	(80)
St Peters Eaton Square	(13)	(54)	(68)
St. Edward's RC Primary School	(20)	(79)	(99)
St. Saviours	(28)	(114)	(142)
St Vincent De Paul Primary School	(10)	(42)	(51)
St. Vincent's RC Primary School	(11)	(49)	(61)
St Stephens CE primary School	(11)	(45)	(56)
Tachbrook Nursery	(13)	(50)	(63)
Westminster Cathedral	(17)	(73)	(90)
<b>Total Contributions from Administering Authority</b>	<b>(8,841)</b>	<b>(40,992)</b>	<b>(49,833)</b>

## Administration Management Performance (continued)

### SCHEDULED BODIES

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

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

	Employees Contribution	Employers' Contributions	Total Contributions
<b>Scheduled Bodies</b>			
Ark Atwood Primary Academy	(24)	(72)	(96)
Beachcroft Academy	(19)	(39)	(58)
Churchill Gardens Academy	(12)	(44)	(56)
Gateway Academy	(26)	(85)	(111)
Grey Coat Hospital Academy	(70)	(203)	(273)
Harris Westminster Free School	(20)	(45)	(64)
Harris Academy St Johns Wood	(61)	(164)	(225)
King Solomon Academy	(212)	(610)	(822)
Marylebone Boys School	(32)	(90)	(122)
Millbank Primary Academy	(15)	(46)	(60)
Paddington Academy	(77)	(203)	(280)
Pimlico Academy	(158)	(365)	(523)
Pimlico Free School	(13)	(29)	(42)

	Employees Contribution	Employers' Contributions	Total Contributions
<b>Scheduled Bodies</b>			
Sir Simon Milton University Technical College	(7)	(17)	(23)
St Georges Maida Vale Academy	(50)	(143)	(194)
St Marylebone Academy	(68)	(177)	(245)
St Marylebone Bridge School	(22)	(63)	(85)
Westminster Academy	(54)	(129)	(183)
Westminster City School	(49)	(124)	(172)
Wilberforce Academy	(11)	(35)	(46)
<b>Total Contributions from Scheduled Bodies</b>	<b>(1,000)</b>	<b>(2,679)</b>	<b>(3,679)</b>

## Administration Management Performance (continued)

### ADMITTED BODIES

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

	Employees Contribution	Employers Contributions	Total Contributions
<b>Admitted Bodies</b>			
Accent Catering	(1)	(7)	(8)
Bouygues	(2)	(11)	(13)
BT	(5)	(28)	(33)
Continental Landscapes Ltd	(4)	(19)	(23)
Creative Education Trust	(141)	(241)	(382)
Gold Care Homes	(4)	(24)	(28)
Hatsgroup	0	0	0
Housing and Communities Agency	(254)	(550)	(804)
Independent Housing Ombudsman	(258)	(958)	(1,216)
Pinnacle Housing	(1)	(8)	(9)
Regulator for Social Housing	(342)	(1,142)	(1,485)
Sanctuary Housing	(0)	(2)	(2)
<b>Total Contributions from Admitted Bodies</b>	<b>(1,014)</b>	<b>(2,988)</b>	<b>(4,002)</b>
<b>Grand Total</b>	<b>(10,855)</b>	<b>(46,659)</b>	<b>(57,514)</b>

### EMPLOYER ANALYSIS

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

	Active	Ceased	Total
Administering Authority	1	0	1
Scheduled Body	20	0	20
Admitted Body	11	1	12
<b>Total</b>	<b>32</b>	<b>1</b>	<b>33</b>





3.

# Investment Policy and Performance



# Investment Policy

The Pension Fund Committee sets out a broad statement of the principles it has employed in establishing its investment and funding strategy in the Investment Strategy Statement (ISS). The ISS has been updated following the asset allocation strategy review during 2020 and can be found within section 9 (appendices).

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

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

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

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

For 2020/21, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an Investment Strategy Statement (ISS), which replaces the Statement of Investment Principles.

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

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

The ISS can be obtained from:

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

Email: [pensionfund@westminster.gov.uk](mailto:pensionfund@westminster.gov.uk)

# Asset Allocation

The strategic asset allocation is agreed by the Pension Fund Committee and the Fund's advisers. The allocation effective during the year ended 31 March 2021 was as follows:

Asset Class	Target Allocation %
Global Equities (active)	42.5
Global Equities (passive)	22.5
Fixed Income	19.0
Property	5.0
Infrastructure	11.0
<b>TOTAL</b>	<b>100.0</b>

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

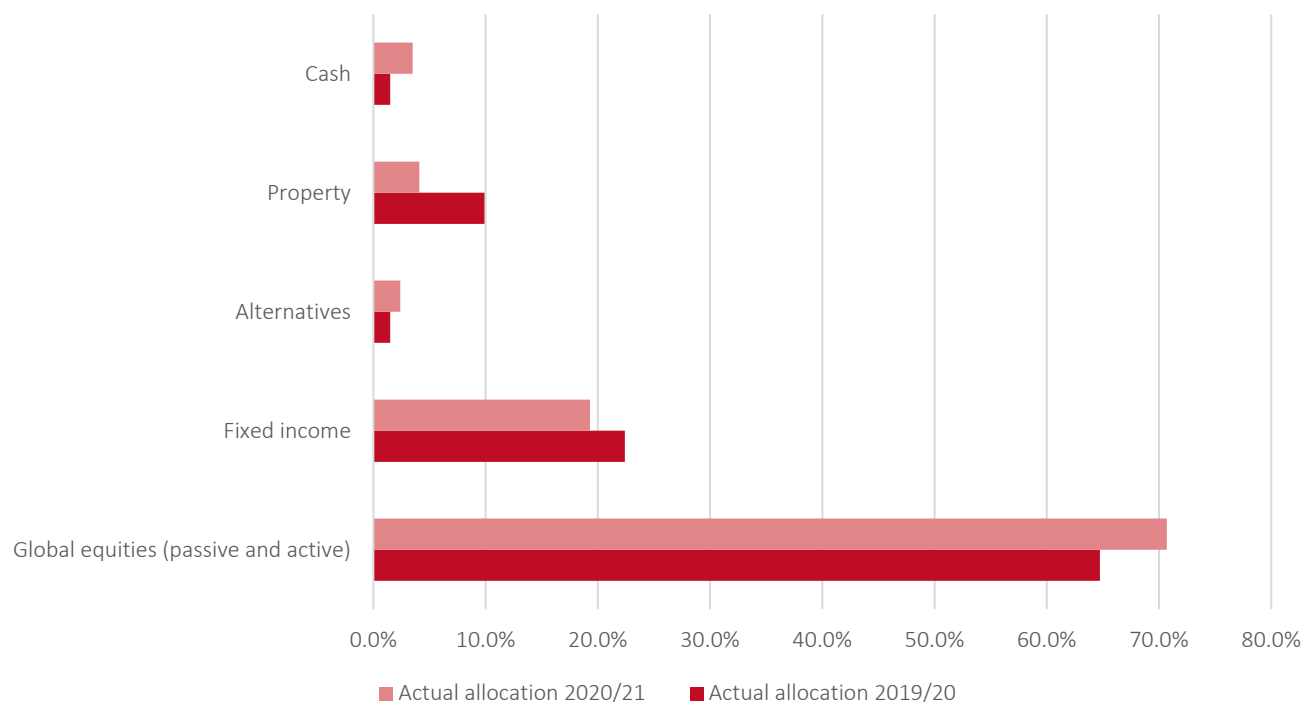
Investment portfolios are reviewed at each Committee meeting in discussion with the investment adviser and officers, and fund managers are called to a Committee meeting if there are issues that need to be addressed. Officers meet fund managers regularly and advice is taken from the investment adviser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

Fund managers provide a rationale for asset allocation decisions based upon their research resource in an effort to ensure that they are not simply tracking the

peer group or relevant benchmark index. The Fund's asset allocation strategy can be found in the ISS.

The asset allocation of the Pension Fund at the start and end of the financial year is set out below. These figures are based on market value and reflect the relative performance of investment markets and the impact of tactical asset allocation decisions made by the Pension Fund Committee.

During the year, the Committee elected to transition global passive equities into the LGIM Future World Fund and Morgan Stanley Global Sustain Fund. Alongside this, the Committee agreed to terminate the Hermes Property mandate and transition into renewable infrastructure, with Macquarie and Quinbrook each allocated c.£50m. The Hermes sale proceeds are currently being held with the Custodian, Northern Trust, whilst the infrastructure managers draw down.



## Asset Allocation (continued)

### LGPS AVERAGE ASSET ALLOCATION

The Pensions and Investments Research Consultants (PIRC), report annually on the average asset allocation across the LGPS Universe. As at 31 March 2021, the City of Westminster Pension Fund had 14% more allocated to equities compared to the LGPS average, whereas the Fund had 11% less allocated to alternatives. It should be noted that when comparing asset allocation to performance, factors such as funding level and manager selection should also be taken into consideration.

	Equity	Bonds	Alternatives	Property	Cash	Diversified Growth	Other
<b>Universe Average*</b>	<b>51</b>	<b>21</b>	<b>13</b>	<b>9</b>	<b>2</b>	<b>3</b>	<b>1</b>
<b>City of Westminster</b>	<b>65</b>	<b>22</b>	<b>2</b>	<b>10</b>	<b>1</b>	<b>0</b>	<b>0</b>
<b>Variance</b>	<b>-14</b>	<b>-1</b>	<b>11</b>	<b>-1</b>	<b>1</b>	<b>3</b>	<b>1</b>

\*At the 31 March 2021 the Universe was comprised of 63 funds

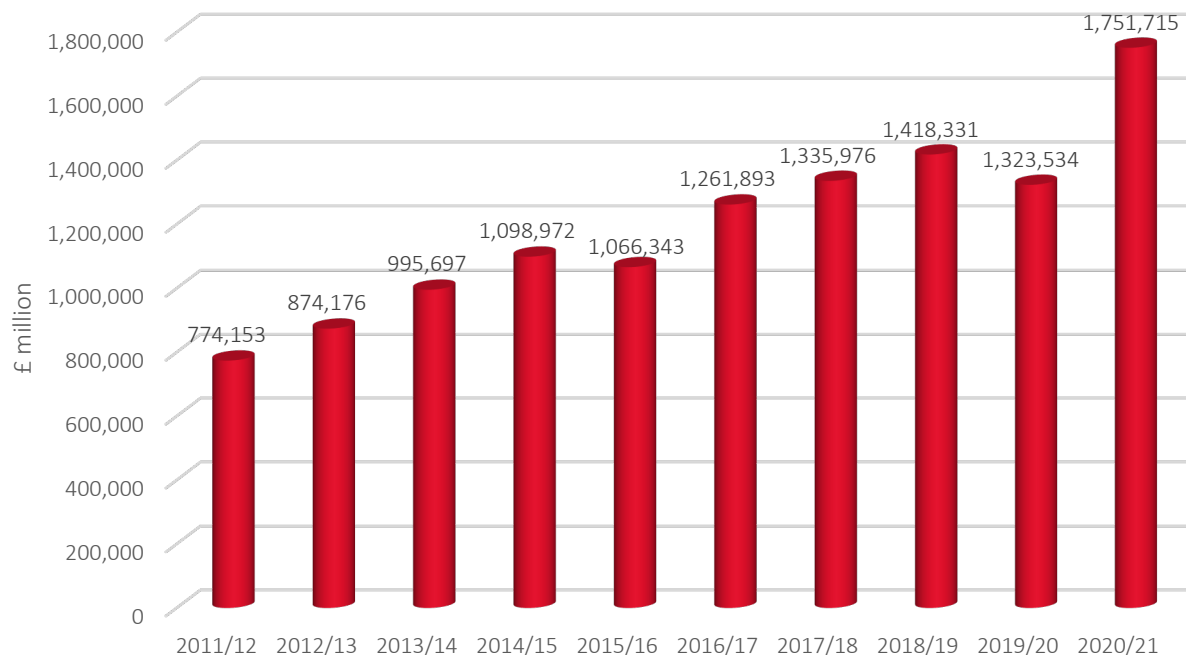
This data has been extracted from the PIRC 2019/20 Local Authority Fund Statistics.

### FUND VALUE

The value of the Fund has more than doubled over the past ten years. The slight fall in value in 2015/16 reflected uncertainty around the strength of the global economy and China in particular, but the Fund recovered well and continued to make gains up to 2018/19. The Fund value fell during 2019/20, due to the COVID-19 outbreak impacting global markets during Q4 of 2019/20. However, the Fund recovered well during 2020/21 with an increase in asset value of £428m, largely due to exceptional performance within the equity mandates.

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

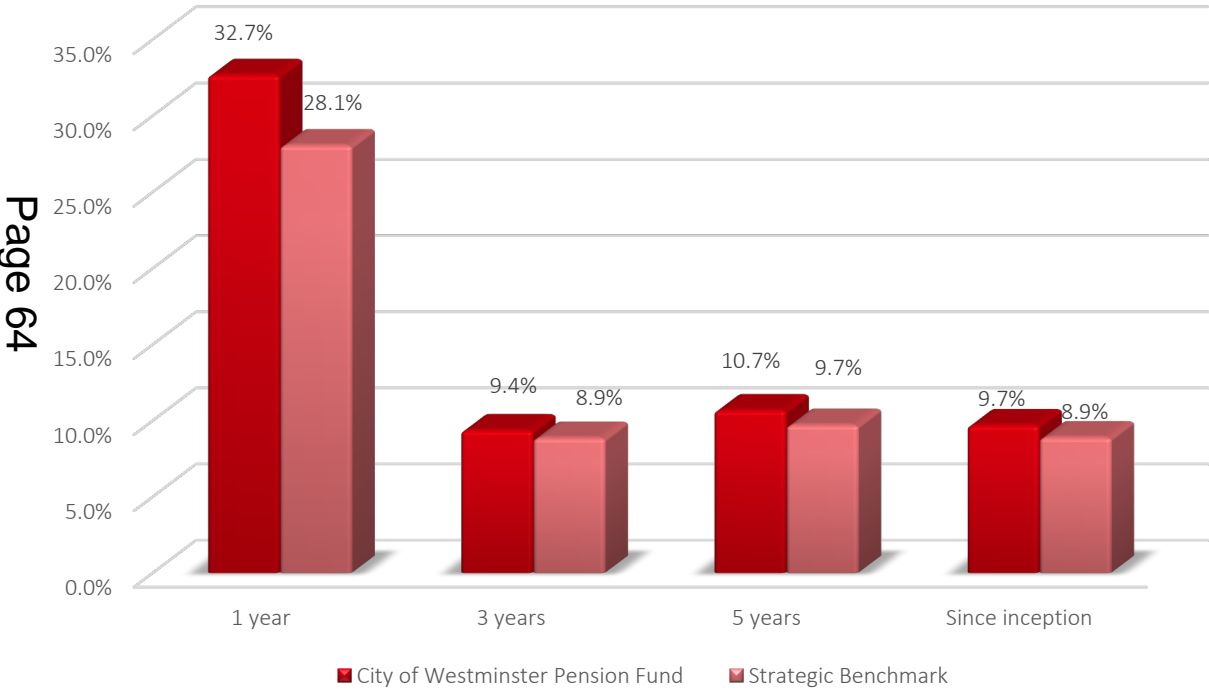
### FUND ASSETS



# Investment Performance

The Fund’s overall performance in 2020/21 outperformed its benchmark for the year by 4.6% gross of fees, as shown below. This was largely as a result of exceptional performance within the equity portfolios. Alongside this, annualised performance has exceeded the benchmark since inception and over the past three and five-years gross of fees.

ANNUALISED FUND PERFORMANCE



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

Performance of fund managers is reviewed quarterly by the Pension Fund Committee, which is supported by the Fund’s independent investment advisor, Deloitte.

## Investment Performance (continued)

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

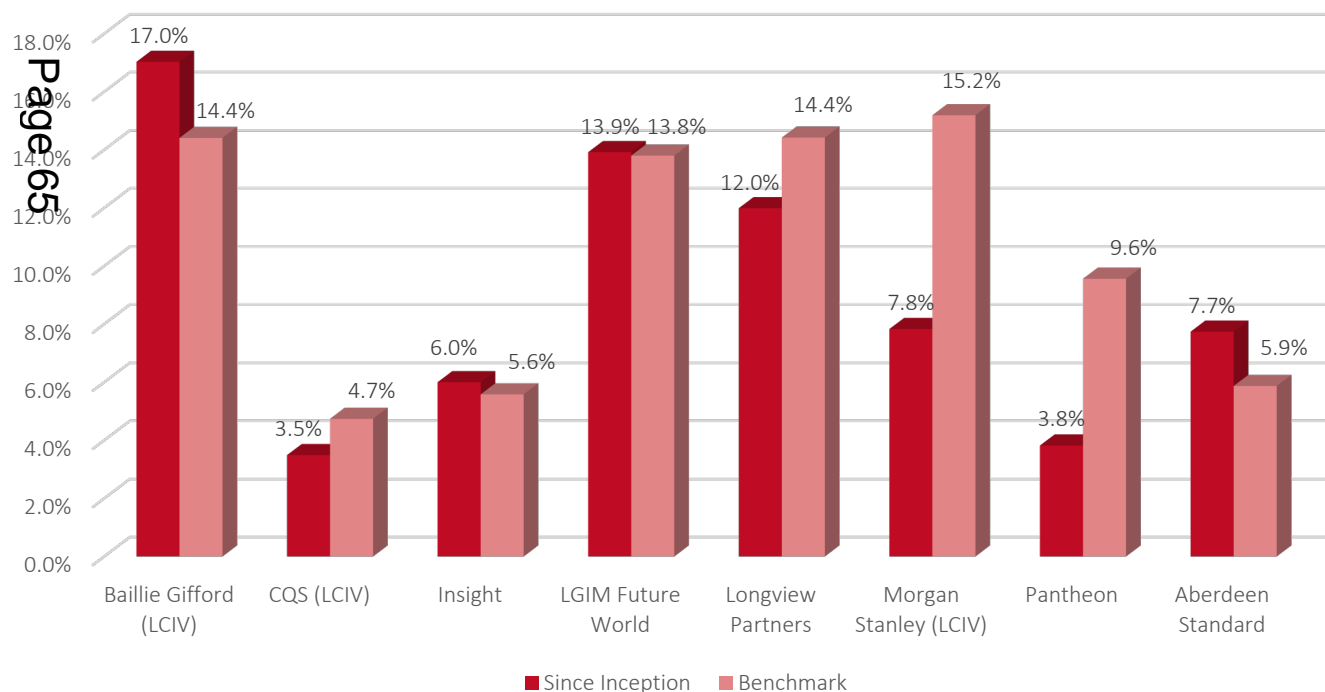
All managers have provided a positive return since inception. Baillie Gifford, LGIM, Insight and Aberdeen Standard have outperformed their benchmarks since inception. The Fund transitioned into four new mandates (LGIM Future World, Morgan Stanley, Quinbrook and Macquarie) during the year, therefore it is too early to assess the performance of the renewable infrastructure funds. The Hermes property fund was exited during the year, with funds to be transitioned to the Macquarie and Quinbrook renewable infrastructure funds. The Longview equity mandate is in the process of being transitioned into the Pantheon Global Infrastructure Fund.

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

- Targets for active fund mandates are set to outperform the benchmark by a set percentage through active stock selection and asset allocation. Fund managers with active fund mandates are Baillie Gifford (LCIV), CQS (LCIV), Insight, Longview, Macquarie, Morgan Stanley (LCIV), Pantheon and Quinbrook.

Targets for passive funds are set to achieve the benchmark through investment in a stable portfolio. Fund managers with passive fund mandates are Aberdeen Standard and LGIM.

### FUND MANAGER PERFORMANCE



## Investment Performance (continued)

Annually the Pensions and Investments Research Consultants (PIRC) compile a list of Local Authority pension performance analytics, ranking each Fund according to their performance in the 1-year to 30-year time periods. In the wider LGPS Universe, the average 1-year Fund return to 31 March 2021 was 22.70% compared to a 10-year average return of 6.9% p.a. As at 31 March 2020 the Universe comprised of 63 funds with a total value of £180bn.

The City of Westminster Pension Fund placed in the bottom quartile of fund returns for the 1-year period, this was largely due to negative performance within the equity and fixed income mandates. However, over the longer 10-year period the Fund placed in the top quartile of pension fund performance. The table below shows the LGPS Universe average returns compared to the Fund over the 1-year to 30-year period, along with average LGPS returns by asset class over the same time periods.

### Page 66 LGPS AVERAGE PERFORMANCE

	1 Year	3 Yrs (5 p.a.)	5 Yrs (% p.a.)	10 Yrs (% p.a.)	20 Yrs (% p.a.)	30 Yrs (% p.a.)
<b>Universe Average</b>	-4.8	1.9	5.2	6.9	5.5	7.9
<i>City of Westminster*</i>	-7.0	1.3	4.3	7.2	-	-
<b>Total Equity</b>	-12.5	-0.7	4.3	6.9	5.1	8.0
<b>Total Bonds</b>	1.7	2.2	3.7	5.6	5.9	7.7
<b>Alternatives</b>	7.4	7.8	9.5	8.4	7.4	-
<b>Diversified Growth</b>	-5.2	-1.1	0.2	-	-	-
<b>Property</b>	1.7	5.8	6.8	7.8	7.0	7.3

\*The City of Westminster Pension Fund has performance data up to the 10-year period.

This data has been extracted from the PIRC 2019/20 Local Authority Fund Statistics.

# Corporate Governance

## RESPONSIBLE INVESTMENT AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

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

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

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

The Pension Fund recognises that the neglect of corporate social responsibility and poor attention paid to environmental, social and governance (ESG) issues may lead to poor or reduced shareholder returns. This presents a significant responsibility for the Pension Fund Committee (the Committee). The ESG approach has become integral to the Fund's overall investment strategy.

The Fund's policies on environmental, social and governance (ESG) issues and responsible investment can be found within the Investment Strategy Statement (ISS). In addition to this, the Fund has a Responsible Investment Statement which is reviewed annually and can be found within section 9.

## PROFESSIONAL BODIES

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

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

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

## VOTING

Fund managers have the delegated authority to vote at shareholder meetings in accordance with their own guidelines, which have been discussed and agreed with the Pensions Committee. The Officers keep under close review the various voting reports that it receives from Fund managers. Equity proxy voting for 2020/21 can be found within the table on page 37.

## COLLABORATIVE VENTURES

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

Following FCA approval in 2016, the LCIV has continued to trade and the City of Westminster Pension Fund transferred the Baillie Gifford mandate (valued at £178m) into the LCIV in April 2016. This was followed by transferring the Majedie portfolio in May 2017 (valued at £308m), the CQS multi asset credit fund in November 2018 (valued at £91m). In addition to this this, the Fund transitioned proceeds from the Majedie sale into the LCIV Morgan Stanley Global Sustain fund during November 2020 (valued at £328m).

## FUNDING STRATEGY STATEMENT

The Funding Strategy Statement (Section 9) sets out the aims and purpose of the pension fund and the responsibilities of the administering authority as regards funding the scheme.

Its purpose is:

- To establish a clear and transparent fund-specific strategy to identify how employers' pension liabilities are best met going forward;
- To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;

## Corporate Governance (continued)

- To take a prudent longer-term view of funding those liabilities.

### SEPARATION OF RESPONSIBILITIES

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

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

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

### STEWARDSHIP CODE

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

The Pension Fund Committee believes that companies should be accountable to shareholders and should be structured with appropriate checks and balances so as

to safeguard shareholders' interests and deliver long-term returns.

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

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

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

<https://www.westminster.gov.uk/media/document/stewardship-policy>



### CODE OF TRANSPARENCY

Following the shift towards investment management fee transparency and consistency within the LGPS, the Scheme Advisory Board (SAB) has developed a voluntary Code of Transparency for LGPS asset managers. Transparency is also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and is included in the government's investment reform guidance and criteria for LGPS pooling.

The Code is voluntary and details the provision of transparent and consistent investment cost and fee information between investment managers and administering authorities. Signatories to the code are required to complete a template which details management expenses associated with the running of the fund, including direct and indirect costs.

Asset managers which sign up to the code are required to put systems in place within 12 months of signing up to allow the automatic submission of the templates to each Administering Authority. The SAB reserves the right to remove any signatory which is reported by an Administering Authority to be in breach of the code.

The Fund uses the templates completed by the asset managers to compile the management expenses of the Pension Fund at a detailed level. This data is used to inform investment decisions, including manager selection, risk management and holding managers to account in regard to performance fees.



## Corporate Governance (continued)

### PROXY VOTING 2020/21

The Committee has delegated the Fund's voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.

Additionally, the Fund is a member of the Pension and Lifetime Savings Association (PLSA) and the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners.

Our equity manager proxy voting for 2020/21 is shown in the below table.

Asset Manager	Number of resolutions	For	Against	Other
Billie Gifford (LCIV)	1,270	1,149	35	86
Morgan Stanley (LCIV)	156	137	16	3
Legal & General	50,998	42,731	8,022	245
Longview	435	403	25	7
<b>TOTAL</b>	<b>52,859</b>	<b>44,420</b>	<b>8,098</b>	<b>341</b>

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# Scheme Administration





# Scheme Administration

## SERVICE DELIVERY

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

The City Council administers the scheme for 32 employers (a list of employers is provided in section 2). These employers include not only the City Council, but also academy schools within the borough and a small number of organisations linked to the Council which have been admitted to the Pension Fund under agreement with the City Council.

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

## COMMUNICATION POLICY STATEMENT

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare, publish and maintain a communication policy statement, which can be found within section 9. The Communication Policy details the overall strategy for involving stakeholders in the pension fund. A key part of this strategy is a dedicated pension fund website, which includes a great deal more information about the benefits of the pension fund and this can be accessed via the following link:

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

## INTERNAL DISPUTE RESOLUTION PROCEDURE

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

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

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

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

Please see page 20 for details of all IDRP and Pensions Ombudsman cases during 2020/21.

Both TPAS and the Pensions Ombudsman can be contacted at:

10 South Colonnade  
Canary Wharf  
E14 4PU

Tel: 0800 917 4487

## Scheme Administration (continued)

### DATA QUALITY

The City of Westminster Pension Fund undertook a detailed review of our data quality following the reporting of our common (77%) and scheme specific (71%) data scores as at 31st of March 2018 in November 2018.

A data improvement plan was developed, and a series of data cleansing projects have been planned and carried out.

The Pension Fund common (89.9%) and scheme specific data (93.1%) scores improved as at 31st of March 2019 and demonstrated the success of data cleansing work specifically in relation to the Fund's active members.

### ADMINISTRATION UPDATE

This year was difficult for everyone and the pension administration team had been a primarily office based, team up to March 2020 when the pandemic hit. The administration had to adapt to home working and did so quickly and overall, the KPI data was very good. We asked the team to concentrate on three key areas including death cases, retirements and refunds.

The pension administration function was run for the majority of the year from the administration team based in East Sussex offices in Lewes as part of the Orbis combined pension administration service. The pension administration service moved from the East Sussex team to the Kingston team in April when the Orbis pension service disbanded on the 1st of April. The handover of work at the end of March may have contributed to a few late cases in that month where the KPI had previously been at 100%

The Westminster fund is now engaged with the Hampshire Pension Service (HPS) to move the administration service to them in November 2021 and the focus will be on maintaining a high level of service for members whilst ensuring a seamless transfer to the new provider.





DOMINE · JESU · REX · ET · REDEMPTOR  
PER · SANGUINEM · TUUM · SALVA · NOS

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# Actuarial Information



# Report by Actuary

## INTRODUCTION

The last full triennial valuation of the City of Westminster Pension Fund ("the Fund") was carried out as at 31 March 2019 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 30 March 2020.

## ASSET VALUE AND FUNDING LEVEL

At 31 March 2019, the smoothed value of assets was £1,410.6m which was 99% of the liabilities valued on an ongoing basis. The corresponding funding level at the previous valuation as at 31 March 2016 was 80%.

## CONTRIBUTION RATES

The contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when they fall due, known as the "primary rate";
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date known as the secondary rate.

The 2019 valuation certified a total primary rate of 17.9% p.a. of pensionable pay. Each employer body participating in the Fund has to pay a contribution rate consisting of the employer's individual primary rate and a secondary rate reflecting the employer's particular circumstances and funding position within the Fund.

Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

## ASSUMPTIONS

The assumptions used to value the liabilities at 31 March 2019 are summarised below:

Assumptions	Assumptions used for 2019 Valuation
CPI Inflation	2.6% p.a.
Salary increases	3.6% p.a.
Discount Rate:	
Scheduled bodies	4.8% p.a.
Admitted bodies	3.3% p.a.
Post retirement mortality (member) – base table	S3PA tables with a multiplier of 110% for males and 105% for females
Allowance for improvements in life expectancy	2018 CMI Model with a smoothing parameter of 7.5, an initial addition to improvements of 0.5% p.a., and a long-term rate of improvement of 1.25%
Retirement age	For each tranche of benefit the "tranche retirement age" is the earliest age a member could retire with unreduced benefits. Each member is assumed to retire at the weighted average of these for all tranches of benefit.
Allowance for cash commutation	Members will commute pension at retirement to provide a lump sum of 50% of the additional maximum allowed under HMRC rules and

Assumptions	Assumptions used for 2019 Valuation
	this will be at the rate of £12 lump sum for £1 pension.

## UPDATED POSITION

### Assets

Returns over the year to 31 March 2021 have been strong, more than offsetting the fall in asset values at the end of the previous year. As at 31 March 2021, in market value terms, the Fund assets were slightly more than where they were projected to be based on the previous valuation.

### Liabilities

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 at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

Please note that we have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20 year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20 year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK

Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

#### *Overall Position*


On balance, we estimate that the funding position has slightly improved when compared on a consistent basis to 31 March 2019 (but allowing for the update to the CPI inflation assumption).

The change in the real discount rate since 31 March 2019 is likely to place a higher value on the cost of future accrual which results in a higher primary contribution rate. No deficit contributions would be required as a result of the worsening in the funding position with the total contributions being overall higher.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to actual and potential reductions and suspensions of dividends.

There is also uncertainty around future benefits due to the McCloud/Sargeant cases and the cost cap process.

We will continue to monitor the funding level on a quarterly basis as requested by the administering authority.



**Barry McKay FFA**

**Partner, Barnett Waddingham LLP**



# 6. Pension Fund Accounts

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# Statement of Responsibilities

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

## THE COUNCIL'S RESPONSIBILITIES

The Council is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs, in line with statute this is the Section 151 Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

## THE SECTION 151 OFFICER'S RESPONSIBILITIES

The Section 151 Officer is responsible for the preparation of the Council's Statement of Accounts and of its Pension Fund Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in Great Britain ('the Code'), are required respectively to present fairly the financial position of the Council and of the Pension Fund at the accounting date and the income and expenditure for the year then ended.

In preparing these Statements of Accounts, the Section 151 Officer has:

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

The Section 151 Officer has also:

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



**Gerald Almeroth**

Executive Director - Finance and Resources  
Section 151 Officer

## APPROVAL OF STATEMENT OF ACCOUNTS

The Statement of Accounts was approved by the Westminster City Council Audit and Performance Committee.



**Councillor Ian Rowley**

Chairman of the Audit and Performance Committee

# Independent Auditors Report

**Independent auditor's report to the members of Westminster City Council on the pension fund financial statements of Westminster included in the Pension Fund Annual Report**

## OPINION

The pension fund financial statements of City of Westminster Pension Fund (the 'pension fund') administered by City of Westminster Council (the "Authority") for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2020 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 and applicable law.

## PENSION FUND ANNUAL REPORT – PENSION FUND FINANCIAL STATEMENTS

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon

is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

## THE AUDITED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 24 November 2020.

That report also includes an emphasis of matter - effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As, disclosed in note 5 to the financial statements, the ongoing impact of the Covid-19 pandemic has created uncertainty surrounding illiquid asset values. As such, the Pension Fund property and infrastructure allocations as at 31 March 2020 are difficult to value according to preferred accounting policy. Professional Valuers have not been actively valuing many similar sized assets in the market due to the current lockdown environment, as such values have been rolled over from Period 11 with an adjustment and may be inaccurate to the true 31 March position. A material valuation uncertainty was therefore disclosed in the pension fund's property and infrastructure valuation reports. As stated in our report dated 24 November, our opinion is not modified in respect of this matter.

## EXECUTIVE DIRECTOR – FINANCE AND RESOURCE'S RESPONSIBILITIES FOR THE PENSION FUND FINANCIAL STATEMENTS IN THE PENSION FUND ANNUAL REPORT

Under the Local Government Pension Scheme Regulations 2013 the Executive Director – Finance and resources of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

## Independent Auditors Report (continued)

### USE OF OUR REPORT

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Paul Dossett*

Paul Dossett, Key Audit Partner

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

London

24 November 2020

# Pension Fund Accounts and Explanatory Notes

## FUND ACCOUNT

2019/20	Notes	202/21
£'000		£'000
<b>Dealings with members, employers and others directly involved in the fund</b>		
<b>Contributions</b>		
(54,244) From Employers	6	(46,660)
(10,105) From Members	6	(10,854)
(8,267) Individual Transfers in from Other Pension Funds		(3,678)
(72,616)		(61,192)
<b>Benefits</b>		
47,628 Pensions	7	49,146
7,092 Commutation, Lump Sum Retirement and Death Benefits	7	8,677
1,190 Payments in respect of tax		521
<b>Payments to and on Account of Leavers</b>		
7,480 Individual Transfers Out to Other Pension Funds		5,602
306 Refunds to Members Leaving Service		130
63,696		64,076

## Pension Fund Accounts and Explanatory Notes (continued)

2020/21		Notes	2020/21
£'000			£'000
(8,920)	Net (Additions)/Withdrawals from Dealings with Members		2,884
6,834	Management Expenses	8	10,087
(2,086)	Net (additions)/withdrawals including management expenses		12,971
	Returns on Investments		
(16,259)	Investment Income	9	(8,656)
(1,716)	Other Income	-	(9)
(17,975)			(8,665)
114,859	(Profit) and loss on disposal of investments and changes in the market value of investments	11	(432,487)
96,884	Net return on investments		(441,152)
94,798	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(428,181)
(1,418,332)	Opening Net Assets of the Scheme		(1,323,534)
(1,323,534)	Closing Net Assets of the Scheme		(1,751,715)

# Net Assets Statement for the year ended 31 March 2021\*

2019/20		Notes	2020/21
£'000			£'000
	<b>Investment assets</b>		
150	Equities	11	150
1,300,427	Pooled Investment Vehicles	11	1,684,306
	Other Investment Balances:		
119	Income Due	11	109
19,044	Cash Deposits	11	62,788
<b>1,319,740</b>			<b>1,747,353</b>
-	<b>Investment Liabilities</b>		-
-			-
<b>1,319,740</b>	<b>Net Value of Investment Assets</b>	<b>10</b>	<b>1,747,353</b>
4,640	<b>Current Assets</b>	18	5,198
(846)	<b>Current Liabilities</b>	19	(836)
<b>1,323,534</b>	<b>Net Assets of the Fund Available to Fund Benefits at the Period End</b>		<b>1,751,715</b>

\* The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed in Note 17.

# Note 1 Description of the City of Westminster Pension Fund

## a) General

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

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

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

## b) Funding

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from interest and dividends on the Fund's investments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2021. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was as at 31 March 2019, this covers the three financial years following 2019/20. Currently employer contribution rates range from 12.0% to 37.0% of pensionable pay, as per the 2019 valuation.

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

### c) Benefits

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

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

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

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

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

### d) Governance

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

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

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



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

### e) Investment Principles

In accordance with the LGPS (Management and Investment of Funds) Regulations 2016 the Committee approved an Investment Strategy Statement on 11 March 2021 (available on the Council's website). The Statement shows the Authority's compliance with the Myners principles of investment management.

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

### f) Membership

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

Organisations participating in the City of Westminster Pension Fund include:

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

The following table summarises the membership numbers of the scheme:

31 March 2020		31 March 2021
32	Number of employers with active members	32
3,981	Active members	4,228
6,122	Pensioners receiving benefits	6,280
6,700	Deferred Pensioners	6,856
<b>16,803</b>		<b>17,364</b>

## Note 2 Basis of preparation of financial statements

The Statement of Accounts summarise the Fund's transactions for 2020/21 and its position at year end as at 31st March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector.

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

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Authority has opted to disclose this information in an accompanying report to the accounts, which is disclosed in Note 17. The Pension Fund Accounts have been prepared on a going concern basis.

# Note 3 Summary of significant accounting policies

## FUND ACCOUNT – REVENUE RECOGNITION

### a) Contribution Income

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

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

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

### b) Transfers to and from other schemes

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

### c) Investment Income

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

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

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

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

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

## FUND ACCOUNT – EXPENSE ITEMS

### d) Benefits Payable

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

### e) Taxation

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

### f) VSP, MSP and life time allowance

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

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

## Note 3 Summary of significant accounting policies (continued)

### g) Management Expenses

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

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

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

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

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

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

## NET ASSETS STATEMENT

### h) Financial Assets

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

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

### i) Derivatives

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

### j) Foreign Currency Transactions

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

### k) Cash and Cash Equivalents

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

### l) Financial Liabilities

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

### m) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits should be disclosed and based on the requirements of IAS 19 Post-Employment Benefits and relevant actuarial standards. As permitted under the Code, the financial statements include a note disclosing the actuarial present value of retirement benefits (see Note 17).

### n) Additional Voluntary Contributions

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 20).

### o) Recharges from the General Fund

The LGPS (Management and Investment of Funds) Regulations 2016 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have been charged to the Fund on the basis of actual time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the Fund are set out separately in Note 21.

# Note 4 Critical judgements in applying accounting policies

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

## PENSION FUND LIABILITY

The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The methodology used in the intervening years follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in Note 16. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

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

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

## VALUATION OF INVESTMENTS LEVEL 3

The Pension Fund contains investments in infrastructure and renewables infrastructure that are classified within the financial statements as level 3 investments (as detailed in note 13). These funds are valued according to non-exchange based market valuations. As a result of this, the final realised value of those funds may differ slightly from the valuations presented in the accounts.

## COVID-19 IMPACT

Following the uncertainty surrounding asset values as result of the COVID-19 outbreak during late 2019/20, Officers now believe asset values have stabilised in order that a materially accurate value can be applied to illiquid assets.

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £42.25m. A 0.1% increase in assumed earnings would increase the value of liabilities by approximately £2.95m and a year increase in life expectancy would increase the liability by about £103.99m.

# Note 6 Contributions receivable

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

## BY AUTHORITY

2019/20		2020/21
£'000		£'000
(56,968)	Administering Authority	(49,833)
(3,087)	Scheduled bodies	(3,679)
(4,294)	Admitted bodies	(4,002)
<b>(64,349)</b>		<b>(57,514)</b>

## BY TYPE

2019/20		2020/21
£'000		£'000
(10,105)	Employees' normal contributions	(10,854)
	Employer's contributions:	
(21,634)	Normal contributions	(23,779)
(31,820)	Deficit recovery contributions	(22,752)
(790)	Augmentation contributions	(129)
<b>(64,349)</b>		<b>(57,514)</b>

# Note 7 Benefits payable

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

## BY TYPE

2019/20		2020/21
£'000		£'000
47,628	Pensions	49,146
6,686	Commutation and lump sum retirement benefits	7,375
406	Lump sum death benefits	1,302
<b>54,720</b>		<b>57,823</b>

## BY AUTHORITY

2019/20		2020/21
£'000		£'000
42,709	Administering Authority	44,272
2,481	Scheduled Bodies	2,730
9,530	Admitted Bodies	10,821
<b>54,720</b>		<b>57,823</b>



# Note 8 Management Expenses

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

2019/20		2020/21
£'000		£'000
750	Administration Expenses	981
422	Oversight and Governance	428
5,662	Investment Management Expenses	8,678
<b>6,834</b>		<b>10,087</b>

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

2019/20		2020/21
£'000		£'000
4,778	Management fees	6,211
85	Performance fees	45
31	Custody fees	54
768	Transaction costs	2,368
<b>5,662</b>		<b>8,678</b>

# Note 9 Investment Income

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

2019/20		2020/21
£'000		£'000
13,856	Pooled investments - unit trust and other managed funds	5,658
2,070	Pooled property investments	2,406
182	Infrastructure Income	404
151	Interest and cash deposits	188
16,259	<b>Total before taxes</b>	8,656
<b>16,259</b>	<b>Total</b>	<b>8,656</b>

# Note 10 Investment Management Arrangements

As at 31 March 2021, the investment portfolio is managed by ten external managers:

- The UK property portfolio is managed by Aberdeen Standard;
- Fixed income mandates are managed by CQS (Multi Asset Credit, via the London CIV) and Insight (Bonds);
- Alternatives are managed by Pantheon (Infrastructure), Macquarie (Renewable Infrastructure) and Quinbrook (Renewable Infrastructure);
- Equity portfolios are split between Baillie Gifford (active global, managed by the London CIV), Morgan Stanley (active global, managed by the London CIV), Legal and General Investment Management (passive global) and Longview Partners (active global).

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

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

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

The market value and proportion of investments managed by each fund manager at 31 March 2021 was as follows:

31 March 2020	%	Fund Manager	Mandate	31 March 2021	%
£'000				£'000	
<b>Investments managed by the London CIV asset pool:</b>					
3	0.0%	London LGPS CIV Ltd - Majedie	UK Equity (Active)	3	0.0%
150	0.0%	London CIV	UK Equity (Passive)	150	0.0%
<b>153</b>	<b>0.0%</b>		<b>UK Equity</b>	<b>153</b>	<b>0.0%</b>
276,397	20.9%	London LGPS CIV Ltd - Baillie Gifford	Global Equity (Active)	429,778	24.6%
0	0.0%	London LGPS CIV Ltd - Morgan Stanley	Global Equity (Active)	337,309	19.3%
523,071	39.6%	LGIM Passive	World Equity (Passive)	40	0.0%
0	0.0%	LGIM Future World	World Equity (Passive)	398,414	22.8%
<b>799,468</b>	<b>60.5%</b>		<b>Global Equity</b>	<b>1,165,541</b>	<b>66.7%</b>
78,765	6.0%	London LGPS CIV Ltd - CQS	Multi Asset Credit	98,641	5.6%
<b>78,765</b>	<b>6.0%</b>		<b>Fixed Income</b>	<b>98,641</b>	<b>5.6%</b>
<b>878,386</b>	<b>66.5%</b>		<b>Total pooled</b>	<b>1,264,335</b>	<b>72.3%</b>
<b>Investments managed outside of the London CIV asset pool:</b>					
55,353	4.2%	Longview	Global Equity (Active)	69,172	4.0%
<b>55,353</b>	<b>4.2%</b>		<b>Global Equity</b>	<b>69,172</b>	<b>4.0%</b>
216,088	16.4%	Insight Buy and Maintain Bond Fund	Bonds	240,140	13.7%
<b>216,088</b>	<b>16.4%</b>		<b>Bonds</b>	<b>240,140</b>	<b>13.7%</b>
61,478	4.7%	Hermes	Property	89	0.0%
68,592	5.2%	Standard Life	Property	71,261	4.1%
<b>130,070</b>	<b>9.9%</b>		<b>Property</b>	<b>71,350</b>	<b>4.1%</b>
20,639	1.6%	Pantheon Global Infrastructure	Infrastructure	29,728	1.7%
0	0.0%	Macquarie GIG Renewable Energy	Infrastructure	6,004	0.3%
0	0.0%	Quinbrook Renewables Impact Fund	Infrastructure	7,333	0.4%
<b>20,639</b>	<b>1.6%</b>		<b>Alternatives</b>	<b>43,065</b>	<b>2.4%</b>
<b>422,150</b>	<b>32.0%</b>		<b>Total outside pool</b>	<b>423,727</b>	<b>24.2%</b>
19,204	1.4%	Cash deposits		59,291	3.5%
<b>1,319,740</b>	<b>100%</b>	<b>Total investments at 31 March 2021</b>		<b>1,747,353</b>	<b>100%</b>

# Note 11 Reconciliation in movement in investments

2019/20	Market value 1 April 2019	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2020
	£'000	£'000	£'000	£'000	£'000
Equities	150	-	-	-	150
Pooled investments	1,260,862	20,035	(10,404)	(120,669)	1,149,824
Pooled property investments	127,023	84	(665)	3,537	129,979
Infrastructure	14,403	9,243	(5,673)	2,650	20,623
<b>Total</b>	<b>1,402,438</b>	<b>29,362</b>	<b>(16,742)</b>	<b>(114,482)</b>	<b>1,300,576</b>
Cash deposits	5,802			(367)	19,045
Amounts receivable for sales of investments	-			-	-
Investment income due	120			-	119
Spot FX contracts	-			(10)	-
Amounts payable for purchases of investments	-			-	-
<b>Net investment assets</b>	<b>1,408,360</b>			<b>(114,859)</b>	<b>1,319,740</b>

## Note 11 Reconciliation in Movement in Investments (continued)

2020/21	Market value 1 April 2020	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Equities	150	-	-	-	150
Pooled equity investments	1,149,824	9,728	(20,556)	431,013	1,570,009
Pooled property investments	129,979	64	(59,905)	1,123	71,261
Infrastructure	20,623	29,346	(7,414)	481	43,036
<b>Total</b>	<b>1,300,576</b>	<b>39,138</b>	<b>(87,875)</b>	<b>432,617</b>	<b>1,684,456</b>
Cash deposits	19,045			(100)	62,788
Amounts receivable for sales of investments	-			-	-
Investment income due	119			-	109
Spot FX contracts	-			(30)	-
Amounts payable for purchases of investments	-			-	-
<b>Net investment assets</b>	<b>1,319,740</b>			<b>432,487</b>	<b>1,747,353</b>

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

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

# Note 12 Investments exceeding 5% of net assets

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

31 March 2020 Market Value		Holding	31 March 2021 Market Value	
£'000	% Holding		£'000	% Holding
523,071	39.6%	LGIM Global Passive	-	0.0%
-	-	LGIM Future World	398,414	22.8%
-	-	London LGPS CIV Ltd - Morgan Stanley	337,309	19.3%
276,397	20.9%	London LGPS CIV Ltd - Baillie Gifford	429,622	24.6%
55,353	4.2%	Longview	-	0.0%
216,088	16.4%	Insight Buy and Maintain Bond Fund	240,140	13.7%
78,765	6.0%	London LGPS CIV Ltd - CQS	95,312	5.5%
68,592	5.2%	Aberdeen Standard	-	0.0%
<b>1,218,266</b>	<b>92.3%</b>	<b>Total Top Holdings</b>	<b>1,500,797</b>	<b>85.9%</b>
<b>1,319,740</b>		<b>Total Value of Investments</b>	<b>1,747,353</b>	

# Note 13a Fair Value – Basis of Valuation

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

Description of asset	Valuation hierarchy 19/20	Valuation hierarchy 20/21	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments - Equity Funds UK and Overseas Managed Funds	Level 2	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets.	Evaluated price feeds	Not required
Quoted UK and Overseas Bonds	Level 2	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	Evaluated price feeds	Not required
Pooled Long Lease Property Fund	Level 2	Level 2	The Aberdeen Standard Long Lease Property Fund is priced on a Single Swinging Price.	In house evaluation of market data	Not required
Pooled Investments – Multi Asset Credit	Level 2	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	Evaluated price feeds	Not required
Pooled Investments - Infrastructure	Level 3	Level 3	Latest available fair value provided by the manager, adjusted for cash movements subsequent to that date as required.	Manager valuation statements are prepared in accordance with ECVA guidelines	Upward valuations are only considered when there is validation of the investment objectives and such progress can be demonstrated

### SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2021.

Description of asset	Assessed Valuation Range (+/-)	Value at 31 March 2021	Value on increase	Value on decrease
		£000	£000	£000
Pantheon - Infrastructure	10.0%	29,698	32,668	26,728
Quinbrook - Renewable Infrastructure	9.1%	7,333	8,001	6,666
Macquarie - Renewable Infrastructure	10.0%	6,004	6,605	5,404
<b>Total</b>		<b>43,035</b>	<b>47,274</b>	<b>38,798</b>

As at 31 March 2020:

Description of asset	Assessed Valuation Range (+/-)	Value at 31 March 2020	Value on increase	Value on decrease
		£000	£000	£000
Hermes - Property fund	1.3%	61,388	62,186	60,590
Pantheon – Infrastructure*	12.2%	20,623	23,139	18,107
<b>Total</b>		<b>82,011</b>	<b>85,325</b>	<b>78,697</b>

\*Pantheon confirmed due to the valuation assumptions used and material uncertainty during the ongoing Covid-19 pandemic, the true market value could be as much as 12.2% greater or lesser than reflected in the statement of accounts



# Note 13b Valuation of Financial Instruments carried at Fair Value

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

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

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

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

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

31 March 2020				31 March 2021		
Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3		Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3
£'000	£'000	£'000		£'000	£'000	£'000
<b>Financial Assets</b>						
-	1,218,415	82,161	Financial assets at fair value through profit and loss	-	1,641,270	43,185
-	-	-	Financial liabilities at fair value through profit and loss	-	-	-
-	1,218,415	82,161		-	1,641,270	43,185
<b>1,300,576</b>				<b>1,684,455</b>		

# Note 13c Reconciliation of Fair Value Measurements within Level 3

2020/21	Opening balance	Transfers into Level 3	Transfers out of Level 3	Purchases	Sales	Unrealised gains/losses	Realised gains/losses	Closing balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equity	150	-	-	-	-	-	-	150
Hermes - Property fund	61,388	-	-	-	(58,904)	-	(2,484)	-
Pantheon - Infrastructure	20,623	-	-	11,760	(2,185)	(735)	235	29,698
Quinbrook - Renewable Infrastructure	-	-	-	11,157	(3,500)	(324)	-	7,333
Macquarie - Renewable Infrastructure	-	-	-	6,428	-	(424)	-	6,004
<b>Total</b>	<b>82,161</b>	<b>-</b>	<b>-</b>	<b>29,345</b>	<b>(64,589)</b>	<b>(1,483)</b>	<b>(2,249)</b>	<b>43,185</b>

As at 31 March 2020:

2019/20	Opening balance	Transfers into Level 3	Transfers out of Level 3	Purchases	Sales	Unrealised gains/losses	Realised gains/losses	Closing balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equity	150	-	-	-	-	-	-	150
Hermes - Property fund	62,315	-	-	-	-	-	(927)	61,388
Pantheon - Infrastructure	14,403	-	-	9,243	(5,673)	-	2,650	20,623
<b>Total</b>	<b>76,868</b>	<b>-</b>	<b>-</b>	<b>9,243</b>	<b>(5,673)</b>	<b>-</b>	<b>1,723</b>	<b>82,161</b>

# Note 14a Classification of Financial Instruments

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

31-Mar-20			31-Mar-21		
Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost
£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial Assets</b>					
<b>Pooled funds - investment vehicles</b>					
1,149,974		Pooled funds	1,570,159		
271,591		UK Unit Trust - Property	71,261		
20,623		Infrastructure	43,036		
	807	<b>Cash Balances (held directly by Fund)</b>		1,224	
	119	<b>Other Investment Balances</b>		109	
	19,044	<b>Cash Deposits</b>		62,788	
	3,833	<b>Debtors</b>		3,974	
<b>1,300,577</b>	<b>23,803</b>	<b>-</b>	<b>1,684,456</b>	<b>68,095</b>	<b>-</b>

## Note 14a Classification of Financial Instruments (continued)

31 March 2020				31 March 2021		
Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost		Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
<b>Financial Liabilities</b>						
<b>Derivative Contracts</b>						
-	-	-	Futures	-	-	-
-	-	-	Forward Foreign Exchange	-	-	-
-	-	-	Other Investment Balances	-	-	-
-	-	(209)	Creditors	-	-	(223)
-	-	(209)		-	-	(223)
1,300,577	23,803	(209)	Total	1,684,456	68,095	(223)
<b>1,324,171</b>				<b>1,752,328</b>		

# Note 14b Net Gains and Losses on Financial Instruments

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

31 March 2020		31 March 2021
£'000		£'000
<b>Financial Assets</b>		
(114,482)	Designated at fair value through profit and loss	432,617
(367)	Loans and receivables	(100)
(114,849)		432,517
<b>Financial Liabilities</b>		
(10)	Financial liabilities at amortised cost	(30)
(10)		(30)
<b>(114,859)</b>	<b>Total</b>	<b>432,487</b>

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

# Note 15 Nature and extent of risks arising from Financial Instruments

## RISK AND RISK MANAGEMENT

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

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

### a) Market Risk

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

#### Price Risk

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

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

The Fund has determined that a 10.9% increase or decrease in market price risk is reasonable for 2020/21. This analysis excludes debtors, creditors, other investment balances and forward foreign exchange, as these financial instruments are not subject to price risk.

Assets exposed to price risk	Price Risk	Value £bn	Value on price increase	Value on price decrease
		£'000	£'000	£'000
As at 31 March 2020	10.0%	1,319,740	1,451,714	1,187,766
<b>As at 31 March 2021</b>	<b>10.9%</b>	<b>1,747,353</b>	<b>1,937,814</b>	<b>1,556,891</b>

## Note 15 Nature and extent of risks arising from Financial Instruments (continued)

### Interest Rate Risk

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

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

Assets exposed to interest rate risk	Average Duration	Value	Value on 1% increase	Value on 1% decrease
	Yrs	£'000	£'000	£'000
Fixed Income - Global Bonds	8.15	216,088	198,477	233,699
Fixed Income - Global Multi Asset Credit	1.86	78,765	77,300	80,230
<b>As at 31 March 2020</b>		<b>294,853</b>	<b>275,776</b>	<b>313,930</b>

Assets exposed to interest rate risk	Average Duration	Value	Value on 1% increase	Value on 1% decrease
	Yrs	£'000	£'000	£'000
Fixed Income - Global Bonds	8.27	240,140	220,281	260,000
Fixed Income - Global Multi Asset Credit	1.33	98,641	97,329	99,953
<b>As at 31 March 2021</b>		<b>338,781</b>	<b>317,610</b>	<b>359,953</b>

### Currency Risk

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

Overseas equities, fixed interest securities and futures, cash in foreign currencies, forward foreign exchange contracts and some elements of the pooled investment vehicles are exposed to currency risk. The following table demonstrates the change in value of these assets had there been a 6.44% strengthening/weakening of the pound against foreign currencies during 2020/21. This has fallen from a 10.0% currency risk as at 31 March 2020, reflecting a reduction in volatility following the UK's orderly exit from the EU.

## Note 15 Nature and extent of risks arising from Financial Instruments (continued)

Assets exposed to			Value on	Value on
currency risk	Currency Risk	Value	foreign exchange rate increase	foreign exchange rate decrease
		£'000	£'000	£'000
As at 31 March 2020	10.0%	316,823	348,505	285,140
<b>As at 31 March 2021</b>	<b>6.44%</b>	<b>754,503</b>	<b>803,093</b>	<b>706,215</b>

### b) Credit Risk

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

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

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

### c) Liquidity Risk

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

The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions. As at 31 March 2021, liquid assets were £1,633m representing 93% of total fund assets (£1,169m at 31 March 2020 representing 89% of the Fund at that date). The majority of these investments can in fact be liquidated within a matter of days.



# Note 16 Funding Arrangements

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

The latest full triennial valuation of the Fund was carried out by Barnett Waddingham, the Fund's actuary, as at 31 March 2019 in accordance with the Funding Strategy Statement of the Fund and Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. The results were published in the triennial valuation report dated 14 March 2019, with the funding level rising to 100%. This report details the fund assumptions and employer contribution rates for the three years from 2020/21. The report and Funding Strategy Statement are both available on the Council's website.

The actuary's smoothed market value of the scheme's assets at 31 March 2019 was £1,410.6m and the Actuary assessed the present value of the funded obligation at £1,430.6m. This indicates a net liability of £20m, which equates to a funding position of 99% (2016: £264.1m and 80%).

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

Future assumed returns at 2019	2019 Allocation %	Neutral Assumption %
Corporate Bonds	13.5	2.6
Equities	65.0	6.7
Infrastructure	5.0	6.7
Multi Asset Credit	6.5	4.8
Property	10.0	3.7

Financial assumptions	2019 %	2016 %	2013 %
Discount rate - scheduled bodies	4.8	5.1	5.9
Discount rate - admitted bodies	3.3	4.5	4.9
RPI	3.6	3.3	3.5
CPI	2.6	2.4	2.7
Pension increases	2.6	2.4	2.7
Short-term pay increases	n/a	2.4	1.0
Long-term pay increases	3.6	3.9	4.5

The contribution rate is set on the basis of the cost of future benefit accrual, increased to bring the funding level back to 100% over a period of 19 years, as set out in the Funding Strategy Statement (2016: 22 years). The common future service contribution rate for the Fund was set at 17.9% of pensionable pay (2016: 16.9%).

The triennial valuation also sets out the individual contribution rate to be paid by each employer from 1 April 2020 depending on the demographic and actuarial factors particular to each employer. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

# Note 17 Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2021. The figures have been prepared by Barnett Waddingham, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pension's legislation.

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

31 March 2020		31 March 2021	
£'000		£'000	
(1,860,231)	Present Value of Promised Retirement Benefits	(2,337,834)	
1,319,740	Fair Value of Scheme Assets (bid value)	1,747,353	
<b>(540,491)</b>	<b>Net Liability</b>	<b>(590,481)</b>	

Present Value of Promised Retirement Benefits comprise of £2,310m (2019/20: £1,839m) and £28.3m (2019/20: £21.4m) in respect of vested benefits and non-vested benefits respectively as at 31 March 2021.

## ASSUMPTIONS

To assess the value of the Fund's liabilities at 31 March 2021, the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2019 have been rolled forward, using financial assumptions that comply with IAS19.

## DEMOGRAPHIC ASSUMPTIONS

The demographic assumptions used are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2019. The post retirement mortality tables adopted are the S3PA tables with a multiplier of 110%, for males and 105% for females. These base tables are then projected using the CMI 2020 Model, allowing for a long-term rate of improvement of 1.25% p.a.

Assumed life expectancy from age 65 is:

Life expectancy from age 65 years		31 March 2020	31 March 2021
Retiring today	Males	21.8	21.6
	Females	24.4	24.3
Retiring in 20 years	Males	23.2	22.9
	Females	25.8	25.7

## FINANCIAL ASSUMPTIONS

The main financial assumptions are:

	31 March 2020	31 March 2021
	%	%
RPI increases	2.90	3.20
CPI increases	1.90	2.80
Salary increases	2.90	3.80
Pension increases	1.90	2.80
Discount rate	2.35	2.00

# Note 18 Current Assets

31 March 2020		31 March 2021
£'000		£'000
<b>Debtors:</b>		
2,436	Contributions due - employers	2,608
776	Contributions due - employees	826
621	Sundry debtors	540
807	Cash balances	1,224
<b>4,640</b>	<b>Total</b>	<b>5,198</b>

## ANALYSIS OF DEBTORS

31 March 2020		31 March 2021
£'000		£'000
-	Central Government Bodies	1
787	Other entities and individuals	654
3,049	Administering Authority	3,319
<b>3,833</b>	<b>Total</b>	<b>3,974</b>

# Note 19 Current Liabilities

31 March 2020		31 March 2021
£'000		£'000
(846)	Sundry creditors	(836)
<b>(846)</b>	<b>Total</b>	<b>(836)</b>

31 March 2020		31 March 2021
£'000		£'000
(637)	Central government bodies	(613)
(209)	Other entities and individuals	(223)
<b>(846)</b>	<b>Total</b>	<b>(836)</b>

# Note 20 Additional Voluntary Contributions

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

31 March 2020		31 March 2021	
Market Value		Market Value	
£'000		£'000	
828	Aegon	934	
214	Utmost Life and Pensions*	214	
<b>1,042</b>	<b>Total</b>	<b>1,148</b>	

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

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

# Note 21 Related Party Transactions

The Fund is administered by Westminster City Council. The Council incurred costs of £0.545m in the period 2020/21 (2019/20: £0.535m) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses. The Fund uses the same Banking and Control Service provider as WCC and no charge is made in respect of this.

## KEY MANAGEMENT PERSONNEL REMUNERATION

The key management personnel of the Fund are the Members of the Pension Fund Committee, the Director of Finance and Resources, the Tri-Borough Director of Pensions and Treasury Management and the Director of People Services. There were no costs apportioned to the Pension Fund in respect of the Director of Finance and Resources post for 2019/20 and 2020/21. Total remuneration payable to key management personnel from the Pension Fund is set out below:

31 March 2020		31 March 2021	
£'000		£'000	
56	Short-term benefits	63	
253	Post-employment benefits	132	
<b>309</b>	<b>Total</b>	<b>195</b>	

## Note 22 External audit costs

The external fee payable to the Fund's external auditors Grant Thornton UK LLP was £25k (£16k in 2019/20).

31 March 2020	31 March 2021
£'000	£'000
16 External audit fees	25
<b>16 Total</b>	<b>25</b>

## Note 23 Events after the reporting period

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

## Note 24 Contractual Commitments

The Fund has committed \$91.5m (£66.4m) to the Pantheon Global Infrastructure Fund III, of this commitment \$50.5m (£36.7m) was still outstanding at 31 March 2021. Alongside this, during the year the Fund committed £50m to the Quinbrook Renewables Impact Fund with £42.7m outstanding as at 31 March 2021. The Fund has also committed €55m (£46.8m) to the Macquarie Renewable Energy Fund, €47.9m (£40.8m) of which was outstanding at 31 March 2021.





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# Asset Pools

# Asset Pool Background and Governance

## BACKGROUND

During 2015 the Ministry of Housing, Communities and Local Government (MHCLG) issued guidance on LGPS asset pooling (LGPS: Investment Reform Criteria and Guidance), which sets out how the government expected funds to establish asset pooling arrangements. In January 2019, the MHCLG issued a consultation and draft guidance on asset pooling within the LGPS, setting out changes to the pooling framework. This guidance will set out the requirements on administering authorities, replacing previous guidance, and build on previous ministerial communications and guidance on investment strategies.

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

The pension funds across England and Wales have come together to form eight asset pools. The Fund joined the London Collective Investment Vehicle (LCIV) in December 2015, the pool comprises of the 32 local authorities within London and has £23.6bn of assets under management, including £11bn under direct management, with 19 funds launched as of 2020/21.

The Fund has transitioned assets into the London CIV with a value of £1.264bn or 72% as at the 31 March 2021. Going forward the Fund will look to transition further assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

## GOVERNANCE

There are a number of governance issues to be considered under pooling arrangements such as the relationship between the pension fund and asset pool, governance structure of the pool and the role of administering authorities.

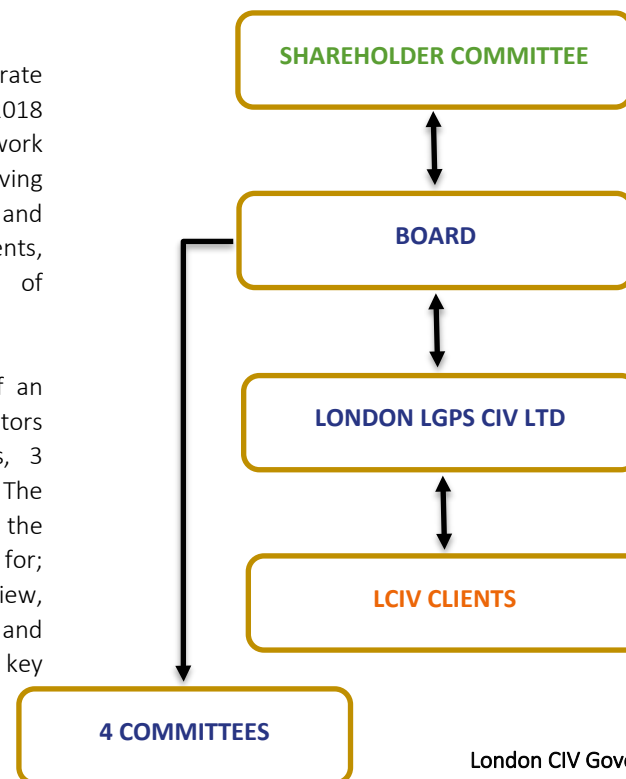
The London CIV Shareholder Committee is responsible for scrutinising the actions of the LCIV Company Board, reporting and transparency, consultation on the strategy, responsible investment and emerging issues. The Committee comprises of 12 members including Councillors and Treasurers from the LLAs.

London CIV shareholders approved a new Corporate Governance and Controls framework at the July 2018 Annual General Meeting (AGM). This framework details the governance arrangements for approving the London CIV's annual budget, business plan and objectives, governance structures and appointments, shareholder agreement and transparency of information and reporting.

The London CIV Company Board comprises of an independent Chairman, 7 non-executive Directors (NEDs), including 2 nominated by the LLAs, 3 executive Directors and the LCIV Treasurer. The Board has a duty to act in the best interests of the shareholders and has collective responsibility for; strategy oversight, budgeting, performance review, major decision making, financial reporting and controls, compliance and risk management, key policies and governance.

The London CIV has four Committees, responsible for investment oversight, audit and risk, remuneration and nominations and day to day operations of the company. These comprise of executive and non-executive members.

External independent oversight and assurance of the pool company is provided by the FCA, depositary, external auditors and the MHCLG. The London CIV hosts an AGM on a semi-annual basis, to which all 32 members are invited. This allows members the opportunity to exercise shareholder power, approve the annual budget and hold the Board to account.



London CIV Governance Structure



# Pool Set Up Costs

## POOL SET UP AND TRANSITION COSTS

The set up and transition costs incurred by the Fund in relation to pooling are detailed in the following table.

	2020/21			
	Direct	Indirect	Total	Cumulative
	£'000	£'000	£'000	£'000
<b>Set up costs</b>				
Other costs	6	-	6	16
<b>Total set up costs</b>	<b>6</b>	<b>-</b>	<b>6</b>	<b>16</b>
<b>Transition costs</b>				
Taxation	-	-	-	130
Other transition costs	838	-	838	932
<b>Total transition costs</b>	<b>838</b>	<b>-</b>	<b>838</b>	<b>1,062</b>

## TOTAL EXPECTED COSTS AND SAVINGS

The Pension Fund has four mandates held with the London CIV pool company; Baillie Gifford Alpha Growth Equities, Morgan Stanley Global Sustain Equities, LGIM Future World Equities and CQS Multi Asset Credit. The following table details actual and forecasted costs and savings to 2024/25 by pooling these funds.

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Set up costs	0	(2)	(4)	(4)	(6)	(5)	(5)	(5)	(5)
Transition costs	(25)	0	(3)	(65)	(838)	0	0	0	0
Fee savings/(costs)	226	(552)	(470)	(2)	982	1,626	1,659	1,692	1,726
<b>Net savings/(costs) realised</b>	<b>201</b>	<b>(554)</b>	<b>(477)</b>	<b>(71)</b>	<b>138</b>	<b>1,621</b>	<b>1,654</b>	<b>1,687</b>	<b>1,721</b>

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

# Other Investment Management Costs

The table below splits investment management costs between pooled and non-pooled.

	Asset Pool			Non-asset pool			Fund Total
	Direct	Indirect	Total	Direct	Indirect	Total	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Management fees	2,886	-	2,886	3,260	-	3,260	6,146
Asset pool shared costs	110	-	110	-	-	-	110
Transaction costs	160	1,732	1,892	-	476	476	2,368
Custody	-	-	-	54	-	54	54
<b>Total</b>	<b>3,156</b>	<b>1,732</b>	<b>4,888</b>	<b>3,314</b>	<b>476</b>	<b>3,790</b>	<b>8,678</b>

An analysis of operational expenses including variances to prior years can be found within section 2 of this report.

# Asset Allocations and Performance

Asset allocation and performance is separated by pooled and non-pooled in the following table.

Asset Category	Opening Value		Closing Value		Performance	Passive Index	Benchmark
Gross							
	£'000	%	£'000	%	%	%	%
<b>Asset pool managed</b>							
UK Equity (Active)	3	0.0%	3	0.0%	N/A	N/A	N/A
UK Equity (Passive)	150	0.0%	150	0.0%	N/A	N/A	N/A
Global Equity (Active)	276,397	20.9%	767,087	43.9%	56.2%	N/A	41.3%
World Equity (Passive)*	523,071	39.6%	398,454	22.8%	N/A	N/A	N/A
Multi Asset Credit	78,765	6.0%	98,641	5.6%	25.2%	N/A	4.4%
<b>Total</b>	<b>878,386</b>	<b>66.6%</b>	<b>1,264,335</b>	<b>72.3%</b>			
<b>Non-asset pool managed</b>							
Global Equity (Active)	55,353	4.2%	69,172	4.0%	34.9%	N/A	40.7%
Global Bonds	216,088	16.4%	240,140	13.7%	10.1%	N/A	7.2%
Property**	61,478	4.7%	89	0.0%	N/A	N/A	N/A
Property (Passive)	68,592	5.2%	71,261	4.1%	N/A	3.8%	-3.7%
Infrastructure	20,639	1.6%	29,728	1.7%	-3.8%	N/A	8.4%
Renewable Infrastructure	-	0.0%	13,337	0.7%	N/A	N/A	N/A
Cash	19,205	1.5%	59,291	3.5%	N/A	N/A	N/A
<b>Total</b>	<b>441,354</b>	<b>33.4%</b>	<b>483,018</b>	<b>27.7%</b>			
<b>Grand Total</b>	<b>1,319,740</b>	<b>100%</b>	<b>1,747,353</b>	<b>100.0%</b>			

\*During the year the Fund transitioned from the LGIM Global Passive Fund into the LGIM Future World Fund

\*\*During the year the Fund terminated the Hermes property mandate with funds to be transitioned into renewable infrastructure

See section 3 of this report for more information regarding Fund performance and asset management.

8.

# Glossary and Contacts

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# Glossary of Terms

## ACCOUNTING POLICIES

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

## ACCRUALS

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

## ACTIVE MANAGEMENT

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

## ACTIVE MEMBER

Current employee who is contributing to a pension scheme.

## ACTUARIAL GAINS AND LOSSES

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

## ACTUARY

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

## ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC)

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

## ADMITTED BODY

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

## ASSET ALLOCATION

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

## BENCHMARK

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

## BONDS

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

## CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTING)

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

## CREDITORS

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

## DEBTORS

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

## DEFERRED MEMBERS

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

## DEFINED BENEFIT SCHEME

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

## Glossary of Terms (continued)

### DERIVATIVE

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

### EMPLOYER CONTRIBUTION RATES

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

### EQUITIES

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

### EXCHANGE TRADED

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

### FINANCIAL ASSETS

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

### FINANCIAL INSTRUMENT

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

### FINANCIAL LIABILITIES

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

### FORWARD FOREIGN EXCHANGE DERIVATIVE

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

### INDEX

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

### OVER THE COUNTER

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

### PASSIVE MANAGEMENT

Passive management is where the investments mirror a market index.

### POOLED INVESTMENT VEHICLES

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

### PROJECTED UNIT METHOD – PENSION FUND VALUATION

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

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

## Glossary of Terms (continued)

### RELATED PARTIES

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

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

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

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

### RELATED PARTY TRANSACTION

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

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

### RETURN

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

### SCHEDULED BODY

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

### THE CODE

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

### UNREALISED GAINS/LOSSES

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

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

# Contact Information

This document gives details of Westminster City Council's Annual Accounts and is available on the Council's website at [westminster.gov.uk](http://westminster.gov.uk).

## FOR FURTHER DETAILS PLEASE CONTACT:

The Pensions Team  
16<sup>th</sup> Floor  
64 Victoria Street  
London  
SW1E 6QP

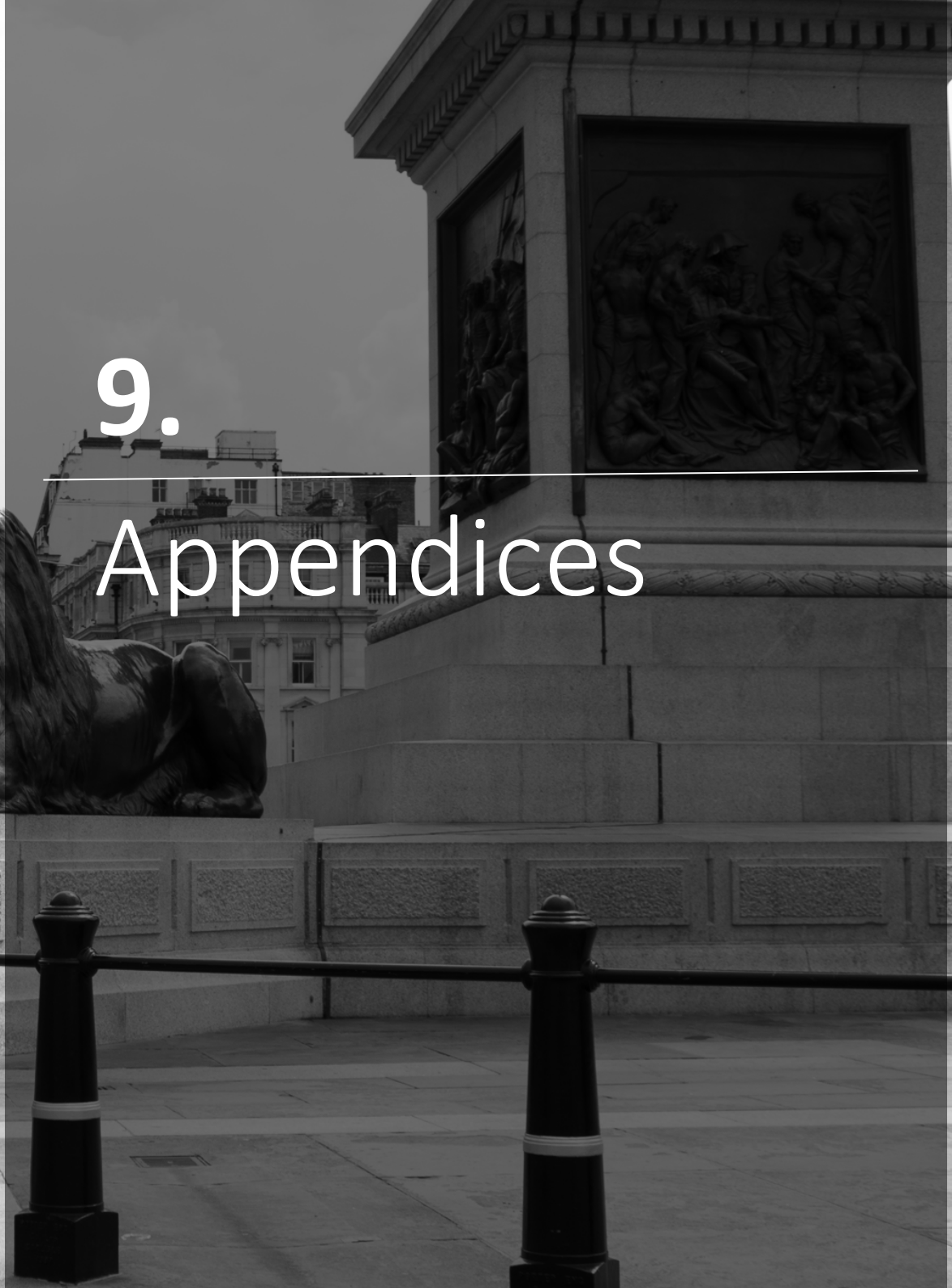
[pensionfund@westminster.gov.uk](mailto:pensionfund@westminster.gov.uk)

Contact details of the City of Westminster Pension Fund's pool company are as follows:

London CIV  
16<sup>th</sup> Floor  
22 Lavington Street  
London  
SE1 0NZ

[pensionsCIV@londonciv.org.uk](mailto:pensionsCIV@londonciv.org.uk)





# Governance Compliance Statement

## BACKGROUND

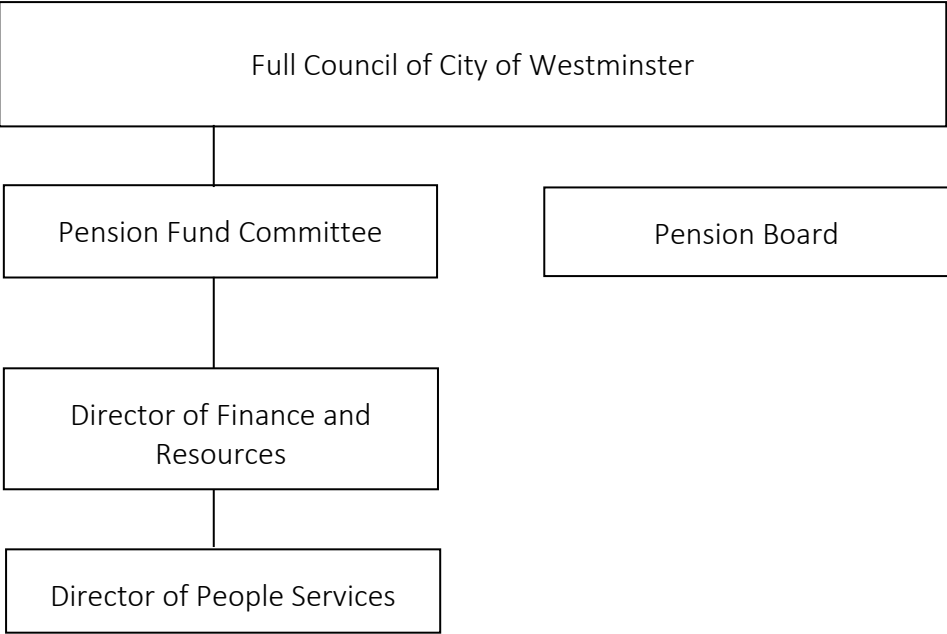
The City of Westminster is the administering authority for the City of Westminster Pension Fund (“the Fund”) and it administers the Local Government Pension Scheme on behalf of the participating employers.

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

## GOVERNANCE STRUCTURE

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

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



## Governance Compliance Statement (continued)

### PENSION FUND COMMITTEE

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

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

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

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

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

The terms of reference for the Pension Fund Committee are:

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

## Governance Compliance Statement (continued)

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

### PENSION BOARD

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

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

The membership of the Board is as follows:

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

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

### COMPLIANCE WITH STATUTORY GUIDANCE

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

### REVIEW OF STATEMENT

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

## Governance Compliance Statement (continued)

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

## Governance Compliance Statement (continued)

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

# Communication Policy

## BACKGROUND

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

- Scheme Members
- Members' Representatives
- Prospective members

Employers participating in the Fund

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

## GENERAL COMMUNICATIONS

### Correspondence:

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

### Telephone:

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

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

### Briefing Sessions and Pension Surgeries:-

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

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

### Pension's Intranet site:

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

It also contains:

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

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

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

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

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

## Communication Policy (continued)

### PROSPECTIVE SCHEME MEMBERS

#### Scheme Guides

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

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

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

### OTHER EMPLOYERS

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

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

### OTHER BODIES

#### London Pensions Officer's Group:

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

### Pension & Lifetime Savings Association (PLSA)

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

#### Seminars

Representatives of the Council regularly participate at seminars and conferences.



## Communication Policy (continued)

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

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

## Communication Policy (continued)

### FURTHER INFORMATION

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

#### SURREY COUNTY COUNCIL

Pension Services (WCC Team)

Surrey County Council

Room 243, County Hall

Penrhyn Road

Kingston upon Thames

Surrey KT1 2DN

Email: [myhelpdeskpensions@surreycc.gov.uk](mailto:myhelpdeskpensions@surreycc.gov.uk)

#### General enquiries and complaints:

Phone: 0300 200 1031

# Funding Strategy Statement

This is the Funding Strategy Statement for the City of Westminster Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes Westminster City Council's strategy, in its capacity as administering authority, for the funding of the City of Westminster Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

## 1. PURPOSE OF THE FUNDING STRATEGY STATEMENT

1.1 The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as required by Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way

that ensures the solvency and long-term cost efficiency of the Fund are met; and

- Take a prudent longer-term view of funding those liabilities.

## 2. AIMS AND PURPOSE OF THE FUND

2.1 The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

2.2 The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and

- Receive and invest contributions, transfer values and investment income.

## 3. FUNDING OBJECTIVES

3.1 Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

3.2 The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

3.3 In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service

Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

## 4. RESPONSIBILITIES OF KEY PARTIES

4.1 The key parties involved in the funding process and their responsibilities are set out below.

### The Administering Authority

4.2 The administering authority for the Fund is Westminster City Council. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;

- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

### Scheme Employers

4.3 In addition to the administering authority, a number of other Scheme employers participate in the Fund. The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

### Scheme Members

4.4 Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

### The Fund Actuary

4.5 The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and

- Advise on other actuarial matters affecting the financial position of the Fund.

## 5. FUNDING STRATEGY

5.1 The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

5.2 The most recent valuation of the Fund was as at 31 March 2019.

5.3 The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

5.4 The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

## 6. FUNDING METHOD

6.1 The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

6.2 The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

6.3 For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits

expected to be accrued after the valuation date (future service). These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

6.4 The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

6.5 The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

6.6 For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in

assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

6.7 For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

6.8 The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example the Council, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

## 7. VALUATION ASSUMPTIONS AND FUNDING MODEL

7.1 In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

7.2 The assumptions adopted at the valuation can therefore be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the

likelihood or timing of benefits and contributions being paid, and

- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

### Financial Assumptions: Future Price Inflation

**7.3** The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is used as this is consistent with the average duration of an LGPS Fund.

### Financial Assumptions: Future Pension Increases

**7.4** Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made from the RPI assumption to derive the CPI assumption.

### Financial Assumptions: Future Pay Increases

**7.5** As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

### Financial Assumptions: Future Investment Returns/Discount Rate

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

**7.7** The discount rate that is adopted will depend on the funding target adopted for each Scheme employer.

**7.8** The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

**7.9** It may be appropriate for an alternative discount rate approach to be taken to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting a cessation event or to reflect the administering authority's views on the level of risk that an employer poses to the Fund. The Fund Actuary will incorporate any such adjustments after consultation with the administering authority.

**7.10** A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

#### Financial assumptions as at 31 March 2019

RPI Inflation	3.6% p.a.
CPI Inflation	2.6% p.a.

#### Financial assumptions as at 31 March 2019

Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay Increases	CPI inflation + 1.0% p.a.
Discount rate – Scheduled bodies	4.8% p.a.
Discount Rate – Admitted bodies	3.3% p.a.

### Admitted Bodies

**7.11** A more prudent discount rate is adopted for admitted bodies in the Fund, resulting in a higher level of contributions being required from these bodies. This is in recognition of the fact that such employers may typically be expected to participate in the Fund for a limited period of time and so the aim is to increase the likelihood of sufficient assets being available to fund their employees' past service benefits by the time they cease participation in the Fund. In this way, the risk of deficits arising after the termination date and thus needing to be met by other employers in the Fund is reduced. Some admitted bodies may also be deemed to have a weaker covenant than other employers and so a higher contribution requirement reflects the increased risk that these employers present to the Fund.

### Asset valuation

**7.12** For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling

the valuation date. This is referred to as the smoothed asset value and is calculated in a consistent way to the valuation of the liabilities.

- 7.13** The Fund's assets are allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

### Demographic Assumptions

- 7.14** The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers. Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

### McCloud/Sargeant Judgements

- 7.15** The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

- 7.16** In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service

schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS. Further details of this can be found below in the Regulatory risks section.

- 7.17** At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than, the impact of reducing the discount rate assumption by 0.05%.

### Guaranteed Minimum Pension (GMP) Indexation and Equalisation

- 7.18** As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed.
- 7.19** On 22 January 2018, the government published the outcome to its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully protect the

GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016.

- 7.20** The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

## 8. DEFICIT RECOVERY/SURPLUS AMORTISATION PERIODS

- 8.1** Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.
- 8.2** Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 19 years. The adjustment will usually be set as a fixed monetary amount.
- 8.3** Where the valuation for an employer discloses a surplus then the level of required employer

contribution may include an adjustment to amortise a proportion of the surplus.

**8.4** The deficit recovery period or amortisation period that is adopted, and the proportion of any deficit/surplus that is recovered/amortised, for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

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## **POOLING OF INDIVIDUAL EMPLOYERS**

**10.1** The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances. Pooling of individual employers may be considered in exceptional circumstances if deemed appropriate by the administering authority and Fund Actuary.

## **10. NEW EMPLOYERS JOINING THE FUND**

**10.1** When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

## **ADMISSION BODIES**

**10.2** New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

### **Funding at Start of Contract**

**10.3** Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

**10.4** However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

## **Contribution Rate**

**10.5** The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

**10.6** Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

### **Security**

**10.7** To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

**10.8** If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

## **NEW ACADEMIES**

**10.9** When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.



## Funding at Start

**10.10** On conversion to academy status, the new academy will be allocated assets based on the active cover of the relevant local authority at the conversion date. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities.

## Contribution Rate

**10.11** The total contribution rate for new academies will be chosen to meet both the costs of benefits accruing to the existing active members in the future, and to try to restore the funding level to 100% over the Fund's maximum deficit recovery period.

## 11. CESSATION VALUATIONS

**11.1** When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations, the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

**11.2** Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;

- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

**11.3** Amendments to the LGPS Regulations which came into effect from May 2018 allow flexibility over the payment of exit credits to employers where there is a surplus at the exit date. Given that the Fund will retain the long term risks associated with the residual liabilities of ceasing employers, it is possible that adverse future experience may lead to a deficit arising at some point after the date of exit and this would need to be funded by the other employers in the Fund. Therefore, in order to protect the Fund and the remaining active employers, the policy of the Fund is that no exit credit shall be paid to an employer on exit where a surplus is calculated as part of the cessation valuation and the employer's exit payment in this scenario shall be certified as nil.

**11.4** In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

**11.5** For example, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being required from the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of

these liabilities needing to be met by other participating employers in future.

**11.6** If it is agreed that another employer in the Fund will accept responsibility for the residual liabilities, then the assumptions adopted will be consistent with the current ongoing funding position.

## 12. BULK TRANSFERS

**12.1** Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

**12.2** The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

**12.3** A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

## 13. LINKS WITH THE INVESTMENT STRATEGY STATEMENT (ISS)

**13.1** The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

**13.2** As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

## 14. RISKS AND COUNTER MEASURES

**14.1** Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

**14.2** The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

### FINANCIAL RISKS

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

**14.4** The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.1% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by around 2%, and decrease/increase the

required employer contribution by around 0.7% of payroll p.a.

**14.5** However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

**14.6** The Committee may also seek advice from the Fund Actuary on valuation related matters.

**14.7** In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

### DEMOGRAPHIC RISKS

**14.8** Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase in the long-term rate of mortality improvement of 0.25% p.a. will increase the liabilities by around 1%.

**14.9** The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the past two funding valuations, the Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

**14.10** The liabilities of the Fund can also increase by more than has been planned as a result of the

additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

**14.11** The administering authority is currently implementing an ill-health self-insurance pool within the Fund whereby a portion of all employers' contributions into the Fund are allocated to a segregated ill-health section of the Fund. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain.

### MATURITY RISKS

**14.12** The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

**14.13** The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner

members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meet its benefit payments. The Fund may carry out cash flow modelling to assess if, when and in what circumstances the Fund will become cash flow negative and options to address this.

**14.14** The government has published a consultation (Local government pension scheme: changes to the local valuation cycle and management of employer risk) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

## REGULATORY RISKS

**14.15** The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government. The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme. However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

**14.16** There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.

- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

**14.17** At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

### McCloud/Sargeant Judgements and Cost Cap

**14.18** The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

**4.19** The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to

enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

**4.20** However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

**4.21** The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful

discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS. At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

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

**14.22** On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

**14.23** The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019. A partial government response was issued in February 2020 concerning flexibility around the payment of exit credits only, which has been reflected in this FSS and discussed in the "Cessation

valuations" section above. We await the outcome of the consultation regarding the other proposals.

#### **Timing of Future Actuarial Valuations**

**14.24** LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. This results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

#### **Changes to Employers Required to offer LGPS Membership**

**14.25** At the time of drafting this FSS, under the current Regulations 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.

**14.26** With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed 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. This could impact on the level of maturity and the cashflow profile for these employers. As described earlier this may increase the risk of contribution income being insufficient to meet

benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer active members participating in the Fund.

**14.27** This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

**14.28** There are very few employers of this type currently participating in the Fund and so the risks are considered relatively low at present.

#### **EMPLOYER RISKS**

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

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

**14.30** However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required. In particular, the Fund regularly commissions an employer risk review

from the Fund Actuary to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

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

## GOVERNANCE RISKS

- 14.32** Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

## MONITORING AND REVIEW

- 14.33** This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.
- 14.34** The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates

payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

- 14.35** The timing of the next funding valuation is due to be confirmed as part of the government's Local government pension scheme: changes to the local valuation cycle and management of employer risk consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.
- 14.36** The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

# City of Westminster Pension Fund Investment Strategy Statement 2021/22

## 1. Introduction

**1.1** This is the Investment Strategy Statement (ISS) adopted by the City of Westminster Pension Fund (“the Fund”), which is administered by Westminster City Council (“the Administering Authority”).

Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Fund is required to publish this ISS. The Regulations require administering authorities to outline how they meet each of 6 objectives aimed at improving the investment and governance of the Fund.

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

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

We deal with each of these in turn below.

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

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

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

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

Governance Compliance Statement and to ensure compliance with these.

- To approve the final accounts and balance sheet of the Superannuation Fund and to approve the Annual Report.
- To receive actuarial valuations of the Superannuation Fund regarding the level of employers’ contributions necessary to balance the Superannuation Fund.
- To oversee and approve any changes to the administration arrangements, material contracts and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.
- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To receive and consider the Auditor’s report on the governance of the Pension Fund.
- To determine the compensation policy on termination of employment and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine policy on the award of additional membership of the pension fund and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

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

The Committee has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes
- Appointing the investment managers, an independent custodian, the actuary, the

investment advisor(s) and any other external consultants considered necessary

- Reviewing on a regular basis the investment managers' performance against benchmarks, portfolio risk and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls
- Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents
- Reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights

The Executive Director of Finance and Resources, the Tri-Borough Director of Treasury and Pensions and the appointed consultants and actuaries support the Pension Fund Committee. The day-to-day management of the Fund's assets is delegated to investment managers.

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

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

**1.7** Governing all investment decisions are the Committee's core investment beliefs they have been

established based on the views of the members and are listed below:

## 1 Investment Governance

- a) The Fund has access to the necessary skills, expertise and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund's assets, such as cash management.
- b) Investment consultants, independent advisors and officers are a source of expertise and research to inform and assist the Committee's decisions.
- c) The ultimate aim of the Fund's investments is to pay pension liabilities when they become due. The Committee will therefore take account of liquidity and the long-term ability of the Fund to meet these obligations.
- d) The Fund is continuously improving its governance structure through bespoke training to implement tactical views more promptly, but acknowledges that it is not possible to achieve optimum market timing.

## 2 Long Term Approach

- a) The strength of the employers' covenant allows the Fund to take a longer term view of investment strategy than most investors.
- b) The most important aspect of risk is not the volatility of returns, but the risk of absolute loss over the medium and long term. This would in turn impact the ability of the employers to make adequate contributions to meet the Fund's liabilities.

- c) Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.
- d) Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

### 3 Environmental, Social and Governance (ESG) factors

- a) Certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Fund's investments and the likelihood that the Fund's objectives will be achieved.
- b) Well governed companies that manage their business in a responsible manner are less vulnerable to downside risk and may therefore produce higher returns over the long term.
- c) In order to improve corporate governance, investment managers should exercise the voting rights attached to the shares they own, as well as engage with management of the companies they invest in.
- d) Environmental considerations should reflect a growing recognition in the Committee of the urgency required in its decision-making processes when making investment allocations.
- e) If an investment manager fails to adequately consider ESG issues, the Committee is prepared to disinvest assets from that manager.

### 4 Asset allocation

- a) Allocations to asset classes other than equities and government bonds (e.g.,

corporate bonds, private markets and property) offer the Fund other forms of risk premia (e.g., additional solvency risk/illiquidity risk).

- b) Diversification across asset classes and asset types that have low correlation with each other will tend to reduce the volatility of the overall Fund return.
- c) In general, allocations to bonds and alternatives are made to achieve additional diversification. As the funding level improves, the Committee may look to certain lower risk strategies to mitigate liability risks and thus dampen the volatility of the Fund's actuarial funding level.

### 5 Management Strategies

- a) A well-balanced portfolio has an appropriate mix of passive and active investments.
- b) Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.
- c) Active management will typically incur higher investment management fees but can provide additional return. Fees should be aligned to the interests of the Fund.
- d) Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.
- e) Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce long term outperformance.

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

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

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

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

**2.3** This approach to diversification has seen the fund dividing its assets into four broad categories global equities, Fixed Income, Property and Alternatives. The size of the assets invested in each category will vary depending on investment conditions, the strategic asset allocation can be found within appendix E. However, it is important to note that each category is itself diversified. A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

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



may change in future and keeps the liquidity within the Fund monitored. At all times the Committee seeks to ensure that their investment decisions, including those involving diversification, are the best long-term interest of Fund beneficiaries and seeks appropriate advice from investment advisors.

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

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

**3.1** Suitability is a critical test for whether or not a particular investment should be made. When assessing the suitability of investments, the Committee takes into account the following from its due diligence:

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

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

**3.3** The policy on asset allocation is compatible with achieving the locally determined solvency target.

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

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

**3.5** The Committee relies on external advice in relation to the collation of the statistics for review.

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

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

#### **4.2 Geopolitical and currency risks:**

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

through regular assessment of the levels of diversification within the existing policy.

#### **4.3 Manager risk:**

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

#### **4.4 Solvency and mismatching risk:**

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

#### **4.5 Liquidity risk:**

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

#### **4.6 Custodial risk:**

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

**4.7** Employer contributions are based upon financial and demographic assumptions determined by the

actuary. The main risks to the Fund are highlighted within the Funding Strategy Statement (FSS). The risks to the Fund are controlled in the following ways:

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

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

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

**4.10** The Committee are of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy the Committee carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate. Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and the correlation between them. These can be based on historic asset class information for some of the listed

asset classes the Fund uses. However, for other private market and less liquid assets it is much more difficult. The Committee is also mindful that correlations change over time and at times of stress can be significantly different from when they are in more benign market conditions.

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

**4.12** The Fund targets a long-term return 4.8% as aligned with the latest triennial valuation from the Actuary. The investment strategy is considered to have a low degree of volatility.

**4.13** When reviewing the investment strategy on a quarterly basis the Committee considers advice from their advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable. In addition to this the risk registers are updated on a quarterly basis, appendix F.

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

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

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

**5.2** The Funds approach to pooling arrangements meet the criteria set out in the Local government pension scheme: investment reform criteria and guidance.

**5.3** The Fund joined the London Collective Investment Vehicle (LCIV) as part of the Government's pooling agenda. The London CIV was launched in December 2015 by the 32 local authorities within London and has circa £23.6bn of assets under management, including £11bn under direct management, with 19 funds launched as of 2020/21.

**5.4** The Fund has transitioned c. 50% of assets into the London CIV as of 31 March 2021. Going forward the Fund will look to transition further assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

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

**5.6** The Fund holds c. 23% of its assets within a passive equity fund and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. However, the Fund benefits from reduced management fees, with Legal & General Investment Management having reduced their fees to match those available through the London CIV. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

**5.7** The remaining c. 27% of Fund is held within investment assets including property, bonds and infrastructure, and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the

Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

**5.8** The table below details the investment funds held by the Pension Fund and indicates whether this mandate is available on the LCIV platform and if the funds have been transferred.

City of Westminster Fund	Available on the LCIV	Transferred to LCIV
<b>Listed Equities</b>		
Passive Equities: LGIM	Yes	Yes
Global: Baillie Gifford	Yes	Yes
Global: Longview	Yes	No
Global: Morgan Stanley	Yes	Yes
<b>Cash</b>		
At Custody	No	
<b>Fixed Income</b>		
Multi Asset Credit: CQS	Yes	Yes
Global Bonds: Insight	No	
<b>Infrastructure</b>		
Infrastructure: Pantheon	No	
Renewable Infrastructure: Quinbrook	No	
Renewable Infrastructure: Macquarie	No	
<b>Property</b>		
Property: Aberdeen Standard	No	

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

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

**5.11** The London CIV is an FCA authorised company established by the London Local Authorities (LLAs) to provide a collaborative vehicle for pooling LGPS pension fund assets. London CIV shareholders approved a new Corporate Governance and Controls framework at the July 2018 Annual General Meeting (AGM). This framework details the governance arrangements for approving the London CIV's annual budget, business plan and objectives, governance structures and appointments, shareholder agreement and transparency of information and reporting. It was agreed to review the framework after one year of operation which provides an opportunity to assess how it can be improved further, in particular to improve its effectiveness in achieving collaboration and an effective working relation between London CIV and its 32 shareholders collectively.

**5.12** The London CIV Company Board comprises of an independent Chairman, 7 non-executive Directors (NEDs), including 2 nominated by the LLAs, 3 executive Directors and the LCIV Treasurer. The Board has a duty to act in the best interests of the shareholders and has collective responsibility for:

- Strategy and Oversight
- Budget & forward plan
- Reviews performance
- Major contracts and significant decisions including in relation to funds
- Financial reporting & controls
- Compliance, risk and internal controls
- Key policies
- Governance

**5.13** The London CIV has four Committees, responsible for investment oversight, audit and risk, remuneration and nominations and day to day operations of the company. These comprise of executive and non-executive members.

The role of the Investment Oversight Committee is to:

- determine, maintain and monitor the Company's investment strategy, investment performance and performance risks of the portfolios in accordance with the Company strategy and business plan.

The responsibilities of the Compliance, Audit & Risk Committee include:

- oversee compliance obligations;
- risk management framework; and
- integrity of financial statements and reporting

The responsibilities of the Remuneration & Nomination Committee include:

- remuneration policy;
- remuneration of key staff; and
- nominations and succession planning of key staff and Board members.

The Executive Directors acting collectively as the Executive Committee have a number of specific delegated responsibilities for the day-to-day operations of the company, supported by the wider executive leadership team. The role of the Executive Committee in summary is to:

- execute board-approved strategic objectives and business plan in line with risk appetite and financial limits;
- identify, discuss, and formulate effective solutions to address issues and opportunities facing the Company;
- ensure the day-to-day operations meet relevant legal requirements and compliance obligations of the Company; and
- ensure the Board & Board Committee members receive timely, accurate and transparent management information & reporting to fulfil their duties & responsibilities.

**5.14** The London CIV Shareholder Committee is responsible for scrutinising the actions of the Board, reporting and transparency, consultation on the strategy and business plan, matters reserved to shareholders, responsible investment and emerging issues. The Committee meets on a quarterly basis and comprises of 12 members including Councillors and Treasurers from the LLAs.

**5.15** The London CIV hosts an AGM on a semi-annual basis, to which all 32 members are invited. This allows members the opportunity to exercise shareholder power, approve the annual budget and hold the Board to account.

**5.16** External independent oversight and assurance of the pool company is provided by the FCA, depositary, external auditors and the MHCLG.

**5.17** More information on the London CIV and its operation is included in Appendix C of this statement.

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

**6.1** A review of the Fund's carbon exposure was undertaken by TruCost and reported to Committee in September 2019, whereby the Fund's equity and property portfolio carbon footprints were mapped. This exercise will be undertaken on an annual basis going forward. Following this, a responsible investment (RI) policy and ESG policy was drafted for the Fund to be adopted by the Committee for 2020/21 onwards. The RI Policy outlines the approach to the management of Environmental, Social and Governance (ESG) issues within the investment portfolio and can be found within appendix D.

### The Present ESG Policy

#### Introduction

**6.2** The City of Westminster (WCC) Pension Fund (the Pension Fund) is committed to being a responsible investor and a long-term steward of the assets in which it invests. The Fund has a fiduciary duty to act in the best interests of its beneficiaries and this extends to making a positive contribution to the long-term sustainability of the global environment.

**6.3** The Pension Fund recognises that the neglect of corporate social responsibility and poor attention paid to environmental, social and governance (ESG) issues may lead to poor or reduced shareholder returns. This presents a significant responsibility for the Pension Fund Committee (the Committee). The ESG approach has become integral to the Fund's overall investment strategy.

**6.4** The Fund maintains a policy of non-interference with the day-to-day decision making of the investment managers. The Committee believes that this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and the appropriate disclosure and reporting of actions.

**6.5** There are a wide range of ESG issues, with none greater currently than climate change and carbon reduction. The Pension Fund recognises climate change as the biggest threat to global sustainability alongside its administering authority employer, Westminster City Council, which has committed itself to achieving carbon neutrality by 2030.

**6.6** The Pension Fund Committee hold a fiduciary duty to act in the members' best interests and ensure that their pension benefits are fully honoured in retirement. That is why, as well as targeting investment returns that match the pension liabilities, the Committee is committed to managing the investment risks: the risks that pose a substantial threat to LGPS members' long-term future.

**6.7** The Pension Fund's revised investment strategy should be governed by the following investment principles, which are set out below

### 6.8 Investment Principles

- The Pension Fund as a long-term investor, is committed to **investing to build a better future** through the integration of ESG issues at all stages of the investment decision-making process.
- Through active ownership, the Pension Fund **engages with the investment community** to help ensure a sustainable future for all its stakeholders. This includes demanding best practice

amongst its investment managers and challenging their investment outcomes where appropriate.

- The Pension Fund recognises that significant value can be achieved through **collaboration with other stakeholders**. The Pension Fund will work closely with its LGPS pool company (the London CIV), other LGPS funds and member groups such as the Local Authority Pension Fund Forum (LAPFF) to ensure corporate interests are aligned with the Pension Fund's values.
- The Pension Fund wants to **gain the confidence of members** in the governance process and the way in which in the Fund is invested on their behalf. It is important for the Pension Fund to be completely transparent and accountable to members and stakeholders.

### 6.9 Policy Implementation: investing to build a better future

The Pension Fund will continue to assess investment opportunities that have a positive impact on society as whole. These include but are not limited to, investments in fixed income (green bonds), property, low carbon assets, renewables and social impact opportunities. The Fund currently has a 6% allocation to renewable infrastructure, where the asset managers invest solely within renewables including solar, wind, transmission and storage. Alongside this, the Fund has transitioned c. £690m in equities into the LCIV Global Sustain Fund and LGIM Future World Fund. The Global Sustain Fund seeks to provide a concentrated high-quality global portfolio of companies, however, excludes tobacco, alcohol, adult entertainment, gambling, civilian weapons, fossil fuels, and gas or

electrical utilities. The LGIM Future World Fund tracks the L&G ESG Global Markets Index, whereby an Environmental, Social and Governance screening of companies takes place to remove those companies which do not meet the required ESG criteria.

The Pension Fund views engagement with companies as an essential activity and encourages companies to take position action towards reversing climate change. The Westminster Pension Fund is a responsible owner of companies and cannot exert that positive influence if it has completely divested from carbon intensive producing companies. The Pension Fund will continue to encourage positive change whilst officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including carbon and other ESG considerations.

### 6.10 Policy Implementation: engaging with investment community

Institutional investors have the power to influence and change behaviour globally. The WCC Pension Fund believes that there is significant value in being able to actively engage with the companies we invest in and be part of the transition to a global, low carbon economy.

The Fund expects managers to integrate ESG factors into investment analysis and decision making. Monitoring these effectively can assist with resolving issues at early stages through effective engagement with companies and board members. The Fund expects asset managers where possible to engage and collaborate with other institutional investors, as permitted by relevant legal codes to ensure the greatest impact.

The measurement of ESG performance is still developing and benefitting from significant improvements. There are several performance

benchmarks and disclosure frameworks that exist to measure the different aspects of available ESG data which include carbon emissions and a variety of social impact scores.

- The Pension Fund carries out a carbon footprint exercise on its separate portfolios annually via a specialist firm. The outcome of this measurement exercise will be instrumental in ensuring that the fund is able to meet its decarbonisation goals through effective asset allocation.
- The Pension Fund will continue to work closely with its investment managers to measure the carbon impact of its investments. This will involve developing internal metrics and agreed targets which will be reviewed on a regular basis.

Increasingly, there is growing interest in the investment community to develop investment strategies that focus on sustainable investments. As well as the wider investment community, the Pension Fund will support and contribute to the work carried out by the London CIV in the development of sustainable investments.

### 6.11 Policy Implementation: collaboration with other stakeholders

The introduction of pooling across the Local Government Pension Scheme (LGPS) will impact how the Pension Fund's responsible investment policy is implemented. The WCC fund is committed to playing a key role as part of the LGPS London CIV pool, with circa 70% of assets pooled.

As asset owners, the Pension Fund, in line with its investment strategy, is responsible for deciding how its

assets are invested through its strategic asset allocation. In addition to engaging with the investment community, the Pension Fund will continue to work closely with other UK and London LGPS funds to find common solutions for ESG issues.

As more funds are onboarded into the London CIV, the Pension Fund expects to further increase its investment in the pool. This is expected to create economies of scale and increased synergies for the Pension Fund through a significant reduction in management fees and greater influence when engaging with external stakeholders. The London CIV will manage the Pension Fund's investments in line with the Fund's strategic objectives and those of the other London LGPS Funds.

The Pension Fund actively contributes to the engagement efforts of pressure groups, such as the Local Authority Pension Fund Forum (LAPFF) and requires investment managers to vote in accordance with the LAPFF's governance policies. In exceptional cases, investment managers will be required to explain their reason for not doing so, preferably in advance of the AGM. This will be monitored on a regular basis.

#### 6.12 Policy Implementation: gaining our members confidence

WCC's LGPS members have spent at least part of their careers helping to deliver key services to their community. It is important for them to understand how their Pension Fund is managed and the contribution its investments make in securing a sustainable future. Members are encouraged to take an active interest in the governance processes of their Pension Fund and their views are represented within the work of the Local Pension Board.

The Pension Fund will aim to provide members with a variety of information which allows them to easily

understand the types of investments within the portfolio.

The Pension Fund reports on its overall performance annually through an annual report which is readily accessible to members on the fund's website.

Data within the annual report will include investment performance, an assessment of the key performance indicators (KPIs) of the Fund's administrative function and the Fund's assessment of its many risks.

The Pension Fund hosts an annual general meeting (AGM), following the end of the financial year, which all members and key stakeholders are invited to attend. This includes updates on the administration service, investment performance from our investment advisor, as well as a market update from an asset manager and a presentation from our actuary.

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

7.1 The Committee has delegated the Fund's voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Committee expects the investment managers to vote in the best interests of the Fund. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

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

7.3 In addition the Fund:

- Is a member of the Pension and Lifetime Savings Association (PLSA) and the Local

Authority Pension Fund Forum (LAPFF) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners; and

- Joins wider lobbying activities where appropriate opportunities arise.

7.4 Ongoing voting and engagement is covered with the Funds Responsible Investment Policy (Appendix D).

7.5 The Committee expects any directly appointed asset managers and the pool company (London CIV) to comply with the Stewardship Code (2020) and this is monitored on an annual basis. See appendix B and C for further details on the Funds approach to stewardship.

#### 8 Feedback on this statement

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

Tri-Borough Treasury and Pensions Team  
*PensionFund@westminster.gov.uk*

Westminster City Council  
16<sup>th</sup> Floor City Hall  
Tri-Borough Treasury and Pensions Team  
64 Victoria Street  
London  
SW1E 6QP

## Investment Strategy Statement: Appendix A

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

### Decision Making

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

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

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

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

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

### Principle 1 - Effective decision-making

Administrating authorities should ensure that:

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

### Full Compliance

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

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

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

Business plans are presented to the Committee annually.

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

### Principle 2 - Clear objectives

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

### Full Compliance

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

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

### Principle 3 – Risk and liabilities

In setting and reviewing their investment strategy, administrating authorities should take account of the form and structure of liabilities. These include the implications for local taxpayers, the strength of the

covenant for participating employers, the risk of their default and longevity risk.

#### Full Compliance

The Committee has, in conjunction with its advisers, agreed an investment strategy that is related to the Fund's liabilities. An actuarial valuation of the Fund takes place every three years, with the most recent triennial valuation taking place in 2019. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

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

#### Principle 4 – Performance Assessment

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

#### Full Compliance

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

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

implications of different strategic options are fully evaluated.

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

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

In order to comply with the CMA investment consultancy and Fiduciary Management Market Investigation Order 2019, The Fund's investment advisors are measured annually against an agreed set of criteria which was agreed by Committee at the 23 October 2019 meeting.

#### Principle 5 – Responsible Ownership

Administering authorities should:

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

#### Full Compliance

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in paragraph 8 of the ISS and in the Fund's Responsible Investment (RI) Policy (Appendix D). Authority has

been delegated to the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports.

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

#### Principle 6 – Transparency and reporting

Administering authorities should:

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

#### Full Compliance

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

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



## Compliance with the Stewardship Code

The **Stewardship Code** is a set of principles or guidelines released in 2010 and updated in 2020 by the Financial Reporting Council (FRC) directed at institutional investors who hold voting rights in United Kingdom companies. Its principal aim is to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries.

The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means that it does not require compliance with principles but if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so. The Committee has not formally adopted the latest version of the Stewardship Code. However, it expects any directly appointed fund managers and the pool company (London CIV) to comply and this is monitored on an annual basis.

## Investment Strategy Statement: Appendix C

### Information on London CIV

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

The London Collective Investment Vehicle (CIV) was formed as a voluntary collaborative venture by the London Local Authorities in 2014 to invest the assets of London Local Government Pension Scheme (LGPS). The London CIV and its London Local Authority investors recognise the importance of being long term stewards of capital and in so doing supports the UK Stewardship Code, which it recognises as best practice.

The London LGPS CIV Limited (“London CIV”) is fully authorised by the FCA as an Alternative Investment Fund manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund (ACS fund). The London CIV in the management of its investments has appointed a number of external investment managers. We therefore see our role as setting the tone for the effective delivery of stewardship managers on our behalf and on behalf of our investing Funds. We are clear that we retain responsibility for this being done properly and fully in the interests of our own shareholders.

This Statement sets out how the London CIV implements the seven principles of the Code.

#### Principle 1

**Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.**

The London CIV on behalf of its London Local Authority Shareholders recognises its position as an investor on their behalf with ultimate responsibility to members and beneficiaries and recognises that effective stewardship can help protect and enhance the long-

term value of its investments to the ultimate benefit of all stakeholders in the LGPS.

As we do not invest directly in companies, we hold our fund managers accountable for the delivery of stewardship on our behalf in terms of day-to-day implementation of its stewardship activity. We require the appointed fund management teams to be responsible for holding to account the management and boards of companies in which they invest. The London CIV believes that this approach is compatible with its stewardship responsibilities as it is the most effective and efficient manner in which it can promote and carry out stewardship activities in respect of its investments and ensure the widest reach of these activities given the London CIV’s investment arrangements.

A key related area where stewardship is integrated into the wider process is in the selection and monitoring of external investment managers. When considering the appointment of external investment managers, the consideration of Environmental Social and Governance (ESG) integration and stewardship activity of each investment manager is part of the selection process.

The London CIV expects its equity investment managers to adhere to the principles within the UK Stewardship Code. This position is communicated to the Fund’s investment managers and forms the basis of the approach to monitoring the investment managers as outlined in this document. Whilst the Stewardship Code is primarily directed at UK equity investments, the London CIV encourages its investment managers to apply the principles of the Code to overseas equity holdings where possible.

The primary mechanisms for the application of effective stewardship for the London CIV are exercise of voting rights and engagement with investee companies. The London CIV expects its external equity

investment managers that invest directly in companies, to pursue both these mechanisms. We receive quarterly reporting from managers which includes their stewardship and voting activities where appropriate. We seek consistently to ensure that these stewardship activities are carried out actively and effectively in the furtherance of good long-term investment returns

We expect all of the London CIV’s equity managers to be signatories to the Code and have publicly disclosed their policy via their Statements on how they will discharge their stewardship responsibilities. We expect managers that invest in companies directly to discharge their responsibilities by:

- having extensive dialogue with the company’s management throughout the year on a range of topics such as governance, financial performance and strategy; and
- voting, either directly or via the services of voting agencies.

#### Principle 2

**Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.**

Day-to-day implementation of the Fund’s stewardship activity has been delegated to external investment managers. The London CIV expects its investment managers to document their approach to stewardship, which should include how they manage any conflicts of interest that arise to ensure that the interests of the London CIV’s Investors are prioritised.

The London CIV will review annually the conflicts of interest policy of its managers and how any conflicts have been managed during the year. The London CIV has policies in place to manage conflicts of interest that may arise for the Board and its officers when making

decisions on its behalf. The Conflicts of Interest policy is reviewed by the London CIV board on a regular basis. A Conflicts of Interest Register is maintained. Shareholders of the London CIV attending the Pensions Sectoral Joint Committee are required to declare any conflicts of interest at the start of any meeting.

### Principle 3

**Institutional investors should monitor their investee companies.**

We recognise that active and ongoing monitoring of companies is the foundation of good stewardship, reminding companies in which we invest that they have obligations to their shareholders to deliver returns over the appropriate long-term investment timeframe and, consistent with this, to manage any related environmental and social risks responsibly.

The London CIV requires its external investment managers to monitor investee companies. Issues to be monitored are likely to vary, however typically these might include a company's corporate strategy, financial performance, risk (including those from environmental and social factors), capital structure, leadership team and corporate governance. The London CIV encourages its investment managers to satisfy themselves that investee companies adhere to the spirit of the UK Corporate Governance Code.

The London CIV reviews investment managers in this area as part of their regular meetings. For equity investment managers this includes consideration of:

- who has overall responsibility for ESG risk analysis and integration;
- resources and experience of the team;
- at what stages of the process ESG risks are considered;
- exposures to environmental, social or governance risk within the portfolio; and

- the investment manager's willingness to become an insider and, if so, whether the manager has a policy setting out the mechanisms through which this is done.

### Principle 4

**Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.**

The London CIV recognises that constructive engagement with company management can help protect and enhance shareholder value. Typically, the London CIV expects its investment managers to intervene with investee companies when they view that there are material risks or issues that are not currently being adequately addressed.

The London CIV reviews investment managers in this area as part of their regular meeting. For equity investment managers that invest directly in Companies, this includes consideration of:

- whether voting activity has led to any changes in company practice;
- whether the manager's policy specifies when and how they will escalate engagement activities;
- overall engagement statistics (volume and areas of focus);
- example of most intensive engagement activity discussed as part of the manager's annual review meeting; and
- the estimated performance impact of engagement on the strategy in question.
- Given the range of fund managers and Fund investments, the London CIV carries out its monitoring at the manager level to identify:
  - trends to ensure progress is being made in stewardship activities;
  - specific managers where progress or the rate of progress is not adequate; and
  - appropriate specific actions necessary.

### Principle 5

**Institutional investors should be willing to act collectively with other investors where appropriate.**

As day-to-day management of the Fund's assets has been delegated to external investment managers, the London CIV expects its investment managers to get involved in collective engagement where this is an efficient means to protect and enhance long-term shareholder value.

In addition, the London CIV will work collectively with other investors including other LGPS Asset pools and the Local Authority Pension Fund Forum (LAPFF) to enhance the impact of their engagement activities

### Principle 6

**Institutional investors should have a clear policy on voting and disclosure of voting activity.**

The London CIV has delegated its voting rights to the Fund's investment managers and requires them to vote, except where it is impractical to do so. The London CIV also monitors the voting alerts of the LAPFF and where these are issued, requires the investment managers to take account of these alerts as far as practical to do so. Where the investment manager does not vote in line with the LAPFF voting alerts, the London CIV will require detailed justification for non-compliance.

The London CIV reviews and monitors the voting policies and activities of its investment managers, this includes consideration of:

- the manager's voting policy and, what areas are covered;
- the level of voting activity
- whether the investment manager typically informs companies of their rationale when voting against or abstaining (and whether this is typically in advance of the vote or not);

- if securities lending takes place within a pooled fund for the strategy, whether the stock is recalled for all key votes for all stocks held in the portfolio; and
- whether a third-party proxy voting service provider is used and, if so, how.

#### Principle 7

**Institutional investors should report periodically on their stewardship and voting activities.**

The London CIV encourages transparency from its investment managers and expects its managers to report publicly on their voting in an appropriate manner.

In addition, the London CIV receives reviews and monitors quarterly the voting and stewardship engagement activities of its investment managers. The London CIV reports quarterly to its investors and will include information on voting and engagement activities from investment managers where appropriate including updates as required on updated stewardship and voting policies of managers. The London CIV also requires its managers to provide it with annual assurances on internal controls and compliance through recognised framework such as the AAF01/06 or equivalent.

## Responsible Investment Policy

## Introduction

- 1.1. Responsible Investment is defined by the United Nation's 'Principles for Responsible Investment' document as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long term returns. The Pension Fund's approach to responsible investment is aligned with the Fund's investment beliefs and recognises ESG factors as central themes in measuring the sustainability and impact of its investments.
- 1.2. Failure to appropriately manage ESG factors is considered to be a key risk for the Pension Fund as this can have an adverse impact on the Fund's overall investment performance, which ultimately affects the scheme members, employers and local council tax payers.
- 1.3. The United Nations has established 17 Sustainable Development Goals (SDGs) as a blueprint to achieving a better and more sustainable future for all. These goals aim to address the challenges of tackling climate change, supporting industry, innovation and infrastructure, and investing in companies that are focused on playing a key role in building that sustainable future.
- 1.4. The Pension Fund acknowledges that these goals form a vital part of acting as a responsible investor alongside its

administering authority employer, Westminster City Council, with the Council having recently committed itself to achieving carbon neutrality by the year 2030.

- 1.5. The Pension Fund maintains a policy of engagement with all its stakeholders, including those operating in the investment industry. It is broadly recognised that, in the foreseeable future, the global economy will transition from its reliance on fossil fuels to the widespread adoption of renewable energy as its main source. The impact of this transition on the sustainability of investment returns will be continually assessed by officers, advisors and investment managers.
- 1.6. The Pension Fund Committee is committed to playing an active role in the transition to a sustainable economic and societal environment. To that extent, the Pension Fund will continue to seek investments that match its pensions liability profile, whilst having a positive impact on overall society. Greater impact can be achieved through active ownership and lobbying for global companies to change and utilise their resources sustainably.
- 1.7. With these noble objectives at the forefront, it is important to note that the Pension Fund Committee has a vital, fiduciary duty to act in the best interests of the LGPS beneficiaries to ensure that their pension benefits are honoured in retirement.

## Policy Implementation: Selection Process

- 1.8. The Pension Fund Committee delegates the individual investment selection decisions to

its investment managers. To that extent, the Pension Fund maintains a policy of non-interference with the day-to-day decision-making processes of the investment managers. However, as part of its investment manager appointment process, the Pension Fund Committee assesses the investment managers' abilities to integrate ESG factors into their investment selection processes.

- 1.9. This includes, but is not limited to:
- a) evidence of the existence of a Responsible Investment policy;
  - b) evidence of ESG integration in the investment process;
  - c) evidence of sign-up to the relevant responsible investment frameworks such as the United Nations Principles for Responsible Investment (PRI);
  - d) evidence of compliance with the Stewardship Code as published by the Financial Reporting Council (FRC);
  - e) a track record of actively engaging with global companies and stakeholders to influence best practice;
  - f) an ability to appropriately disclose, measure and report on the overall impact of ESG decisions made.
- 1.10. As part of its investment selection process, the Pension Fund Committee will obtain proper advice from the Fund's internal and external advisors with the requisite knowledge and skills. Our investment advisor will assess ESG considerations as part of its due diligence process and assess investment managers against the following criteria:

- a) for active managers, the advisor will assess how ESG issues are integrated into investment selection, divestment and retention decisions;
- b) for passive managers, the investment advisor is aware of the nature of the index construction in the investment selection process places and the proximity of ESG issues in comparison with an active portfolio, but still hold ESG issues in its responsible investment policy as the passive manager actively engages with global companies and stakeholders where appropriate;
- c) consideration of whether managers are making most effective use of voting rights and if votes are exercised in a manner consistent with ESG considerations specified by the manager;
- d) how significantly managers value ESG issues and whether any specialist teams and resources are dedicated to this area; and
- e) how ESG risk assessment is integrated into the portfolio investment selection process and the value and effectiveness of these assessments.

1.11. Investment managers are expected to follow best practice and use their influence as major institutional investors and long-term stewards of capital to promote best practice in the

companies/projects in which they invest. Investee companies will be expected to comply with all applicable laws and regulations in their respective markets as a minimum.

#### Policy Implementation: Ongoing Engagement and Voting

1.12. Whilst it is still quite difficult to quantify the impact of the less tangible non-financial factors on the economic performance of an organisation, this is an area that continues to see significant improvement in the measurement of benchmarking and organisational progress. Several benchmarks and disclosure frameworks exist to measure the different aspects of available ESG data which include carbon emissions, diversity on company boards and social impact. It is apparent that poor scoring on these ESG factors can have an adverse impact on an organisation's financial performance. It is therefore important for the appointed investment managers to effectively assess the impact such factors may have on the underlying investment performance.

1.13. The Pension Fund views active engagement as an essential activity in ensuring long-term value and encourages investment managers to consider assessing a range of factors, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental, governance and social issues.

1.14. Pension Fund officers will continue to engage with the investment managers on an ongoing

basis to monitor overall investment performance, including ESG considerations. This can be implemented in several forms which include, but are not limited to:

- a. Regular meetings with investment managers to assess investment performance and the progress made towards achieving ESG targets;
- b. reviewing reports issued by investment managers and challenging performance where appropriate;
- c. working with investment managers to establish appropriate ESG reporting and disclosures in line with the Pension Fund's objectives;
- d. contributing to various working groups that seek to positively influence the reporting of industry standards on ESG metrics;
- e. actively contributing to the efforts of engagement groups such as the Local Authority Pension Fund Forum (LAPFF), of which the fund is a member (currently 83 LGPS member funds).

1.15. The Pension Fund holds units in pooled equity funds, where our asset managers will have the opportunity to vote at company meetings on our behalf. Engagement with companies can have a direct impact on voting choices and fund manager voting and engagement reports are reviewed on a regular basis.

1.16. The Fund will continue to collaborate with the London CIV on maintaining a shared voting policy for the equity managers on the London

CIV platform and actively seek to align these policies with manager insights. Lobbying with other London CIV clients will give the Pension Fund greater control and impact over our voting choices and a centralised process will ensure our voting remains consistent and has the greatest impact.

integration into the pension fund's investment process.

- 1.17. The Pension Fund's officers will work closely with the London CIV pool, through which the Pension Fund will increasingly invest, in developing and monitoring its internal frameworks and policies on all ESG issues which could present a material financial risk to the long-term performance of the fund. This will include the London CIV's ESG frameworks and policies for investment analysis, decision making and responsible investment.

- 1.18. In preparing and reviewing its Investment Strategy Statement, the Pension Fund will consult with interested stakeholders including, but not limited to:

- a. Pension Fund employers;
- b. Local Pension Board;
- c. advisors/consultants to the fund;
- d. investment managers.

#### **Policy Implementation: Training**

- 1.19. The Pension Fund Committee and the Fund's officers will receive regular training on ESG issues and responsible investment. A review of training requirements and needs will be carried out at least once on annual basis. Training is intended to cover the latest updates in legislation and regulations, as well as best practice with regards to ESG

## Strategic Asset Allocation



The below table sets out the Fund's strategic asset allocation along with review range which would trigger a rebalancing exercise.

Strategic Asset Allocation	Target (%)	Review Range
<b>Listed Equities</b>	<b>65.0%</b>	<b>+/-3.0%</b>
Passive Equities	22.5%	
Global – Active	42.5%	
<b>Cash</b>	<b>0.0%</b>	<b>+/-0.0%</b>
Cash	0.0%	
<b>Fixed Income</b>	<b>19.0%</b>	<b>+/-1.9%</b>
Global Bonds	12.5%	
Multi Asset Credit	6.5%	
<b>Alternatives</b>	<b>11.0%</b>	<b>+/-1.0%</b>
Infrastructure	5.0%	
Renewable Infrastructure	6.0%	
<b>Property</b>	<b>5.0%</b>	<b>+/-0.5%</b>
Property	5.0%	
<b>Total</b>	<b>100.0%</b>	













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						
Administrative and Communicative Risk	1	NEW	Failure to successfully transition the pensions administration service to Hampshire County Council by 1 December 2021, following termination of Surrey contract. Alongside this the administration software is to be moved from Heywood's Altair to Civica.	3	3	3	9	5	45	TREAT 1) The Pension Fund is moving the pensions administration service to Hampshire CC following termination of the Surrey contract. 2) Officers maintain regular contact with Surrey CC and Hampshire CC administration team during this time. 3) Project manager to join Westminster City Council on 25 February 2021, to lead the pensions administration transfer project including administration software.	3	27	04/05/2021
Administrative and Communicative Risk	2		Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints. There is a concern regarding the high level of senior management departures.	1	4	3	8	4	32	TREAT 1) Surrey CC administers pensions for Surrey, East Sussex, LB Hillingdon and the Tri-Borough. All Tri-Borough Pension Funds are transitioning their pensions administration from Surrey CC. 2) Officers will continue to monitor ongoing staffing changes at Surrey CC. 3) Ongoing monitoring of contract and KPIs.	3	24	04/05/2021
Administrative and Communicative Risk	3		COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds.	2	4	3	9	3	27	TREAT 1) The Pensions Administration team have shifted to working from home, with a process now embedded. 2) Revision of processes to enable electronic signatures and configure the telephone helpdesk system to work from home. 3) Maintain regular contact with the Surrey administration team.	2	18	04/05/2021
Administrative and Communicative Risk	4		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 part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	2	18	04/05/2021
Administrative and Communicative Risk	5		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	04/05/2021
Administrative and Communicative Risk	6	NEW	Failure of securely sent sensitive data and any unidentified data flows being sent insecurely.	4	3	5	12	2	24	TREAT 1) Active member data is sent on secure platforms between all parties 2) Including "Encrypted" in email subject allows schools and academies to send data to pension admin team securely. 3) Data sent to the actuary using secure webstream portal.	1	12	04/05/2021
Administrative and Communicative Risk	7	NEW	Failure of cyber security measures, including information technology systems and processes, leading to loss, disruption or damage to the scheme or its members.	4	2	5	11	2	22	TREAT 1) Council has a data recovery plan in place, with files uploaded to the cloud every night and transition of files from the j drive to SharePoint. 2) . As a Council we are continuing to invest in technologies to block and filter phishing emails as well as ensuring our systems are up to date to protect us and our devices against these threats. 3) The IT team continuously review and update the cyber security policies, including the Information Security policy, Acceptable Use policy, Email and Internet policy, Social Media policy, Password Management policy and Data Disposal policy. All of which can be found on the Wire.	1	11	04/05/2021
Administrative and Communicative Risk	8		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.	1	11	04/05/2021
Administrative and Communicative Risk	9		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 last undertaken during 2018/19 showed satisfactory assurance with recommendations implemented during the year.	1	10	04/05/2021

Administrative and Communicative Risk	10		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. 3) Take advice from the investment advisor on manager ratings to inform decisions on asset managers.	1	9	04/05/2021
Administrative and Communicative Risk	11		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	04/05/2021
Administrative and Communicative Risk	12		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	04/05/2021
Administrative and Communicative Risk	13		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	04/05/2021
Administrative and Communicative Risk	14		Poor reconciliation process leads to incorrect contributions.	2	1	1	4	3	12	TREAT 1) Ensure reconciliation process notes are understood by Pension Fund team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process. 3) Contributions reconciliation is undertaken by the pensions team.	2	8	04/05/2021
Administrative and Communicative Risk	15		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	04/05/2021
Administrative and Communicative Risk	16		Failure to detect material errors in the bank reconciliation process.	2	2	2	6	3	18	TREAT 1) Bank reconciliation carried out in-house by the pensions team, alongside the WCC income management team.	1	6	04/05/2021
Administrative and Communicative Risk	17		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	04/05/2021
Administrative and Communicative Risk	18		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. 2) Officers regularly attend training events and conferences. 3) Officer in place to record and organise training sessions for officers and members.	1	6	04/05/2021
Administrative and Communicative Risk	19		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	04/05/2021
Administrative and Communicative Risk	20		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	04/05/2021
Administrative and Communicative Risk	21		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	04/05/2021
Administrative and Communicative Risk	22		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	04/05/2021

Administrative and Communicative Risk	23		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	04/05/2021
Administrative and Communicative Risk	24		Failure to identify GMP liability leads to ongoing costs for the pension fund.	1	2	1	4	1	4	TREAT 1) GMP identified as a Project as part of the Service Specification between the Fund and Surrey County Council, with minimal effect on the Fund.	1	4	04/05/2021

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Pension Fund Risk Register - Investment Risk													
Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk	Reviewed
				Fund	Employers	Reputation	Total						
Asset and Investment Risk	1		The global outbreak of COVID-19 poses economic uncertainty across the global investment markets.	5	4	2	11	4	44	TREAT - 1) Officers will continue to monitor the impact lockdown measures have on the fund's underlying investments and the wider economic environment. 2) The Fund holds a diversified portfolio, which should reduce the impact of stock market movements. 3) Asset allocation was reviewed during June 2020, a new strategy was agreed in light of COVID-19 with ESG focused equity and renewable infrastructure mandates agreed. 4) Pension Fund Officers in frequent contact with Fund Managers and the Funds investment advisor.	3	33	04/05/2021
Asset and Investment Risk	2		Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty. Increased risk to global economic stability.	5	4	1	10	4	40	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 took place during June 2020 and a new strategic asset allocation was agreed.	3	30	04/05/2021
Asset and Investment Risk	3		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 £1.7m. Following COVID-19, there was some concern around Fund Managers outperforming their benchmarks.	5	3	3	11	3	33	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	22	04/05/2021
Liability Risk	4		Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	2	22	TOLERATE - 1) The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.	2	22	04/05/2021

Liability Risk	5		Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 0.47%.	5	3	2	10	3	30	TREAT- 1) Actuarial valuation results show an increase in the CPI assumption of 0.2% from the 2016 valuation. 2) 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	04/05/2021
Liability Risk	6		Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	4	4	2	10	2	20	1) Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 2) No evidence in 2020/21 of members transferring out to DC schemes.	2	20	04/05/2021
Liability Risk	7		Employee pay increases are significantly more than anticipated for employers within the Fund.	4	4	2	10	2	20	TOLERATE - 1) Actuarial valuation assumptions show a decrease in salary increases by 0.3% from 2016. 2) Fund employers should monitor own experience. 3) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer	2	20	04/05/2021
Liability Risk	8		Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	2	20	TOLERATE - 1) Political power required to effect the change.	2	20	04/05/2021
Resource and Skill Risk	9		That the London Collective Investment Vehicle (LCIV) fails to produce proposals/solutions deemed sufficiently ambitious.	4	3	3	10	2	20	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. 2) Member presence on Shareholder Committee and officer groups. 3) Fund representation on key officer groups.	2	20	04/05/2021
Asset and Investment Risk	10		Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union and the economic aftereffects.	4	4	1	9	3	27	TOLERATE/TREAT - 1) Officers to consult and engage with advisors and investment managers. 2) The Fund transitioned out of UK equities during November 2019, moving funds into the LGIM global passive. 3) Possibility of hedging currency and equity index movements. 4) The UK struck a trade deal with the EU in	2	18	04/05/2021





Asset and Investment Risk	11		Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in September 2019, how this will effect the Pension Fund going forward is currently unknown.	3	2	4	9	3	27	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) and Pensions and Lifetime Savings Association (PLSA), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors. 4) Following the strategic asset allocation review in June 2020, the Pension Fund has committed 6% towards renewables and 20% to the LCIV Global Sustain Fund, as well as moving the LGIM passive mandate into the LGIM Future World Fund. 5) An ESG and RI Policy was drafted for the Pension Fund and a Responsible Investment Statement was drafted during late 2020.	2	18	04/05/2021
Regulatory and Compliance Risk	12		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	04/05/2021
Resource and Skill Risk	13		London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	3	3	2	8	3	24	1) Pension Fund Committee Chair is a member of the shareholder 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) Officers continue to monitor the ongoing staffing issues and the quality of the performance reporting provided by the London CIV.	2	16	04/05/2021
Asset and Investment Risk	14		Impact of economic and political decisions on the Pension Fund's employer workforce.	5	2	1	8	2	16	1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. Employer responsibility to flag up potential for major bulk transfers outside of the Westminster Fund. The potential for a significant reduction in the workforce as a result of the public sector financial pressures may have a future impact on the Fund. 2) Need to make prudent assumptions about diminishing workforce when carrying out the triennial actuarial valuation.	2	16	04/05/2021
Liability Risk	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	TOLERATE: 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	04/05/2021
Liability Risk	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	04/05/2021

Liability Risk	17		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	3	12	2	24	TREAT: 1) Cashflow forecast maintained and monitored. 2) Cashflow position reported to committee quarterly. 3) Cashflow requirement is a factor in current investment strategy review.	1	12	04/05/2021
Asset and Investment Risk	18		Failure to take difficult decisions inhibits effective Fund management	5	3	4	12	2	24	TREAT-1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (/FSS), Governance policy statement and Committee Terms of Reference and that appropriate advice from experts is sought.	1	12	04/05/2021
Regulatory and Compliance Risk	19		Changes to LGPS Regulations	3	2	1	6	3	18	TREAT - 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will be 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	04/05/2021
Liability Risk	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	04/05/2021
Reputational Risk	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	04/05/2021
Regulatory and Compliance Risk	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)WCC IT data security policy adhered to. 3) Implementation of GDPR.	1	11	04/05/2021
Reputational Risk	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	TREAT: 1) Officers maintain knowledge of legal framework for routine decisions. 2) Eversheds retained for consultation on non-routine matters.	1	11	04/05/2021

Liability Risk	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	TREAT: 1) 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	04/05/2021
Asset and Investment Risk	25		A change in government may result in new wealth sharing policies which could negatively impact the value of the pension fund assets.	5	5	1	11	2	22	TREAT: 1) Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	11	04/05/2021
Resource and Skill Risk	26		Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	2	2	1	5	4	20	TREAT - 1) Succession planning process in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	2	10	04/05/2021
Liability Risk	27		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	TREAT: 1) 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	04/05/2021
Asset and Investment Risk	28		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	04/05/2021
Asset and Investment Risk	29		Failure of global custodian or counterparty.	5	3	2	10	2	20	TREAT: 1) At time of appointment, ensure assets are separately registered and segregated by owner. 2) Review of internal control reports on an annual basis. 3) Credit rating kept under review.	1	10	04/05/2021
Asset and Investment Risk	30		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	04/05/2021
Asset and Investment Risk	31		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, infrastructure 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	04/05/2021



Resource and Skill Risk	32		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	TREAT: 1) Person specifications are used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge. 4) Officers maintain their CPD by attending training events and conferences.	1	10	04/05/2021
Regulatory and Compliance Risk	33		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	04/05/2021
Reputational Risk	34		Inaccurate information in public domain leads to damage to reputation and loss of confidence.	1	1	3	5	3	15	Treat: 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed. 3) Stage AGM every year.	2	10	04/05/2021
Liability Risk	35		Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	5	3	1	9	2	18	TREAT: 1) 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. 2) Cashflow position monitored monthly.	1	9	04/05/2021
Resource and Skill Risk	36		Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	2	18	TREAT: 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval).	1	9	04/05/2021
Administrative and Communicative Risk	37		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 a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	9	04/05/2021
Regulatory and Compliance Risk	38		Loss of flexibility to engage with Fund Managers and loss of elective professional status with any or all of the existing Fund managers and counterparties resulting in reclassification. (The Fund is a retail client to counterparties unless opted up).	3	2	2	7	2	14	TREAT: 1) 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. 2) Maintaining up to date information about the fund on relevant platforms. 3) Fund can opt up with prospective clients. 4) 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. 5) Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	7	04/05/2021

Regulatory and Compliance Risk	39		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 - 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	1	7	04/05/2021
Liability Risk	40		The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	4	2	1	7	2	14	TREAT: 1) 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	04/05/2021

# Responsible Investment Statement

## 1. Introduction

## 2. Investment Horizon

## 3. Carbon Journey

- Administering Authority
- Employers

## 4. ESG Case Studies

- Environmental Case Study
- Social Case Study
- Governance Case Study

## Fund Key Facts

## Voting & Engagement

- Engagement Case Study

## Connected Organisations

- Local Authority Pension Fund Forum
- Pensions and Lifetime Savings Association
- ShareAction

## 1. Introduction

Responsible Investment is defined by the United Nation's 'Principles for Responsible Investment' document as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long term returns.

The City of Westminster Pension Fund is committed to being a responsible investor and a long-term steward of the assets in which it invests. The Fund has a fiduciary duty to act in the best interests of its beneficiaries and this extends to making a positive contribution to the long-term sustainability of the global environment.

There are a wide range of ESG issues, with none greater currently than climate change and carbon reduction. The Pension Fund recognises climate change as the biggest threat to global sustainability alongside its administering authority employer, Westminster City Council, which has committed itself to achieving carbon neutrality by 2030.

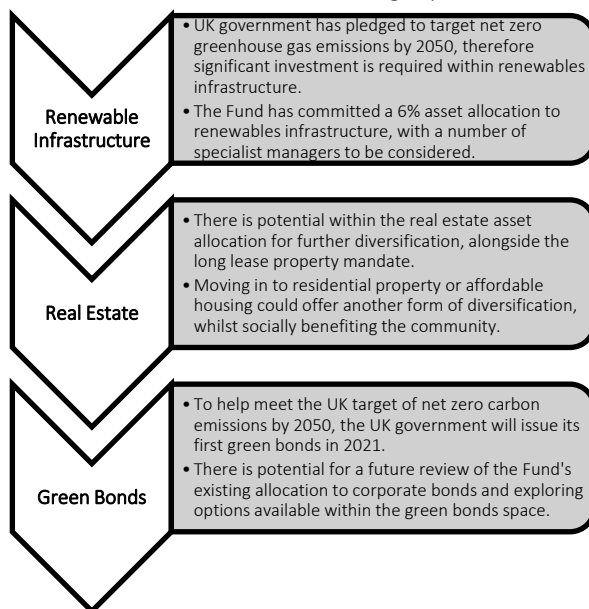
The Pension Fund acknowledges that the neglect of corporate social responsibility and poor attention paid to environmental, social and governance issues is more likely to lead to poor or reduced shareholder returns. Therefore, the ESG approach has become integral to the Fund's overall investment strategy and recognises ESG factors as central themes in measuring the sustainability and impact of the Fund's investments.

## 2. Investment Horizon

The City of Westminster Pension Fund Investment Strategy Statement (ISS) sets out the Fund's policy on investment, risk management, LGPS pooling and environmental, social and governance issues.

Alongside this the Fund's core investment beliefs set out the foundation of discussions, regarding the structure of the Fund, its strategic asset allocation and the selection of investment managers, incorporating ESG factors into this decision-making process.

The Fund's investment priorities over the coming years will be centred around the following topics:



## 3. Carbon Journey

The City of Westminster Pension Fund has committed to reducing its carbon emissions, alongside Westminster City Council. The Pension Fund appointed TruCost to undertake a carbon mapping of the Fund's equity and property investments as at 30 September 2019. This included metrics such as carbon intensity, carbon emissions, stranded assets and energy transition.

Since this mapping took place, the Fund has transitioned its London CIV (LCIV) UK Equity allocation

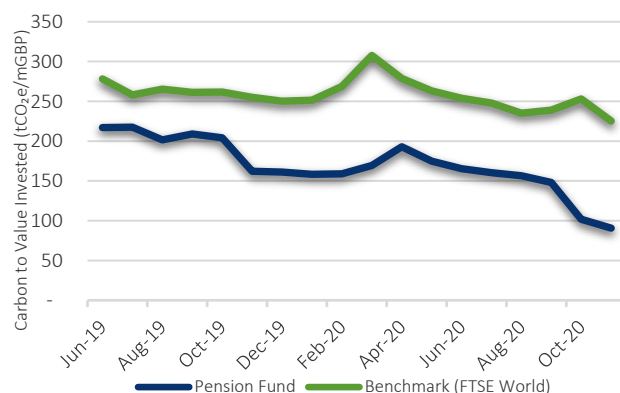
and Legal & General (LGIM) Global Passive Equities into the LCIV Global Sustain Fund and LGIM Future World Fund. The Global Sustain Fund seeks to provide a concentrated high-quality global portfolio of companies, however, excludes tobacco, alcohol, adult entertainment, gambling, civilian weapons, fossil fuels, and gas or electrical utilities. The LGIM Future World Fund tracks the L&G ESG Global Markets Index, whereby an Environmental, Social and Governance screening of companies takes place to remove those companies which do not meet the required ESG criteria.

Alongside this, a 6% commitment has been made towards investment within renewable infrastructure, with funds from the sale of the Hermes Property Fund. A fund manager selection process took place during December 2020, with Macquarie and Quinbrook each selected to manage a 3% allocation. The first drawdowns totalling c.£15m, took place during Q1 of 2021.

During November 2020, the Pension Fund commissioned TruCost to undertake a Carbon Review of the Fund following the transition into the ESG equity mandates, as at 31 October 2020.

The carbon to value invested metric is used by TruCost to reflect how efficient companies are at creating shareholder value, relative to the carbon emissions produced. The following graph depicts the Fund's carbon to value invested journey against the benchmark, within the equity allocation, from 30 June 2019 to 30 November 2020. The Pension Fund has been benchmarked against the FTSE World Index.

### Weighted Average Carbon to Value Invested



## 4. ESG Case Studies

Environmental, Social and Governance factors are key indicators in measuring the sustainability and suitability of an investment. There is growing research which suggests, when integrated into business decisions and portfolio construction, these can offer stability in future returns.

The Fund expects managers to integrate ESG factors into investment analysis and decision making. Monitoring these effectively can assist with resolving issues at early stages through effective engagement with companies and board members. The Fund expects asset managers where possible to engage and collaborate with other institutional investors, as permitted by relevant legal codes to ensure the greatest impact.

The measurement of ESG performance is still developing and benefitting from significant improvements. There are several performance benchmarks and disclosure frameworks that exist to measure the different aspects of available ESG data

which include carbon emissions and a variety of social impact scores.

### *Environmental: Gwynt y Môr case study*

Gwynt y Môr is a 576-megawatt wind farm located off the coast of North Wales, and it's held within our Macquarie Renewable Energy Fund.

The fund has a 10% stake in the windfarm and is the fifth largest operating offshore wind farm in the world. Macquarie manages an additional 10% exposure in Gwynt Y Môr through their existing renewable infrastructure funds and therefore is already familiar with the asset. Operational since 2015, Gwynt y Mor is comprised of 160 Siemens 3.6MW wind turbines spread across 80 square kilometres and provides enough clean electricity to power approximately 430,000 UK homes each year.

It is estimated that the windfarm cuts carbon emissions by around 2m tonnes a year, with the CO<sub>2</sub>e avoided equivalent to taking 234,680 cars off the road.

### *Social: Teladoc case study*

The Pension Fund holds, Teladoc, within its LCIV (Baillie Gifford) Growth Alpha Equity portfolio. The company is the largest telemedicine company in the US, providing remote access to services such as primary care appointments, expert second opinions, health support and chronic care management.

By providing healthcare services via video or phone consultants, this increases the accessibility to the services, helps to lower average healthcare costs and improves efficiency of the healthcare system.

In the first quarter of 2020, following the COVID-19 outbreak, Teladoc welcomed over a million new customers, ensuring the ability to continue to access

healthcare at a time when hospitals and clinics would otherwise be unavailable to them. Teladoc operates in over 175 countries, and the company claims in the US an average saving of \$472 per medical visit. Alongside this, in countries with nationalised healthcare, savings will benefit the government and therefore the public.

### *Governance: Cardinal Health case study*

Cardinal Health is an American integrated pharmaceuticals company, providing medical products to hospitals, health systems, pharmacies, clinical laboratories and physician offices worldwide. The Pension Fund holds Cardinal Health within its LGIM Future World Fund.

During 2020, the company paid out an above target bonus to the CEO, in the same year which it recorded a pre-tax charge of \$5.63bn for opioid settlement costs. It was found the compensation committee excluded these costs when calculating the bonus, resulting in executive pay being boosted. Additionally, the CEO had been the global head of pharma during the worst years of the opioid crisis.

LGIM voted against the pay resolution and signalled concern over the bonus payment in the same year as the company recorded an expected settlement. LGIM continues to engage with US companies on their pay structures and has published specific pay principles for US companies.

## 5. Key Fund Facts

### Aberdeen Standard Long Lease

- 77% of energy data collected
- 74% of water data collected
- 83% A-D Energy Performance Certificate Rating

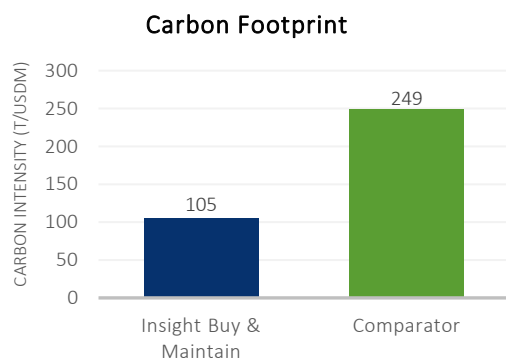
- 5 metric tonnes of carbon saved by solar installation

#### Pantheon Global Infrastructure

- 5% invested in solar
- 4% invested in wind power
- 43% of senior roles held by women
- 100% recycling rate

#### Insight Buy & Maintain

- The carbon intensity of the fund is 84 (t/USDm) lower than its comparators



#### LGIM Future World

- Companies failing to meet globally accepted business practices are excluded from the Future World Fund, based on any of the following criteria:
  - Involved in production of controversial weapons
  - Involved solely in the extraction of coal
  - Violators of the UN Global Compact initiative

#### LCIV Global Alpha

- 48% women employed
- 52% men employed
- 41.8% lower relative carbon footprint than the benchmark

#### LCIV Global Sustain

- The Global Sustain Fund avoids sectors such as alcohol, tobacco, weapons, gambling, fossil fuels and electric utilities and undertakes an engaged investment approach considering financial returns and ESG criteria.

### 6. Voting & Engagement

The Committee has delegated the Fund's voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Committee expects the investment managers to vote in the best interests of the Fund. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund will continue to collaborate with the London CIV on maintaining a shared voting policy for the equity managers on the London CIV platform and actively seek to align these policies with manager insights. Lobbying with other London CIV clients will give the Pension Fund greater control and impact over our voting choices and a centralised process will ensure our voting remains consistent and has the greatest impact.

The Pension Fund views engagement with companies as an essential activity and encourages companies to take positive action towards reversing climate change. The Westminster Pension Fund is a responsible owner

of companies and cannot exert that positive influence if it has completely divested from all carbon intensive producing companies. The Pension Fund will continue to encourage positive change whilst officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including carbon and other ESG considerations.

#### *Engagement: Microsoft case study*

As part of the LCIV Global Sustain Fund, Morgan Stanley have engaged with Microsoft on a number of issues including carbon and diversity and inclusion.

Microsoft have pledged to become carbon-negative by 2030, Morgan Stanley have engaged with the company on these decarbonisation targets and how they can be achieved. This engagement has shown that Microsoft is increasingly focusing on decarbonising their supply chains, not just direct operations. To assist in understanding and reducing these supply chain emissions, Microsoft has started charging a carbon price on these activities and developed tools to incentivise suppliers to reduce these. Other Microsoft initiatives include \$1bn funding new carbon removal technologies, transition to renewable energy and establishing a net zero initiative with other large companies.

The company has disclosed that they include diversity as part of senior management remuneration and have set up recruitment campuses at universities with high levels of diversity.

### 7. Connected Organisations

The Pension Fund recognises that significant value can be achieved through collaboration with other stakeholders. The Pension Fund works closely with its LGPS pool company, other LGPS funds and member

groups such as the Local Authority Pension Fund Forum (LAPFF), Pensions and Lifetime Savings Association (PLSA) and ShareAction to ensure corporate interests are aligned with the Pension Fund's values.

The Pension Fund actively contributes to the engagement efforts of pressure groups, such as the Local Authority Pension Fund Forum (LAPFF) and requires investment managers to vote in accordance with the LAPFF's governance policies. In exceptional cases, investment managers will be required to explain their reason for not doing so, preferably in advance of the AGM.

#### **Local Authority Pension Fund Forum**

The Local Authority Pension Fund Forum are a collection of over 83 local authority pension funds, with assets under management of over £300bn, promoting the highest standard of governance with the aim of protecting the long-term value of pension funds. The LAPFF engage directly with companies, on behalf of all asset owners and pension fund trustee members, on issues such as executive pay, reliable accounting and a transition to a net carbon zero economy.

#### ***LAPFF case study***

The LAPFF produce quarterly engagement reports, covering all ESG related issues from climate change, governance, human rights and cyber security. Over the quarter to 30 September 2020, the LAPFF engaged with 27 companies, including Sainsbury, Tesco and the National Grid.

At the National Grid 2020 AGM, LAPFF asked the National Grid to commit to its delayed setting of scope 3 carbon emission reduction targets. The company published a response on its website, signifying that it

would provide information on scope 3 targets in October.

Alongside this, the company has set a target of aiming for a carbon-neutral grid by 2025, including the provision of electric vehicle charging stations.

#### **Pensions and Lifetime Savings Association**

The City of Westminster Pension Fund is a member of the PLSA, who aim to raise industry standards, share best practice and support members. The PLSA works across a range of stakeholders including governments, regulators and parliament to help the implementation of sustainable policies and regulation. They represent over 1,300 pension schemes totalling £1.3tn in assets under management, including those in the public and private sectors.

The PLSA provide an important source for training, support and guidance on regulations and pension support services.

#### ***PLSA case study***

The PLSA published its response to the MHCLG proposals regarding the McCloud and Sargeant discrimination cases by, extending the underpin to younger scheme members with the underpin period applying from the 1st April 2014 to the 31st March 2022.

The PLSA conducted a survey of its members and consulted the Local Authority Committee on the proposals within the MHCLG consultation. On the whole the PLSA was supportive of the Government's plan to implement a two-stage underpin process, however they did express concerns about the impact these proposals would have on funds and pensions administrators given the significant resourcing requirements.

#### **ShareAction**

ShareAction is a registered charity who promotes responsible investment, working with investors to help influence how companies operate their business on a range of Environmental, Social and Governance (ESG) factors. This includes areas such as climate change, gender diversity, living wages, decarbonisation, biomass and healthy markets.

Most recently, ShareAction has been working on a Healthy Markets coalition group. The Healthy Market Initiative aims to make food retailers and manufacturers take on accountability for their role and impact on people's diets. The City of Westminster is a member of the Healthy Markets coalition and along with other members, represents over \$1 trillion in assets under management. The Fund has actively engaged with ShareAction on this initiative, attending coalition meetings, as well as contacting our equity managers and the LAPFF on their behalf to see if they would be willing to engage.

#### ***ShareAction case study***

In 2019 ShareAction partnered with the Access to Nutrition Initiative (ATNI) on its Healthy Markets Campaign. ATNI adapted the core methodology used for the Global Access to Nutrition Indexes to assess the disclosure of the UK food retail sector. In March 2020, the ATNI published its UK Supermarkets spotlight analysing the top 10 food retailers in the UK, scoring them against a number of indicators including governance, nutrient profiling, promotions and labelling. Whilst some retailers provide better transparency than others, all of them have the scope to explain more fully their commitments and action in all areas. Following the outcome of the report ATNI recommended that all 10 supermarket chains publish comprehensive strategies on diet, nutrition and health.

# Pension Administration Strategy

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## 1. Introduction

The delivery of a high quality, cost effective pensions administration service is not just the responsibility of the Administering Authority (Westminster City Council), it also depends upon collaborative working with all stakeholders to ensure that Scheme members, and other interested parties, receive the appropriate level of service and ensure that statutory requirements are met.

The aim of this Pension Administration Strategy (PAS) is to ensure that the Administering Authority along with their Admitted and Scheduled body employers are aware of their responsibilities under the Local Government Pension Scheme (LGPS).

This document also shows the relationship and details the split of responsibilities between the Administering Authority and the Admitted and Scheduled body employers (Employers).

For clarity Westminster acting as Administering Authority (WAA) for the pension fund will treat Westminster the main fund employer (WFE) exactly the same as all the other fund employers.

It should be noted that the Administering Authority is working with Surrey County Council (SCC) to provide the main pension administration service to all fund employers under a 101 shared service arrangement.

Throughout this document contractual and best practice levels of performance are referenced with the aim of incrementally improving the provision of timely accurate data and levels of pension administrative services.

Failure to comply with the standards shown in this document could result in charges being levied by the Administering Authority to Employers in accordance

with the terms set out in the schedule of charging in Section 6.

## 2. Pension Administration Strategy Statement

This statement sets out the aims and objectives of the PAS and references other documents which together make up the overall pensions administration management system.

### Statutory background

Regulation 59 of the Local Government Pension Scheme Regulations 2013 (LGPS 2013) enables an Administering Authority to prepare a document detailing administrative standards, performance measurement, data flows and communication vehicles with Employers.

Regulation 70 of the LGPS 2013 allows an Administering Authority to recover costs from an Employer where costs have been incurred because of an Employer's non-compliant level of performance in carrying out its functions under the Regulations.

### Aims & Objectives

In creating this strategy, the aim of the Administering Authority is to have in place a pension management system that meets the needs of the stakeholders by:

- clarifying the roles and responsibilities of all the major stakeholders
- ensuring the services provided by all the major stakeholders are accessible, equitable and transparent
- assisting Employers to provide the effective provision of timely and accurate data

To support these aims this PAS document introduces:

- the standard of expected service between the Administering Authority and Employers

- a schedule of charges that apply when standards of service fall below expectations
- a strategy in place to develop web enabled services for Employers and employees.

### Other documents which make up the overall strategy

- Local Government Pension Scheme Communications Policy

## 3. Roles and responsibilities

### Administering Authority

The responsibilities of the Administering Authority are:

1. To decide how any previous service or employment of an employee is to count for pension purposes, and whether such service is classed as a 'period of membership'.
2. To notify each member regarding the counting of membership in the scheme following notification from the member's employer of the relevant service details.
3. To set up and maintain a record for each member of the scheme which contains all the information necessary to produce an accurate benefit calculation following the employer providing useable and accurate financial data.
4. To calculate and pay the appropriate benefits at the correct time, based on membership details held the termination date and the final pay details provided by the employer when an employee ceases employment, or ceases membership of the Scheme.

5. To supply beneficiaries with details of their entitlements including the method of calculation.
6. To set up and maintain a record for each pensioner member.
7. To increase pensions periodically in accordance with the provisions of Pensions Increase Acts and Orders.
8. To pay benefits to the correct beneficiaries only and to take steps to reduce the possibility of fraud taking place.
9. To ensure that sufficient information is issued to satisfy the requirements of Regulation 61 of the LGPS 2013. This relates to fund communication more details are contained within section 4 of this document or alternatively see the communications policy which is also available on the Westminster Pension fund website.
10. To maintain an appointed person for the purposes of the scheme internal dispute resolution procedure (IDRP). The appointed person will in general be the Director of People Services or where the Director had previously been involved in the case an officer of equivalent level will be asked to make a determination. The appointed person will be able to access advice from the funds appointed legal advisors where necessary.
11. To appoint all necessary advisors to enable the appointed person to perform the duties required by the IDRP.
12. To appoint an actuary for the purposes of the triennial valuation of the Pension Fund and

provide periodical actuarial advice when required.

13. To arrange and manage the triennial valuation of the pension fund.
14. To ensure compliance with the Data Protection Act 1998.
15. The Administering Authority and its agents will respond to queries from employers external or internal auditors within 5 working days or advise when a full response can be sent if not possible within that time frame.
16. The Administering Authority and its agents will respond to relevant Freedom of Information requests within 14 working days if possible or advise when a full response can be sent if not possible within that time frame.
17. The Administering Authority will reply to any Pension Ombudsman query within 30 days of receipt or advise of reason for further delay.

### Employers

The main duties of the Employer are:

1. To decide who is eligible to become a member of the Scheme. The employer must abide by any admission agreement entered into with the administering authority if applicable. If there is a closed admission agreement only the named employees can be entered into the LGPS.
2. To decide whether that person is employed in a full time, part time, variable time or casual capacity. If the employee is part time the employer must determine the proportion

which the employees' contractual hours relate to the hours of a comparable full time, employee.

3. To determine the pay of employees for the purposes of calculating the pension contributions.
4. To determine final pay for the purposes of calculating benefits due from the Scheme.
5. To issue a notification to any employees who cannot become members of the Scheme explaining the reason(s) why.
6. Where, after reasonable efforts, an employee fails to provide information relating to previous service, provide basic information to the Administering Authority.
7. At cessation of membership of the Scheme, to determine the reason for leaving and entitlement to benefit and notify the Administering Authority and the Scheme member of the decision.
8. To supply timely and accurate information to the Administering Authority to ensure the correct calculation of benefits payable from the Scheme.
9. To deduct Additional Voluntary Contributions (AVCs) from a member's pay and pay over to the provider within the statutory deadlines.
10. To be responsible for exercising the discretionary powers given to Employers by the regulations. These regulations also require the Employer to publish its policy in respect of these key discretions.

11. To provide a notice, drawing the employee's attention to their right of appeal under the LGPS, with any statement issued to an employee relating to any decision made about the Scheme.
12. To use an Independent Registered Medical Practitioner qualified in Occupational Health medicine that has been approved by the Administering Authority in determining ill health retirement.
13. To repay to the Scheme member any incorrectly deducted employee's contributions.
14. To provide the Administering Authority with Monthly and Year-end information as at 31 March each year in an approved format.
15. To provide the Administering Authority with an audited copy of the final statement which shall also contain the name and pensionable pay of each employee who is an active member, the amounts which represent pension deductions from pay for each of those employees and the periods covered by the deductions and any other information requested. The information should also distinguish those amounts representing deductions for voluntary contributions and the employees paying those voluntary contributions.
16. To be responsible for complying with the requirements for funding early retirement for whatever reason as required by the Administering Authority using actuary factors.
17. To cover any professional costs for legal or actuarial services that are incurred by the

administering authority on behalf of any employer investigating any amendment in relation to its members of the scheme. An example of this would be where an (transferee) employer wishes to tupe eligible staff to another employer (transferor) and the transferor wishes to become an admitted body within our fund. The transferee employer would be expected to meet the actuarial and legal costs associated with the process and will be invoiced for this. Costs may occur in other circumstances where employers require an individual response on either a legal or actuarial matter.

18. Pay the Administering Authority interest on payments due from the Employer which are overdue by more than one month.
19. Where a member leaves the Scheme and full contributions have not been deducted for whatever reason, immediately make payment of outstanding member's and Employer's contributions to the Administering Authority.
20. To ensure compliance with Data Protection Act 1998.
21. The employer and it's agents will respond to queries from the Administering Authorities external or internal auditors within 5 working days or advise when a full response can be sent if not possible within that time frame.
22. The employer will reply to the Administering Authority on any query relating to a Pension Ombudsman issue with 14 days of request to allow the Administering Authority to respond to the Pension Ombudsman.

23. The employer must advise the Administering Authority of any change of contact details for the payroll or finance functions for communication purposes.

24. The employer is responsible for all Auto enrolment functions and must advise the Administering Authority of anyone auto enrolled as per the normal new starter process. Employers are advised to contact the pension regulator directly if they have any queries see link to website. <http://www.thepensionsregulator.gov.uk/>

#### 4. Liaison, engagement and communication strategy

The Administering Authority will issue and annually review their Local Government Pension Scheme Communications Policy

The policy will include a strategy for communicating with:

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

This policy document will set out the mechanisms that the Administering Authority will use to meet their communication responsibilities it will also include details of what is communicated and the frequency.

Annually the Administering Authority will issue an engagement plan that will include events for employers, members of the scheme and perspective members of the scheme.

The Communications policy will be updated on the Westminster Pension Fund where it can be found

under the Forms and Publications sub heading under the About us main tab.

See link to the pension fund website below.

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

##### 5. Standard of expected service between the Administrating Authority and the employers

Who*	Administration Description	Performance Targets
	<b><u>New Starters and Transfers In</u></b>	
E	<p><b>New starter:</b> The Employer must advise all eligible employees of their membership of the scheme. Members should be given the details of the Pension Fund website <a href="http://www.wccpensionfund.co.uk/">http://www.wccpensionfund.co.uk/</a></p> <p>Members must be advised that transfers into the scheme must be requested in the first year of joining or thereafter at their employer's discretion.</p> <p>Members must be advised that all necessary forms and contact details are available on the Pension Fund website.</p>	On the first day of the members employment if not provided prior to the start.
E	<p><b>New scheme member:</b> Employer to send to the Administrating Authority the details of the new member. Completing the new starter form available on the website or by sending a file in an approved format by WAA to SCC.</p>	Details to be provided to SCC by the last working day of the month following the first payroll deduction of pension.
AA	<p><b>New scheme member</b> Administrating Authority to create a new pensions record from the completed notification from the Employer.</p>	By the last working day of the month following the data submission by the employer.

AA	<p><b>New scheme member:</b> Administrating Authority to request a transfer quote from the new member's previous scheme.</p>	Within 30 days of receipt of authorisation from the employee. If transfer factors are currently available. If not the member is to be advised of the delay within the same timescale.
AA	<p><b>New scheme member:</b> Administrating Authority to credit member record with membership due from transfer of previous pension benefits.</p>	Within 30 days of receipt of payment from previous scheme.
AA	<p><b>New Scheme member:</b></p>	
	Notification of service purchased by an incoming transfer to be provided to the scheme new member.	Within 30 days of receipt of the all the information
	<b><u>Existing members and schemes</u></b>	
AA	Changes to data which materially affect actual or potential benefit calculations to be processed and provided to the member concerned.	Within 30 days of occurrence or receipt of all necessary information, whichever is later.
AA	Admissions and Inter Fund Adjustment (IFA) in to be notified to the members concerned.	Within 30 days of receipt of all necessary information.
AA	Transfers and Inter Fund Adjustment IFA out to be notified to the receiving scheme.	Within 30 days of receipt of all necessary information
AA	The terms of purchasing additional pension to be notified to the member concerned.	Within 15 days of receipt of all necessary information.
AA	Refund of contributions, where due under the Regulations, to be calculated and paid.	Within 14 days of receipt of all necessary information
AA	Upon notification of a death notification of a pensioner; arrangements put in place for pension payments to cease immediately.	Within 1 working day of receipt of all necessary information
AA	Letters will be sent to next of kin or other relevant party.	Within 5 days of receipt of notification of a death or within 5 days of receipt of all relevant information.
	Setting up of any dependents pension.	Within 14 days of receipt of all necessary information.

	<u>Leavers and Transfers out</u>	
E	<b>Leaver:</b> Employer to send the Administrating Authority a completed leaver notification.	By the Last working day of the month following the month in which the members final pensionable pay was processed.
AA	<b>Leaver:</b> Administrating Authority to issue a statement of deferred benefits as appropriate.	Within 30 days of receipt of all necessary information.
AA	<b>Leaver:</b> Administrating Authority to issue quote for Cash Equivalent Transfer Value (CETV).	Within 30 days of receipt of all necessary information.
E	<b>Retirements:</b> Employer to send the Administrating Authority a completed notification.	By the final working day of the month in which the members final pay is processed but employers should be looking to provide leavers
		final details to SCC before the member leaves if possible to do so.
AA	<b>Retirements:</b> Administrating Authority to send benefit options to member together with relevant forms required for payment of retirement benefits.	Within 5 working days of receiving notification from the Employer.
AA	<b>Retirements:</b> Administrating Authority to arrange the payment of Lump Sum.	Within 5 working days of receiving all required information from the Employer and the Member.
AA	<b>Retirements:</b> Administrating Authority to arrange payment of Annual Pension (paid monthly).	The pension to be processed on the next available pay period following the release of any lump sum and the member notified in writing.
AA	<b>Deferred Benefits Into Payment:</b> Administrating Authority to send a letter to the leaver that includes the benefits that are payable and/or the options for early payment (together with relevant forms to enable payment).	Within one month of the potential due date of any benefit into payment SCC will write to the member.
	<u>Deductions</u>	
E	<b>Monthly deductions:</b> Employer to send funds and schedule of deductions from salary to the Administering Authority.	By the 19th day of the month following the month in which contributions were deducted.

	<u>Pensioners</u>	
AA	<b>Payslips:</b> Every pensioner to receive a monthly pension advice payslip in the months of April and May. Thereafter, a hard copy payslip will be generated only where the net pension alters by ten pounds (£5) or more from the previous month.	Pensioners can access all their payslips via the member self-service option on the website. <a href="http://www.wccpensionfund.co.uk/">http://www.wccpensionfund.co.uk/</a> 3 Working days prior to pay day.
AA	<b>Increases:</b> Notify the pensioners of the increase and its effect on their pension by standard letter.	In the month of the payment increase.
	<u>Advisory &amp; Communications</u>	
AA	<b>Contact centre</b> Answer phone calls and deal with queries from members and employers.	On working days between the hours of 9.00 am and 5.00 pm.
	<u>Complaints</u>	
AA	All complaints to be acknowledged. A full written response to a complaint must be sent to the complainant.	Within 5 working days. Within 20 working days of its receipt by Surrey, subject to all necessary information being available to Surrey to enable a full response to be given.

## 6. Pensions Administration Strategy - Schedule of Charging

Westminster acting as Administering Authority (WAA) wishes to support its fund employers to enable them to provide all relevant data to both members and to WAA as per the requirements of the PAS set out above. Any employer who is unclear on the requirements of the PAS or is struggling with any aspect of the requirements should inform WAA of any concern as soon as possible, WAA will provide support where it can. WAA's first priority is to ensure compliance for the benefit of members and employers, ensuring that accurate data is stored for members. That pension can be processed quickly and accurately when required and that WAA and its employers all meet their statutory obligations.

Where additional costs have been incurred by the Administering Authority as a direct result of an Employer's poor performance these costs will be recovered from the Employer.

The Administering Authority will give the reasons for doing so in accordance with the regulations.

In addition to the schedule below other circumstances could generate a charge:

- Instances where the performance of the Employing Authority has resulted in fines being levied against the Administering Authority by the Pension Regulator, Pensions Ombudsman, HMRC or other regulatory body.
- Additional cost incurred in providing specialist third party advice in administering the Scheme on behalf of the employer, including but not exclusive to actuarial services,

occupational medical practitioner services and legal services.

- Persistent failure to resolve issues in a timely and satisfactory fashion.

In these circumstances the Administering Authority will set out the calculations of any loss or additional cost incurred, in writing, stating the reason for the cost(s) and the basis for the calculation.

WAA will monitor aspects of the PAS on a quarterly basis, the aspect monitored may change and not all employers data will necessarily be reviewed on each occasion. WAA will be reviewing data from SCC to ensure its own compliance which will be reported on to the Pension fund Committee and the Pension board.

WAA will also seek evidence from SCC of employer compliance with the PAS but may also request data directly from the employer who will be expected to respond with relevant evidence or assurance of compliance where relevant. If an employer does not respond to any request for information within **30 days** of request then this will also be chargeable at **£200** an occasion.

Administration Description	Performance Targets	Charge
<b><u>New Starters and Transfers In</u></b>		
<b>New scheme member:</b> Employer to send to the Administering Authority the details of the new member.	Within 25 working days after the start date.	£50 per case
<b><u>Leavers and Transfers out</u></b>		
<b>Scheme Leaver:</b> Employer to send the Administering Authority a completed leaver notification.	Within 25 working days from the employee's last day in the Scheme.	£50 per case
<b>Retirements:</b> Employer to send the Administering Authority a completed notification.	At least 15 working days before their final paid day of work.	£50 per case
<b><u>Deductions</u></b>		
<b>Monthly deductions:</b> Employer to send funds and schedule of deductions from salary to the Administering Authority.	By the 19th day of the month following the month in which contributions were deducted.	£100 per instance of late payment.
<b>Payment of Other Sums Due:</b> Employers should make payment of any invoiced sums as set out within this PAS within 30 days of invoice date.		

## 7. Strategy to develop web enabled services for employers and employees.

In 2016/17 the Administrating Authority will implement, develop and engage employers in an on line portal. Initially, the portal will be used for data sharing with employers and information communication with employees.

Whilst forms will be restricted to being downloaded completed and resent, it is anticipated that the portal will be developed to allow members of the scheme to self-serve e-forms direct to the scheme administrators.

## 8. Further Information

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# Annual Report of the Pension Board 2020/21

The role of the local pension board is to assist the scheme manager (the administering authority) in securing compliance with:

- The scheme regulations
- Other governance and administration legislation
- Any requirements of the Pensions Regulator (tPR)
- Additional matters, if specified by scheme regulations

The Local Pension Board is required to have an equal number of representatives from employers and scheme members. They may also have other types of members, such as independent experts, but such members will not have a vote.

The law requires Local Pension Board members to have knowledge and understanding of relevant pension laws, and to have a working knowledge of the LGPS, its governance and documentation. Whereas the role of the Pension Fund Committee usually involves carrying out a decision-making function, members of Local Pension Boards should focus on the processes involved in running the fund. For example, are policies and procedures up-to-date, are the requirements of the Pensions Regulator being met and is the Fund following recognised best practice.

At a national level, there is also the LGPS Scheme Advisory Board (SAB). This consists of representatives from across a broad spectrum of LGPS stakeholders. Its purpose is to encourage best practice, increase transparency and coordinate technical and standards issues by being reactive and proactive. Separate SABs

exist for the schemes in England and Wales, Scotland and Northern Ireland.

## Employer Representatives

- Councillor Tim Mitchell (Westminster, Conservative)
- Councillor Guthrie McKie, Vice Chairman (Westminster, Labour)
- Marie Holmes (The Grey Coat Hospital)

## Scheme Member Representatives

- Terry Neville OBE, Chairman of Local Pension Board
- Christopher Smith (Westminster, UNISON)
- Chris Walker

## During the year 2019/20 the Board met four times:

- 13 May 2019
- 9 July 2019
- 27 November 2019
- 3 March 2020

## During the year, the Board had a varied and extensive work programme covering the following areas:

- The monitoring of quarterly fund investment performance
- Reports detailing the Fund's financial management, including cash flow and scrutiny of the fund risk register

- Pensions Administration Key performance indicators
- Pension Fund costs

## Other notable examples of work that the Board covered during the year:

- The Board had full sight of the Fund's Triennial Actuarial Valuation process and were given the opportunity to comment to the Fund's actuary. This included oversight of the draft indicative results, along with the final Funding Strategy Statement and Investment Strategy Statement.
- A review of the assessment of the fund's Carbon Exposure Review as part of the wider environmental social and governance (ESG) issues facing pension funds. This report was initially prepared by the Fund's investment advisor (Deloitte) for the Pension Fund Committee.
- Critically reviewed the performance of external providers and subsequent appropriate action to secure improvement.

## The Board underwent the following training in the year:

- Patheon delivered a session on Infrastructure as an asset class. Topics discussed were the risk and return spectrum, how risks differ from traditional assets and how these characteristics are aligned with long term



investors. The Board were also presented with case studies of various transactions that Pantheon has undertaken on behalf of its clients.

- The London CIV presented a training item on ESG. This was a useful refresher on the UN Sustainable Development Goals, different type of ESG investments, and the London CIV's commitment to providing ESG compliant solutions.
- RBC Global Asset Management presented a session on investment risk and risk management. This session introduced various risks, the purpose and risk of investing, the need to diversify, and how to measure and monitor risk.

The Local Pension Board also attended a bespoke event during the year:

- On 26 June the board attended an event exclusively for Local Pension Board members held by Barnett Waddingham and CIPFA. This one-day event was a useful opportunity to hear the latest updates on governance and the LGPS from key industry representatives, to look ahead to the key issues facing Local Pension Boards and was a good opportunity to network with Local Pension Board members from other Funds.

*Terry Neville, Chair of Westminster Local Pension Board*

*June 2020*







Photos: Kristina Mikneviute



City of Westminster

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## Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>24 June 2021</b>
<b>Classification:</b>	<b>Public (Appendix Exempt)</b>
<b>Title:</b>	<b>Actuarial Services Procurement</b>
<b>Wards Affected:</b>	<b>None</b>
<b>Policy Context:</b>	<b>Effective control over council activities</b>
<b>Financial Summary:</b>	<b>There are no immediate financial implications arising from this report.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b> <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

### 1. EXECUTIVE SUMMARY

- 1.1 The Pension Fund contract for Actuarial Services, currently with Barnett Waddingham, expired at 31 December 2020. Officers have conducted a joint procurement exercise with the London Borough of Hammersmith and Fulham and the Royal Borough of Kensington and Chelsea, which has now concluded. This was conducted using the National LGPS framework, a well-established framework, giving the Fund access to the best available providers in the space.
- 1.2 Two providers responded to the invitation to tender, with the scoring and analysis of each provider set out in Appendix 1 to this report.

### 2. RECOMMENDATIONS

- 2.1 Appendix 1 should not be made available for publication on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).
- 2.2 The Pension Fund Committee approve the recommendation to award the contract to the provider set out in Appendix 1.



### **3. FINANCIAL IMPACT**

- 3.1 Although there are no immediate financial implications arising from this report, investment performance will have an impact on the Council's future employer contributions to the Pension Fund and this is achieved via a direct charge (the employer pension contributions as an oncost applied to salary) to the General Fund.
- 3.2 The estimated fees payable and value of the contract is set out in Appendix 1 to this report.

### **4 LEGAL IMPLICATIONS**

- 4.1 The Pensions Fund Committee has the power to award this contract under its terms of reference.
- 4.2 The Procurement has been carried out using a registered framework, the National LGPS framework, carried out using the capitalSourcing system and the Westminster City Council Legal and Procurement teams.

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

**Matt Hopson** [mhopson@westminster.gov.uk](mailto:mhopson@westminster.gov.uk)

**BACKGROUND PAPERS:** None

#### **APPENDICES:**

Appendix 1 – Actuarial Services Scoring and Recommendation (Exempt)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>24 June 2021</b>
<b>Classification:</b>	<b>General Release</b>
<b>Title:</b>	<b>Asset Allocation Update and Residential Property Review</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Policy Context:</b>	<b>Effective control over council activities</b>
<b>Financial Summary:</b>	<b>There are no direct financial implications arising from this report.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b> <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

## 1. EXECUTIVE SUMMARY

- 1.1 This report details the Fund's current strategic asset allocation compared with the target, and how the asset composition will change following drawdown of the Fund's illiquid asset classes.
- 1.2 Additionally, this report will explore sectors of the residential property asset class with the aim of exploring a suitable inflation protection mandate.

## 2. RECOMMENDATIONS

- 2.1 The Committee is recommended to:
  - agree upon the desired strategic benchmark for the whole Fund; and
  - consider whether an investment within residential property is suitable for the Fund, to be funded by a reduction in equities of 5%.

### 3. ASSET ALLOCATION CONSIDERATIONS

#### Current Investment Strategy

- 3.1 The Fund's strategic asset allocation policy at 31 March 2021 had 65% allocated to equities, 19% to fixed income, 11% to infrastructure and 5% to property. As at 31 March 2021, the Fund was overweight to equities by 5.6% and, while the allocation to equities has contributed positively to the Fund's performance, this allocation has also increased the Fund's volatility and portfolio risk. In addition to this, there is still a residual allocation of 4.0% to Longview, which will be used to fund the draw downs to the infrastructure allocations.
- 3.2 The Committee agreed to fully divest from the Hermes Core Property fund during 2020, with the proceeds realised during January 2021. The proceeds from this sale will be used to fund the Macquarie and Quinbrook renewable infrastructure mandates. The allocation to renewable energy infrastructure is expected to be circa 6%, with the remaining 5% allocation to Pantheon. The Pantheon allocation is expected to be lower than anticipated, following currency movements and positive performance within other asset classes of the Fund.
- 3.3 Based on investment values as at 31 March 2021, the following projected allocations are assumed once the infrastructure allocations are fully drawn down.

Asset Class	Projected Allocation (%)	Current Benchmark Allocation (%)
Global Equity	66.7	65.0
Fixed Income	19.4	19.0
Property	4.1	5.0
Infrastructure Equity	3.7	11.0
Renewable Infrastructure	5.6	
Cash	0.5	0.0
<b>Total</b>	<b>100.0</b>	<b>100.00</b>

It is expected that there would be a cash balance of £9.5m remaining once all infrastructure funds are fully drawn down. This should be sufficient to protect against any changes in exchange rates which may affect the future draw downs.

## **De-risking the Fund**

- 3.4 Equity markets performed strongly during 2020, following the falls in markets amid the global outbreak of COVID-19. The FTSE All World is currently trading at 20% higher than its level at the start of 2020. However, stock valuations remain heavily dependent on the vaccination roll out, which would lead to an end of COVID restrictions and increased economic growth. It is feared that a sharp rise in inflation may cause central banks to tighten fiscal policy sooner than anticipated, and this could impact the future earnings of certain stocks.
- 3.5 Given the significant increase in the funding level to 100% as at 31 March 2019, the Committee may wish to consider an equity reduction of 5% to crystallise on the gains made. Our investment advisor, Deloitte, has suggested that an allocation to residential property may be a suitable investment to protect against future inflation movements.

## **4 RESIDENTIAL PROPERTY**

- 4.1 There is potential within the real estate asset allocation with alternative opportunities within the current market, alongside the long lease property mandate. The driver for these changes is the current undersupply of housing relative to the rapidly growing UK population, with home ownership seen as a high priority in comparison with other developed economies. In addition to this, ESG implications are expected to be of increased exposure within property mandates and how these impact on financial returns.
- 4.2 Commercial property returns are expected to weaken over the next five years, with yields at an all time low. There has also been a slow down in the rental growth market, alongside the impact COVID-19 will have on the UK property market going forward. Therefore, investment managers have started to look for alternative opportunities within the residential property market.

### **Affordable Housing**

- 4.3 Affordable Housing (AH) is aimed at low-income workers who are not in the financial position to buy properties. Median house prices have increased by over 200% in the last 20 years, compared with salary increases of 60%, leading to a substantial reduction in affordable housing. AH is covered by Section 106 agreements, with developers needing to allocate a proportion of housing developments as affordable.
- 4.4 These properties are typically let to local authorities, housing associations or directly to tenants, with additional security in that most of the lease agreements are government backed. It is estimated that 60% of returns within AH is generated from rental income, with the remaining 40% attributed to capital appreciation.

## **Social Supported Housing**

- 4.5 Social Supporting Housing (SSH) is accommodation built specifically for vulnerable individuals with physical or psychological difficulties. Vulnerable individuals are typically in receipt of housing benefits, and the statutory duty for providing secure accommodation falls within the remit of local government. SSH agreements with housing associations are index-linked to annual inflation rates, with responsibility for administrative tasks and tenant care provided by the associations.
- 4.6 It is estimated that by 2030, 60,000 vulnerable individuals will need a specialised form of accommodation with the figures at 39,000 in 2015. Therefore, it is anticipated that there will be a large undersupply in the market, with demand likely to increase given the long-term occupancy characteristics. The return target for SSH is typically a cash yield of 5 to 6% per annum, with returns expected from income and capital appreciation.

## **Private Rented Sector**

- 4.7 The Private Rented Sector (PRS) is described as the purchase or development of a property purely for long-term rental income. This includes Build to Rent (BTR) developments, with an estimated £3bn invested in this area in the year to September 2020. The growth in this sector can be attributed to undersupply of new housing, affordability issues and attitudes towards renting properties changing. Additionally, economies of scale and increased taxation on individuals owning properties has led to a reduction in the number of private landlords.
- 4.8 PRS is typically found in areas of high house purchase cost, within commutable distances to large cities and schools with excellent Ofsted ratings. Investment returns are primarily achieved through long-term rental income, with long leases agreed with tenants.

## **5 RECOMMENDATIONS AND NEXT STEPS**

- 5.1 The Committee is invited to discuss and agree the most appropriate strategic asset allocation for the Fund going forward. In addition to this, as recommended by the investment advisor, the Committee may wish to consider residential property as a suitable allocation for the Fund. There is potential to de-risk the Fund further by reducing the equity allocation to 60%, with a recommended 5% to be allocated to residential property.

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

**Billie Emery** [bemery@westminster.gov.uk](mailto:bemery@westminster.gov.uk)

**BACKGROUND PAPERS:**

None

**APPENDICES:**

Appendix 1: Deloitte Asset Allocation Update and Residential Property Review

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## City of Westminster Pension Fund Asset Allocation Considerations

### Introduction

This paper has been prepared for the City of Westminster Pension Fund (the “Fund”) and has been written following discussion with the Pension Fund Committee (the “Committee”) at the last Committee meeting on 11 March 2021. Our considerations take into account the Fund’s current investment portfolio composition compared with that of the current strategic asset allocation and what the Fund’s distribution of assets would look like following the full draw down of commitments to the Fund’s illiquid investments.

Within this paper we also provide an introduction to the residential property asset class following the training session on property markets at the March Committee meeting and discussion around inflation-linked opportunities. In the second section of this paper we provide details of sectors encompassed within residential property which we feel represent a suitable investment opportunity for the Fund to consider as part of an inflation protection mandate.

### Current Allocation

The table below reflects the Fund’s asset allocation as at 31 March 2021.

Manager	Asset Class	Current Allocation (£m)	Current Allocation (%)	Current Benchmark Allocation (%)
LGIM	Global Equity (Passive – Future World)	398.7	22.8	25.0
LCIV	Global Equity (Global Alpha Growth)	429.8	24.6	20.0
LCIV	Global Equity (Global Equity Core)	337.3	19.3	20.0
Longview	Global Equity	69.2	4.0	0.0
	<b>Total Equity</b>	<b>1,235.0</b>	<b>70.6</b>	<b>65.0</b>
Insight	Buy and Maintain	241.1	13.8	13.5
LCIV	Multi Asset Credit	98.6	5.6	5.5
	<b>Total Bonds</b>	<b>339.7</b>	<b>19.4</b>	<b>19.0</b>
Aberdeen Standard	Property	71.3	4.1	5.0
	<b>Total Property</b>	<b>71.4</b>	<b>4.1</b>	<b>5.0</b>
Pantheon	Global Infrastructure	29.7	1.7	5.0
Macquarie	Global Renewable Infrastructure	6.0	0.3	3.0
Quinbrook	UK Renewable Infrastructure	7.3	0.4	3.0
	<b>Total Infrastructure (inc. renewables)</b>	<b>13.3</b>	<b>0.8</b>	<b>11.0</b>
	<b>Cash</b>	<b>59.4</b>	<b>3.4</b>	<b>-</b>
<b>Total</b>		<b>1,748.7</b>	<b>100.0</b>	<b>100.0</b>

Source: Northern Trust  
Figures may not sum due to rounding

In addition, it should also be noted that after previously agreeing to fully disinvest from the LCIV UK Equity Fund (Majedie), the LGIM All World Equity Index Fund and the Hermes UK Property Fund, a total of £132k can be attributed to the Fund as at 31 March 2021 in respect of its previous holdings in these funds, representing less than 0.1% of total Fund assets. These amounts relate to recoverable taxes for the three funds, alongside c. £40k in cash which remains in LGIM’s transition account.

As at 31 March 2021, the Fund's equity allocation is 5.6% overweight the current strategic benchmark allocation due to recent positive equity market returns. There is still a remaining residual allocation to Longview, which will be used to fund the remaining Pantheon commitment and renewable infrastructure commitments. The Fund's remaining unfunded commitment to the Pantheon Global Infrastructure Fund III stands at c. \$46.2m, following a capital call for payment by 11 June 2021, c. 50% drawn for investment, having committed \$91.5m in February 2019.

In 2020, the Committee agreed to fully disinvest from the Fund's 5% core property allocation with Hermes, with the proceeds realised from the Hermes UK Property Fund on 15 January 2021. The proceeds received from this disinvestment will be used to fund the €55m commitment to the Macquarie Renewable Energy Fund 2 and the £50m commitment to the Quinbrook Renewables Impact Fund, following the manager selection exercise in December 2020. This represents a c. 6% renewable infrastructure equity allocation, with the Committee agreeing to reduce the Fixed Income allocation to 19% at the last Committee meeting.

## Projected Allocation (once illiquid investments are fully drawn)

In order to consider what the Fund's asset allocation would look like once the aforementioned commitments to illiquid investments have been fully drawn for investment by the respective investment managers, we have projected the Fund's investment portfolio based on the value of the Fund's assets as at 31 March 2021. We have assumed that the forthcoming capital draw downs will be sourced from a combination of the remaining Longview investment and the c. £0.1m remaining cumulative investments in the LCIV UK Equity Fund, the LGIM All World Equity Index Fund and the Hermes UK Property Fund, with the remainder taken from the Fund's cash holdings. This would be expected to leave the Fund with c. £9.5m in cash, which we feel is an appropriate buffer to protect against changes in exchange rates which may affect the value of future drawdowns.

Asset Class	Current Allocation (%)	Projected Allocation (%)	Current Benchmark Allocation (%)
Global Equity	70.6	66.7	65.0
Fixed Income	19.4	19.4	19.0
Property	4.1	4.1	5.0
Infrastructure Equity	1.7	3.7	11.0
Renewable Infrastructure	0.8	5.6	
Cash	3.4	0.5	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

The Fund's commitments to the Macquarie Renewable Energy Fund 2 and the Quinbrook Renewables Impact Fund are expected to be fully drawn for investment by the beginning of 2023. Pantheon anticipates that the Fund's commitment will be fully drawn by the end of the second quarter of 2023, however if Pantheon is successful across each of the deals in its current investment pipeline, comprising of three large transactions, the Global Infrastructure Fund III could be expected to be fully drawn by the second quarter of 2022.

## Is now the time to de-risk?

Equity markets rebounded strongly in 2020 from the lows at the beginning of the year amid the global pandemic and have continued strongly into 2021. The FTSE All Share rose 26.7% over the 12 months to 31 March 2021, while global equity markets rose more than 50% in local currency terms. The FTSE All World is now 20% higher than its level at the start of 2020 (pre pandemic).

Valuations remain dependent on continued stimulus and the assumption that widespread vaccination will lead to an end of restrictions and significant consumer-led economic growth. Whilst this positivity may ultimately prove well-founded, there remains a risk that the roll-out of the vaccine may underwhelm and the efficacy of current vaccine alternatives may be tested by continued mutations of the virus.



Equity markets have had volatile periods recently, largely as a result of inflationary fears. With valuations so reliant on monetary support, it is feared that a sharp rise in inflation will force central banks to tighten policy sooner than expected, and an increase in interest rates would diminish the future earnings growth of certain stocks.

The results from the 2019 actuarial valuation showed significant improvements in the funding position, with Westminster City Council's funding level increasing from 70% in 2016 to 86% on 31 March 2019. The funding position of the whole Fund also improved, increasing from 80% to 99% over the same dates. With the performance of equity markets since 2019 and recent yield rises the funding position today is likely to be even stronger.

Given the strong funding position and continued performance from equity markets, we would suggest now may be an opportune time to crystallise some equity market gains and reduce the overall allocation to equities by 5%. Given our discussion on inflation and training session at the last Committee meeting on property markets, we would suggest the Committee considers an allocation to property which does not overlap the current long lease property allocation, such as areas of residential property. Potential asset classes are discussed in the next section of this paper.

The table below shows the estimated impact on risk and return of a potential 5% reduction to equities and allocation to residential property.

Asset Class	Current Allocation (%)	Projected Allocation (%)	Current Benchmark Allocation (%)	De-risking Option (%)
Global Equity	70.6	66.7	65.0	60.0
Fixed Income	19.4	19.4	20.0	19.0
Property	4.1	4.1	5.0	10.0
Infrastructure Equity	1.7	3.7	10.0	11.0
Renewable Infrastructure	0.8	5.6		
Cash	3.4	0.5	-	-
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>
<b>Expected Return</b>	<b>4.6% p.a.</b>	<b>4.6% p.a.</b>	<b>4.6% p.a.</b>	<b>4.5% p.a.</b>
<b>Volatility</b>	<b>12.2% p.a.</b>	<b>12.1% p.a.</b>	<b>12.0% p.a.</b>	<b>11.5% p.a.</b>

## Residential Property

While core property investments have fared well in the past, and the ASI Long Lease Property Fund continues to deliver stable returns, alternative opportunities have recently presented themselves within small sections of the market. The fundamental driver for these changes is associated with the current undersupply of housing, relative to a rapidly growing UK population, with home ownership a higher priority within the UK compared to other developed economies alongside further foreign investment. It is anticipated that the residential market conditions will drive several sub-trends including affordable housing, shifting attitudes to rental accommodation and changes in demand for certain geographic locations.

In addition, due to the increased focus on ESG factors and impacts on financial returns, property asset managers have followed wider markets in improving their approach to ESG when acquiring or constructing a new asset, alongside developing current portfolios. Within property investment markets, there has also been a drive to further understand the ESG impacts from counterparties and tenants. Going forward, it is likely to be important to ensure that these ESG based considerations have an impact and directly influence returns rather than act as a form of 'green washing'.

Returns in the UK commercial property markets are forecast to weaken over the next five years compared to the previous five. Yields are at all-time lows and rental growth is starting to slow, not considering the impact COVID-19 has had and will have on the UK property market going forward. Investors and managers are therefore looking for opportunities in alternative sectors of the real estate market, in particular, segments of the residential market.

## Affordable Housing

Affordable Housing (“AH”) are homes aimed at low-income workers who are not currently in a position to be able to buy or rent properties. There is a recognised housing shortage in the UK, with net additions not equalling the Government’s target of 300,000 per year, and an average annual shortage of over 100,000 p.a. This has led to a substantial reduction in affordability, with median house prices in England increasing by over 200% in the past 20 years compared to median salary, which has increased c. 60%.

AH homes are delivered directly by the public sector or by housing developers fulfilling their Section 106 obligations (that large developments need to have a proportion of affordable homes) and selling properties to Housing Associations. There are several different affordable housing sub-markets, as listed in the table below.

	Regulated	Tenant rent indexation	Description
Social Rent	Yes	CPI +1%	Tenants rent at <60% of market rent
Affordable Rent	Yes	CPI +1%	Tenants rent at 70-80% of market rent
Key Worker Rent	No	CPI	Tenants rent at c. 85% of market rent
Shared Ownership	Yes	RPI +0.5%	Occupants buy a share of a property (e.g. 25%-50%) and pay a regulated rent on the remainder.
Rent to Buy	No	CPI	Tenants rent newly built homes at market rate. Option to purchase at a 20-25% discount during tenancy of up to five years.

The properties can be let to local councils, housing associations or directly to tenants through a variety of tenancy agreements. The majority of lease agreements are government backed, therefore providing additional levels of security.

It is estimated that c. 60% of returns from AH investment strategies come from rental income, with the remaining c. 40% a result of capital appreciation and house price inflation.

## Social Supported Housing

Social Supported Housing (“SSH”) is purpose-built, permanent accommodation for vulnerable individuals with physical and/or psychological difficulties, which resultantly means they are unable to live and work independently. Subsequently, individuals in this situation receive housing benefits from the central government, with The Care Act (2014) creating a statutory duty for the local government to provide long term, safe and secure accommodation within the community. Within the agreement for these purpose-built properties, an annual inflation indexed lease is agreed with a housing association, who is in turn responsible for the administrative tasks (e.g. collecting housing benefits from the tenants) as well as ensuring that care is provided to the tenant.

Previously, these individuals have been homed in accommodation such as hospitals, where they were likely to have shared accommodation with other individuals with similar conditions. However, this is rarely the most appropriate course of action given the fact that both privacy and tailored care can be a requirement for each individual. Mencap, a UK charity for people with a learning disability, estimates that by 2030 around 60,000 individuals will need this specialised form of accommodation, increasing from c. 39,000 in 2015 – based on this forecast there currently exists a large undersupply of purpose-built properties in the market, with demand unlikely to slow down given the long-term occupancy period.

In addition to the lack of appropriateness for the resident, hospital care can also be expensive. It is estimated that residents living in SSH cost the government c. £200 per week less than being in a residential care home and c. £2,000 per week less than remaining in in-patient care.

The underlying assets are expected to receive a return through both capital appreciation and income from the individual leases. As this is a relatively new asset class, historic performance is not yet available. However, funds currently raising are targeting a cash yield of c. 5-6% p.a. There are also other sub-sectors within SSH, as listed in the table below.

	Lessee	Income source	Description
Social supported housing	Registered provider	Housing association funded by DWP	Homes for adults with care needs who require specialised services and/or support
Children's services houses	Care provider	Local Authority funded by MHCLG	Children under the age of 18 with care needs
Senior supported housing	Registered provider	Local Authority funded by DWP and MHCLG	Self-contained homes specifically designed to facilitate the provision of care to older people with care needs
Homelessness housing	Local authority / registered provider / charity	DWP with private top up	Homes for individuals and families who are homeless
Asylum housing	Private provider	The Home Office	Homes for asylum seekers who have applied for permanent residence in the UK and whose rent is funded by the Home Office

## Private Rented Sector

The private rented sector ("PRS") can be defined simply as the purchase or development of property purely for the purpose of long-term rental for individuals. PRS predominantly includes Build to Rent ("BTR") developments which are purpose-built, professionally managed and designed to take advantage of economies of scale. It is estimated that over £3bn was invested in BTR in the UK over the year to September 2020, 4.6% more than over the entire 2019 calendar year<sup>1</sup>. This recognisable growth has stemmed from a structural undersupply of new housing and demand for quality rental homes, especially for families, where shifting attitudes towards renting coupled with housing affordability issues has led to an estimated one in three current tenants likely to still be renting after retirement<sup>2</sup>. PRS market growth can also be attributed to the decrease in the number of private landlords in the UK, with the government increasing the level of taxation applied to individuals who own more than one property – which has proved to provide a relative advantage to larger scale PRS investment firms where the increase in costs has less of an impact on overall affordability compared with that of a private investor.

Typically, PRS portfolios consist of properties situated in large UK cities, such as large apartment blocks with a bias towards London and the South East, where there is a clear barrier to ownership due to the characteristically high

<sup>1</sup> Savills. December 2020. *Spotlight: The UK Private Rented Sector*. {[https://www.savills.co.uk/research\\_articles/229130/308605-0](https://www.savills.co.uk/research_articles/229130/308605-0)}

<sup>2</sup> Landlordzone. July 2015. *One in Three will Rent in Retirement*. {<https://www.landlordzone.co.uk/news/one-in-three-will-rent-in-retirement/>}

purchase costs; alongside sites with houses of various sizes to suit the varying requirements of different individuals, located within a commutable distance to large UK cities and close to schools with encouraging ratings by Ofsted.

PRS investment managers principally fund the construction of a large portfolio of new homes and can often include an allocation to acquired newly-build and fully let properties from third parties. A lease is usually agreed with a housing association, who is in turn responsible for advertising the properties, finding renters, collecting rent and property management.

Given that construction primarily takes place taking account of certain designs and specifications, which have been agreed in advance of the commencement of any construction based on relevant experience and data, long-term PRS maintenance costs are anticipated to be predictable and therefore simple to manage. Investment returns are primarily driven by current rental income and future expected rental increases, typically in line with inflation, with long-term stable income achieved through the contracts agreed with the underlying tenants.

## Key Differences

Both Affordable Housing and Social Supported Housing are in short supply and should therefore benefit from strong demand in terms of the ability of investment managers to deploy capital. Both asset classes also benefit from cross party support and have the potential to deliver a positive social impact. Although a relatively smaller market, SSH provides a significant cost saving to the Government and NHS and therefore may be slightly more protected from regulatory risk than AH.

That said, regulatory risk exists in both the AH and SSH sectors. The vast majority of AH is rent controlled, where the Government could alter social rents. While this is not the case for SSH, a future government could extend rent controls to include SSH in the future.

Each of the three residential property opportunities will incur relatively high operating costs such as maintenance costs, given homes are let to individuals. Operating costs are likely to be highest within SSH, given the unique aspect of the homes. Operating costs will be higher where strategies are letting directly to tenants rather than via housing associations or through other intermediaries.

Occupancy rates are expected to be high in AH given the demand and generally lower rental rates, with investment strategies with higher allocations to pure social and affordable rent sectors likely to achieve the highest occupancy rates. Occupancy in SSH is expected to be lower given the complexity of the associated homes, the need for capex and the operational aspect of aligning the right individual to the right property.

While PRS vacancy levels are also expected to be low, given the supply and demand imbalances in the UK and lack of affordable homes, rent collection levels can be significantly impacted during periods of economic turmoil. For example, since the onset of the COVID-19 pandemic, PRS investment managers have recognised rent collection rates as low as 70%, given that rent is paid directly by individuals and not backed by a counterparty such as the UK government.

All three sectors will be exposed to construction risk. While this can be mitigated to an extent via counterparty diversification and covenants, failure to meet key milestones can result in lengthy ongoing legal battles. A fund making a purchase with planning permission only will also be exposed to development risk and forward purchase risk in the event of cost overruns.

As mentioned, both AH and SSH sectors have potential to deliver a significant social impact. Investors should also consider further ESG benefits that can be achieved by developing sustainable and energy efficient properties, and investors must be aware of the reputational risks associated with both sectors. However, the social impact of PRS investments is materially less than AH and SSH. Where AH and SSH are recognised to be helping those in need, the PRS market can be seen to be contributing to the lack of affordability for housing for individuals, further growing the supply/demand imbalance.

In general, while the PRS sector has recognised considerable growth over the previous decades, we do not believe the asset class represents as attractive an opportunity as AH and SSH. The growth in the PRS market has lacked the scale and evolution which is required to provide high quality housing and deliver professional management expertise in a cost-

effective manner, and it remains to be seen how ongoing cost improvements can be made from an economies of scale perspective without impacting the quality of homes.

In addition, it is recognised that much of the growth in the PRS market has occurred as a result of increased government pressure on individual buy to let landlords, through increased taxes on second home ownership. While this has benefited PRS thus far, the regulatory and political risks cannot be ignored. The PRS market relies heavily on free market rental pricing and the lack of a competitive product. Should government policy change, for example to target a higher proportion of home ownership in the UK, this could materially impact the profit-making ability of PRS investment managers.

## Key Statistics

	Affordable Housing	Supported Living	PRS
<b>Target investments</b>	S106 housing units in new developments, custom orders to housebuilders	Purpose built housing for those who cannot live/work independently – often built in multi-unit complexes	Housing for individuals, including flats and houses of varying size – primarily in prime locations
<b>Typical lease length (years)</b>	20+ years	20-40 years	Dependent on property type and location – ranging from c. 5 years to the remaining lifetime of the tenant
<b>Typical yield (% p.a.)</b>	4.0-6.0% p.a.	5.0-6.0%	5.0-6.0% p.a.
<b>Expected returns (% p.a.)</b>	5.0-6.0% p.a.	6.0-8.0% p.a.	Wide range – dependent upon closed or open-ended strategy, and composition of portfolio
<b>Typical occupancy (%)</b>	Dependent on type (90-95% estimate)	80-90%	95-100%
<b>Inflation linkage (%)</b>	Dependent on type (Council/Housing Associations often 90-100% linked)	95-100%	c. 90% through the ability to periodically adjust rent levels

## Next Steps

Following consideration of this paper, the Committee should agree upon the desired strategic benchmark for the investment portfolio as a whole and, in doing so, consider whether it is willing to investigate residential property further as an opportunity.

If the Committee wishes to make a residential property allocation, the desired sub-sector or sub-sectors of the market should be decided upon. At which point we will consider a number of providers within the relevant sub-sector/sub-sectors and agree upon a shortlist of providers before arranging a selection exercise where the providers will be asked to present their funds to the Committee. Our search will include options available now or in the future through the London CIV. We will provide a selection report with our full due diligence on each provider and the strategy, as well as the risk/return characteristics and inflation linkage of each strategy, and how this relates to the characteristics of the Fund and its liability profile.

Deloitte Total Reward and Benefits Limited

June 2021

## Risk Warnings

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

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



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## Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>24 June 2021</b>
<b>Classification:</b>	<b>Public</b>
<b>Title:</b>	<b>Fund Financial Management</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Policy Context:</b>	<b>Effective control over council activities</b>
<b>Financial Summary:</b>	<b>There are no immediate financial implications arising from this report.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b> <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

### 1. Executive Summary

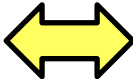
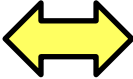



- 1.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The top five risks are highlighted in the report below.
- 1.2 The cashflow forecast for the next three years has been updated, with actuals to 31 March 2021 for the pension fund bank account and cash held at custody (Northern Trust). The bank position continues to be stable.

### 2. Recommendations

- 2.1 The Committee is asked to note the risk registers for the Pension Fund.
- 2.2 The Committee is asked to note the cashflow position for the pension fund bank account and cash held at custody, the rolling 12-month forecast and the three-year forecast.

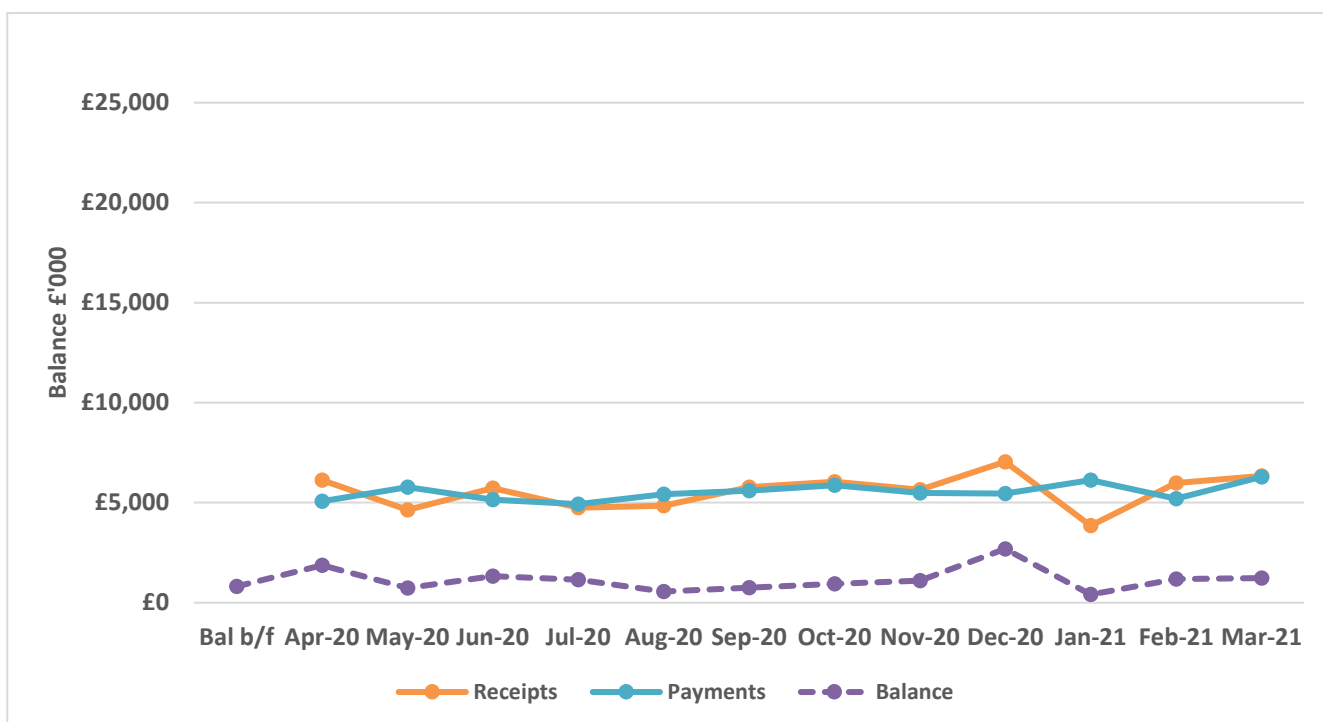
### 3. Risk Register Monitoring

- 3.1 The risk register is divided into two sections: investment and pensions administration. The risk groups have been updated to reflect the CIPFA guidance on risk categories. The current top five risks to the Pension Fund are highlighted in the table below:

CIPFA Risk Group	Risk Rank	Risk Description	Movement
Asset and Investment Risk	1 <sup>st</sup> /40	Future developments re the COVID-19 pandemic cause economic uncertainty across the global investment markets.	
Asset and Investment Risk	2 <sup>nd</sup> /40	Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty. Increased risk to global economic stability.	
Administrative and Communicative Risk	1 <sup>st</sup> /24	Failure to successfully transition the pensions administration service to Hampshire County Council from Surrey County Council by 1 December 2021, following termination of the Surrey contract. Alongside this, the administration software is to be moved from Aquila Heywood Altair to Civica.	
Administrative and Communicative Risk	2 <sup>nd</sup> /24	Pension administrators do not maintain sufficient staff or skills to manage the service, leading to poor performance and complaints. There is a concern regarding the high level of senior management departures.	
Asset and Investment Risk	3 <sup>rd</sup> /40	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 £1.7m. Following COVID-19, there was some concern around Fund Managers outperforming their benchmarks.	

### 4. Cashflow Monitoring and Forecasted Cashflows

- 4.1 The balance on the pension fund Lloyds bank account at 31 March 2021 was £1.224m. The Lloyds bank account is the Fund's main account for day-to-day transactions which includes receiving member contributions and transacting out pension payments to scheme members. Payments from the bank account will continue to exceed receipts on a monthly basis. During the year, withdrawals from cash at custody are expected to take place to maintain a positive cash balance.
- 4.2 The table below shows changes in the bank balance from 1 April 2020 to 31 March 2021.



- 4.3 Payments and receipts have remained stable over the last 12 months. Officers will continue to keep the cash balance under review and take appropriate action where necessary to maintain necessary liquidity. The Fund received a deficit recovery receipt of £12.45m from Westminster City Council during March 2021: this was paid over to the custodian, Northern Trust, to safeguard on the Fund's behalf.
- 4.4 The Pension Fund held £59.107m in cash with the global custodian, Northern Trust, as at 31 March 2021. Fund manager distributions, deficit recovery receipts, proceeds from the sale of assets and purchases of assets, take place within the Fund's custody account at Northern Trust. The income distributions are largely from the Baillie Gifford Global Alpha and CQS Multi Asset Credit mandates. The following table shows the cash inflows and outflows within cash at custody for the three-month period from 1 January 2021 to 31 March 2021.

Cash at Custody	Jan-21	Feb-21	Mar-21
	£000	£000	£000

	Actual	Actual	Actual
<b>Balance b/f</b>	<b>7,855</b>	<b>59,177</b>	<b>51,250</b>
Distributions	0	623	387
Deficit Recovery	0	0	12,000
Sale of assets	59,062	0	250
Interest	0	0	35
Cash withdraw	0	(2,000)	(1,000)
Foreign Exchange Gains/Losses	(32)	(17)	14
Purchase of Assets	(7,708)	(6,506)	(3,680)
Management fees	0	(26)	(150)
<b>Balance c/f</b>	<b>59,177</b>	<b>51,250</b>	<b>59,107</b>

4.5 The Fund sold its holdings within the Hermes Property Fund (£59.062m) during January 2021, with funds to be transitioned into the renewable energy infrastructure funds as they draw down. During the quarter, capital calls totalling £17.894m took place within the infrastructure funds. In addition to this, the Fund withdrew £3m from custody cash over the quarter, to maintain a positive cash balance within the pension fund bank account.

4.6 The total cash balance, including the pension fund Lloyds bank account and cash at custody, is shown below for the period from 1 January 2021 to 31 March 2021. The total cash balance as at 31 March 2021 was £60.331m.

Cash at custody and Lloyds Bank account	Jan-21	Feb-21	Mar-21
	£000	£000	£000
	Actual	Actual	Actual
<b>Balance b/f</b>	<b>10,544</b>	<b>59,586</b>	<b>52,432</b>
Cash outflows	(13,872)	(11,756)	(10,121)
Cash inflows	62,914	4,602	18,020
(Withdraw)/Deposit from custody to bank account	0	(2,000)	11,000
Withdraw/(Deposit) from bank account to custody	0	2,000	(11,000)
<b>Balance c/f</b>	<b>59,586</b>	<b>52,432</b>	<b>60,331</b>

- 4.7 During February and March 2021, £2m and £1m respectively was withdrawn from cash at custody to maintain a positive cash balance within the Lloyds bank account. At the end of March, the Council paid its outstanding deficit recovery contributions for 2020/21 into the pension fund bank account.
- 4.8 Following this, a £12m payment was made from the Lloyds bank account to the custodian in respect of this deficit recovery. This process ensures the proper safeguarding of cash assets and appropriate cash flow management of the bank account.

- 4.9 The following table illustrates the expected rolling cashflow for the 12-month period from 1 April 2021 to 31 March 2022 for the pension fund Lloyds bank account. Forecast cashflows are calculated, using the previous year's actual cashflows, which are then divided equally over the 12 months and then inflated by 2%.

**Current Account Cashflows Actuals and Forecast for period April 2021 - March 2022:**

	<i>Apr-21</i>	<i>May-21</i>	<i>Jun-21</i>	<i>Jul-21</i>	<i>Aug-21</i>	<i>Sep-21</i>	<i>Oct-21</i>	<i>Nov-21</i>	<i>Dec-21</i>	<i>Jan-22</i>	<i>Feb-22</i>	<i>Mar-22</i>	<b>Forecasted Rolling Total</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	
	<b>F'cast</b>	<b>F'cast</b>	<b>F'cast</b>	<b>F'cast</b>	<b>F'cast</b>	<b>F'cast</b>	<b>F'cast</b>	<b>F'cast</b>	<b>F'cast</b>	<b>F'cast</b>	<b>F'cast</b>	<b>F'cast</b>	
<b>Balance b/f</b>	<b>1,224</b>	<b>745</b>	<b>265</b>	<b>786</b>	<b>307</b>	<b>828</b>	<b>348</b>	<b>869</b>	<b>390</b>	<b>910</b>	<b>1,431</b>	<b>952</b>	<b>£000s</b>
Contributions	2,889	2,889	2,889	2,889	2,889	2,889	2,889	2,889	2,889	2,889	2,889	2,889	34,673
Misc. Receipts <sup>1</sup>	373	373	373	373	373	373	373	373	373	373	373	373	4,481
Pensions	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(3,575)	(42,905)
HMRC Tax Payments	(620)	(620)	(620)	(620)	(620)	(620)	(620)	(620)	(620)	(620)	(620)	(620)	(7,440)
Misc. Payments <sup>2</sup>	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(1,286)	(15,432)
Expenses	(161)	(161)	(161)	(161)	(161)	(161)	(161)	(161)	(161)	(161)	(161)	(161)	(1,928)
<b>Net cash in/(out) in month</b>	<b>(2,379)</b>	<b>(2,379)</b>	<b>(2,379)</b>	<b>(2,379)</b>	<b>(2,379)</b>	<b>(2,379)</b>	<b>(2,379)</b>	<b>(2,379)</b>	<b>(2,379)</b>	<b>(2,379)</b>	<b>(2,379)</b>	<b>(2,379)</b>	<b>(28,551)</b>
Withdrawal/(deposit) from custody cash	1,000	1,000	2,000	1,000	2,000	1,000	2,000	1,000	2,000	2,000	1,000	(68,000)	(52,000)
Special Contributions*	900	900	900	900	900	900	900	900	900	900	900	70,130	80,030
<b>Balance c/f</b>	<b>745</b>	<b>265</b>	<b>786</b>	<b>307</b>	<b>828</b>	<b>348</b>	<b>869</b>	<b>390</b>	<b>910</b>	<b>1,431</b>	<b>952</b>	<b>703</b>	

<sup>1</sup> Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges

<sup>2</sup> Includes Transfers out, Lump Sums, Death Grants, Refunds

\*Deficit recovery contributions

- 4.10 Actual cashflows within the pension fund Lloyds bank account against the forecast for the quarter ending 31 March 2021 are shown below. There may be monthly variances between the actual and forecast 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 January to March 2021:**

	Jan-21			Feb-21			Mar-21		
	£000	£000	£000	£000	£000	£000	£000	£000	£000
	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var
<b>Balance b/f</b>	<b>1,455</b>	<b>2,689</b>	<b>(1,234)</b>	<b>1,194</b>	<b>409</b>	<b>785</b>	<b>932</b>	<b>1,182</b>	<b>(249)</b>
Contributions	2,776	2,668	108	2,776	2,913	(136)	2,776	3,160	(384)
Misc. Receipts <sup>1</sup>	793	325	468	793	208	585	793	861	(68)
Pensions	(3,470)	(3,501)	31	(3,470)	(3,509)	38	(3,470)	(3,525)	54
HMRC Tax Payments	(585)	(599)	14	(585)	(597)	12	(585)	(619)	34
Misc. Payments <sup>2</sup>	(1,406)	(1,999)	593	(1,406)	(1,043)	(363)	(1,406)	(1,459)	53
Expenses	(178)	(32)	(145)	(178)	(57)	(121)	(178)	(690)	512
<b>Net cash in/(out) in month</b>	<b>(2,070)</b>	<b>(3,138)</b>	<b>1,069</b>	<b>(2,070)</b>	<b>(2,086)</b>	<b>16</b>	<b>(2,070)</b>	<b>(2,271)</b>	<b>202</b>
Withdrawal/(deposit) from custody cash	1,000	0	1,000	1,000	2,000	(1,000)	(12,000)	(11,000)	(1,000)
Special Contributions*	808	858	(50)	808	858	(50)	13,838	13,314	525
<b>Balance c/f</b>	<b>1,194</b>	<b>409</b>	<b>785</b>	<b>932</b>	<b>1,182</b>	<b>(249)</b>	<b>701</b>	<b>1,224</b>	<b>(523)</b>

<sup>1</sup> Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges

<sup>2</sup> Includes Transfers out, Lump Sums, Death Grants, Refunds

\*Deficit recovery contributions

**Variances during the quarter to 31 March 2021:**

- Lower number of transfer values in during January and February than forecasted. Conversely, higher value transfer ins and death/retirement benefits than anticipated took place during January.
- Higher than expected contributions during March 2021, due to employers paying contributions in advance of the statutory deadline for 31 March year end.

- 4.11 The three-year cashflow forecast for 2021/22 to 2023/24 for the pension fund Lloyds bank account 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 2021/22 to 2023/24:**

	2021/22	2022/23	2023/24
	£000	£000	£000
	F'cast	F'cast	F'cast
<b>Balance b/f</b>	<b>1,224</b>	<b>693</b>	<b>560</b>
Contributions	34,663	35,357	36,064
Misc. Receipts <sup>1</sup>	4,481	4,570	4,662
Pensions	(42,905)	(43,763)	(44,638)
HMRC Tax	(7,440)	(7,589)	(7,741)
Misc. Payments <sup>2</sup>	(15,432)	(15,740)	(16,055)
Expenses	(1,928)	(1,967)	(2,006)
<b>Net cash in/(out) in year</b>	<b>(28,561)</b>	<b>(29,133)</b>	<b>(29,715)</b>
Withdrawal/(deposit) from custody cash	(52,000)	29,000	30,000
Special Contributions*	80,030	0	0
<b>Balance c/f</b>	<b>693</b>	<b>560</b>	<b>845</b>

<sup>1</sup> Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges

<sup>2</sup> Includes Transfers out, Lump Sums, Death Grants, Refunds

\*Deficit recovery contributions

- 4.12 The final Council deficit recovery receipt expected during 2021/22 totals £80m. It is anticipated the Fund will liquidate fund assets during 2022/23 to finance the shortfall in cashflow.

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

Billie Emery [pensionfund@westminster.gov.uk](mailto:pensionfund@westminster.gov.uk)

**BACKGROUND PAPERS:** None

**APPENDICES:**

Appendix 1 – Tri-Borough Risk Management Scoring Matrix  
Appendix 2 – Pension Fund Risk Register Review at May 2021

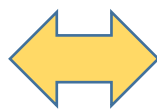





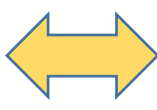


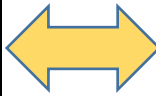












Appendix 1 - Tri Borough Pension Fund Risk Management Scoring Matrix		
Scoring ( Impact )		
Impact Description	Category	Description
1 Very Low	Cost/Budgetary Impact	£0 to £25,000
	Impact on life	Temporary disability or slight injury or illness less than 4 weeks (internal) or affecting 0-10 people (external)
	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

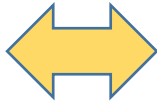
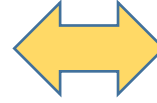
Scoring ( Likelihood )	
Descriptor	Likelihood Guide
1. Improbable, extremely unlikely.	Virtually impossible to occur 0 to 5% chance of occurrence.
2. Remote possibility	Very unlikely to occur 6 to 20% chance of occurrence
3. Occasional	Likely to occur 21 to 50% chance of occurrence
4. Probable	More likely 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.
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.
Tolerate	Do nothing because the cost outweighs the benefits and/or an element of the risk is outside our control.





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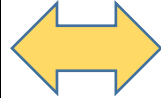


Pension Fund Risk Register - Administration Risk													
Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed
				Fund	Employers	Reputation	Total						
Administrative and Communicative Risk	1		Failure to successfully transition the pensions administration service to Hampshire County Council by 1 December 2021, following termination of Surrey contract. Alongside this the administration software is to be moved from Heywood's Altair to Civica.	3	3	3	9	5	45	TREAT 1) The Pension Fund is moving the pensions administration service to Hampshire CC following termination of the Surrey contract. 2) Officers maintain regular contact with Surrey CC and Hampshire CC administration team during this time. 3) Project manager to join Westminster City Council on 25 February 2021, to lead the pensions administration transfer project including administration software.	3	27	04/05/2021
Administrative and Communicative Risk	2		Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints. There is a concern regarding the high level of senior management departures.	1	4	3	8	4	32	TREAT 1) Surrey CC administers pensions for Surrey, East Sussex, LB Hillingdon and the Tri-Borough. All Tri-Borough Pension Funds are transitioning their pensions administration from Surrey CC. 2) Officers will continue to monitor ongoing staffing changes at Surrey CC. 3) Ongoing monitoring of contract and KPIs.	3	24	04/05/2021
Administrative and Communicative Risk	3		COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds.	2	4	3	9	3	27	TREAT 1) The Pensions Administration team have shifted to working from home, with a process now embedded. 2) Revision of processes to enable electronic signatures and configure the telephone helpdesk system to work from home. 3) Maintain regular contact with the Surrey administration team.	2	18	04/05/2021
Administrative and Communicative Risk	4		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 part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	2	18	04/05/2021
Administrative and Communicative Risk	5		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	04/05/2021
Administrative and Communicative Risk	6	NEW	Failure of securely sent sensitive data and any unidentified data flows being sent insecurely.	4	3	5	12	2	24	TREAT 1) Active member data is sent on secure platforms between all parties 2) Including "Encrypted" in email subject allows schools and academies to send data to pension admin team securely. 3) Data sent to the actuary using secure webstream portal.	1	12	04/05/2021
Administrative and Communicative Risk	7	NEW	Failure of cyber security measures, including information technology systems and processes, leading to loss, disruption or damage to the scheme or its members.	4	2	5	11	2	22	TREAT 1) Council has a data recovery plan in place, with files uploaded to the cloud every night and transition of files from the j drive to SharePoint. 2) . As a Council we are continuing to invest in technologies to block and filter phishing emails as well as ensuring our systems are up to date to protect us and our devices against these threats. 3) The IT team continuously review and update the cyber security policies, including the Information Security policy, Acceptable Use policy, Email and Internet policy, Social Media policy, Password Management policy and Data Disposal policy. All of which can be found on the Wire.	1	11	04/05/2021
Administrative and Communicative Risk	8		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.	1	11	04/05/2021
Administrative and Communicative Risk	9		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 last undertaken during 2018/19 showed satisfactory assurance with recommendations implemented during the year.	1	10	04/05/2021

Administrative and Communicative Risk	10		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. 3) Take advice from the investment advisor on manager ratings to inform decisions on asset managers.	1	9	04/05/2021
Administrative and Communicative Risk	11		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	04/05/2021
Administrative and Communicative Risk	12		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	04/05/2021
Administrative and Communicative Risk	13		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	04/05/2021
Administrative and Communicative Risk	14		Poor reconciliation process leads to incorrect contributions.	2	1	1	4	3	12	TREAT 1) Ensure reconciliation process notes are understood by Pension Fund team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process. 3) Contributions reconciliation is undertaken by the pensions team.	2	8	04/05/2021
Administrative and Communicative Risk	15		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	04/05/2021
Administrative and Communicative Risk	16		Failure to detect material errors in the bank reconciliation process.	2	2	2	6	3	18	TREAT 1) Bank reconciliation carried out in-house by the pensions team, alongside the WCC income management team.	1	6	04/05/2021
Administrative and Communicative Risk	17		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	04/05/2021
Administrative and Communicative Risk	18		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. 2) Officers regularly attend training events and conferences. 3) Officer in place to record and organise training sessions for officers and members.	1	6	04/05/2021
Administrative and Communicative Risk	19		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	04/05/2021
Administrative and Communicative Risk	20		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	04/05/2021
Administrative and Communicative Risk	21		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	04/05/2021
Administrative and Communicative Risk	22		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	04/05/2021

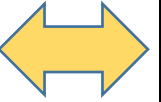

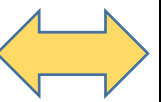
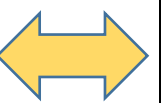
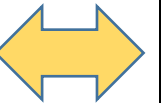
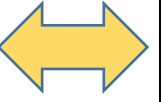
Administrative and Communicative Risk	23		Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	2	2	1	5	2	10	TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	5	04/05/2021
Administrative and Communicative Risk	24		Failure to identify GMP liability leads to ongoing costs for the pension fund.	1	2	1	4	1	4	TREAT 1) GMP identified as a Project as part of the Service Specification between the Fund and Surrey County Council, with minimal effect on the Fund.	1	4	04/05/2021








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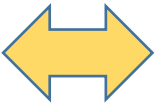






Pension Fund Risk Register - Investment Risk													
Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk	Reviewed
				Fund	Employers	Reputation	Total						
Asset and Investment Risk	1		The global outbreak of COVID-19 poses economic uncertainty across the global investment markets.	5	4	2	11	4	44	TREAT - 1) Officers will continue to monitor the impact lockdown measures have on the fund's underlying investments and the wider economic environment. 2) The Fund holds a diversified portfolio, which should reduce the impact of stock market movements. 3) Asset allocation was reviewed during June 2020, a new strategy was agreed in light of COVID-19 with ESG focused equity and renewable infrastructure mandates agreed. 4) Pension Fund Officers in frequent contact with Fund Managers and the Funds investment advisor.	3	33	04/05/2021
Asset and Investment Risk	2		Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty. Increased risk to global economic stability.	5	4	1	10	4	40	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 took place during June 2020 and a new strategic asset allocation was agreed.	3	30	04/05/2021
Asset and Investment Risk	3		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 £1.7m. Following COVID-19, there was some concern around Fund Managers outperforming their benchmarks.	5	3	3	11	3	33	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	22	04/05/2021
Liability Risk	4		Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	2	22	TOLERATE - 1) The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.	2	22	04/05/2021




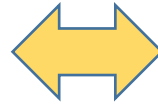



Liability Risk	5		Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 0.47%.	5	3	2	10	3	30	TREAT- 1) Actuarial valuation results show an increase in the CPI assumption of 0.2% from the 2016 valuation. 2) 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	04/05/2021
Liability Risk	6		Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	4	4	2	10	2	20	1) Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 2) No evidence in 2020/21 of members transferring out to DC schemes.	2	20	04/05/2021
Liability Risk	7		Employee pay increases are significantly more than anticipated for employers within the Fund.	4	4	2	10	2	20	TOLERATE - 1) Actuarial valuation assumptions show a decrease in salary increases by 0.3% from 2016. 2) Fund employers should monitor own experience. 3) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer	2	20	04/05/2021
Liability Risk	8		Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	2	20	TOLERATE - 1) Political power required to effect the change.	2	20	04/05/2021
Resource and Skill Risk	9		That the London Collective Investment Vehicle (LCIV) fails to produce proposals/solutions deemed sufficiently ambitious.	4	3	3	10	2	20	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. 2) Member presence on Shareholder Committee and officer groups. 3) Fund representation on key officer groups.	2	20	04/05/2021
Asset and Investment Risk	10		Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union and the economic aftereffects.	4	4	1	9	3	27	TOLERATE/TREAT - 1) Officers to consult and engage with advisors and investment managers. 2) The Fund transitioned out of UK equities during November 2019, moving funds into the LGIM global passive. 3) Possibility of hedging currency and equity index movements. 4) The UK struck a trade deal with the EU in	2	18	04/05/2021





Asset and Investment Risk	11		Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in September 2019, how this will effect the Pension Fund going forward is currently unknown.	3	2	4	9	3	27	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) and Pensions and Lifetime Savings Association (PLSA), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors. 4) Following the strategic asset allocation review in June 2020, the Pension Fund has committed 6% towards renewables and 20% to the LCIV Global Sustain Fund, as well as moving the LGIM passive mandate into the LGIM Future World Fund. 5) An ESG and RI Policy was drafted for the Pension Fund and a Responsible Investment Statement was drafted during late 2020.	2	18	04/05/2021
Regulatory and Compliance Risk	12		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	04/05/2021
Resource and Skill Risk	13		London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	3	3	2	8	3	24	1) Pension Fund Committee Chair is a member of the shareholder 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) Officers continue to monitor the ongoing staffing issues and the quality of the performance reporting provided by the London CIV.	2	16	04/05/2021
Asset and Investment Risk	14		Impact of economic and political decisions on the Pension Fund's employer workforce.	5	2	1	8	2	16	1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. Employer responsibility to flag up potential for major bulk transfers outside of the Westminster Fund. The potential for a significant reduction in the workforce as a result of the public sector financial pressures may have a future impact on the Fund. 2) Need to make prudent assumptions about diminishing workforce when carrying out the triennial actuarial valuation.	2	16	04/05/2021
Liability Risk	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	TOLERATE: 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	04/05/2021
Liability Risk	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	04/05/2021

Liability Risk	17		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	3	12	2	24	TREAT: 1) Cashflow forecast maintained and monitored. 2) Cashflow position reported to committee quarterly. 3) Cashflow requirement is a factor in current investment strategy review.	1	12	04/05/2021
Asset and Investment Risk	18		Failure to take difficult decisions inhibits effective Fund management	5	3	4	12	2	24	TREAT-1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (/FSS), Governance policy statement and Committee Terms of Reference and that appropriate advice from experts is sought.	1	12	04/05/2021
Regulatory and Compliance Risk	19		Changes to LGPS Regulations	3	2	1	6	3	18	TREAT - 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will be 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	04/05/2021
Page 230 Liability Risk	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	04/05/2021
Reputational Risk	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	04/05/2021
Regulatory and Compliance Risk	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)WCC IT data security policy adhered to. 3) Implementation of GDPR.	1	11	04/05/2021
Reputational Risk	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	TREAT: 1) Officers maintain knowledge of legal framework for routine decisions. 2) Eversheds retained for consultation on non-routine matters.	1	11	04/05/2021

Liability Risk	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	TREAT: 1) 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	04/05/2021
Asset and Investment Risk	25		A change in government may result in new wealth sharing policies which could negatively impact the value of the pension fund assets.	5	5	1	11	2	22	TREAT: 1) Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	11	04/05/2021
Resource and Skill Risk	26		Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	2	2	1	5	4	20	TREAT - 1) Succession planning process in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	2	10	04/05/2021
Liability Risk	27		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	TREAT: 1) 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	04/05/2021
Asset and Investment Risk	28		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	04/05/2021
Asset and Investment Risk	29		Failure of global custodian or counterparty.	5	3	2	10	2	20	TREAT: 1) At time of appointment, ensure assets are separately registered and segregated by owner. 2) Review of internal control reports on an annual basis. 3) Credit rating kept under review.	1	10	04/05/2021
Asset and Investment Risk	30		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	04/05/2021
Asset and Investment Risk	31		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, infrastructure 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	04/05/2021

Resource and Skill Risk	32		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	TREAT: 1) Person specifications are used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge. 4) Officers maintain their CPD by attending training events and conferences.	1	10	04/05/2021
Regulatory and Compliance Risk	33		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	04/05/2021
Reputational Risk	34		Inaccurate information in public domain leads to damage to reputation and loss of confidence.	1	1	3	5	3	15	Treat: 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed. 3) Stage AGM every year.	2	10	04/05/2021
Liability Risk	35		Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	5	3	1	9	2	18	TREAT: 1) 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. 2) Cashflow position monitored monthly.	1	9	04/05/2021
Resource and Skill Risk	36		Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	2	18	TREAT: 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval).	1	9	04/05/2021
Administrative and Communicative Risk	37		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 a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	9	04/05/2021
Regulatory and Compliance Risk	38		Loss of flexibility to engage with Fund Managers and loss of elective professional status with any or all of the existing Fund managers and counterparties resulting in reclassification. (The Fund is a retail client to counterparties unless opted up).	3	2	2	7	2	14	TREAT: 1) 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. 2) Maintaining up to date information about the fund on relevant platforms. 3) Fund can opt up with prospective clients. 4) 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. 5) Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	7	04/05/2021

Regulatory and Compliance Risk	39		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 - 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	1	7	04/05/2021
Liability Risk	40		The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	4	2	1	7	2	14	TREAT: 1) 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	04/05/2021

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# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>24 June 2021</b>
<b>Classification:</b>	<b>Public</b>
<b>Title:</b>	<b>Pension Fund Cost Analysis</b>
<b>Wards Affected:</b>	<b>None</b>
<b>Policy Context:</b>	<b>Effective control over Council Activities</b>
<b>Financial Summary:</b>	<b>There are no immediate financial implications arising from this report.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <i>Tri-Borough Director of Treasury and Pensions</i> <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

## 1 Executive Summary

- 1.1 The purpose of this report is to present a previous years' cost analysis of the Pension Fund, alongside the budgeted costs for the current financial year 2021/22.
- 1.2 The budgeted Fund costs for 2021/22 is £11.509m, an increase from the previous year's actual of £10.087m.

## 2 Recommendation

- 2.1 The Pension Fund Committee is requested to:
  - Approve the current year's expenditure budget for 2021/22.

### 3 Background

3.1 The following table provides a breakdown of the costs incurred by the Westminster City Council Pension Fund in relation to administration, investment management, governance and oversight for the financial years 2018/19, 2019/20, 2020/21, alongside budgeted costs for 2021/22.

	Company Name (If Applicable)	2018/19	2019/20	2020/21	2021/22 Budget
		£000	£000	£000	£000
Administration					
Employees		184	352	308	378
Supplies and services					
	Legal Costs	34	74	23	50
	Administrator	180	183	333	666
	Various Admin*	149	141	318	313
		546	750	981	1,508
Governance and oversight					
Employees		240	183	237	246
Training		4	2	-	10
Investment advisory services	Deloitte	100	78	92	100
Governance and compliance	Various**	40	71	43	45
External audit	Grant Thornton	16	16	25	25
Actuarial fees	Barnett Waddingham	36	72	32	50
		436	423	428	476
Investment Management					
Management, Performance and Transaction fees		4,802	5,631	8,624	9,485
Custody fees	Northern Trust	38	31	54	40
		4,840	5,662	8,678	9,525
Total		5,823	6,834	10,087	11,509

\*Includes Heywood's Altair software maintenance and licence fees up to 2020/21 (5-year licence fee paid during 2020/21), scheme member tracing and bank charges

\*\*Includes subscription fees/other services i.e. CIPFA Pensions Network, LGA, Pensions Lifetime and Savings Association, Pensions and Investment Research Consultants



- 3.2 The Fund's administration expenditure fees were significantly higher in 2020/21, due to the increase in the Surrey County Council annual charge and the cost of the five-year Aquila Heywood Altair licence fee. There will also be significant upfront administration costs during 2021/22, in relation to the pension administration transition from Surrey County Council to Hampshire County Council.
- 3.3 In addition, the Fund will be changing software providers from Aquila Heywood to Civica and this will form part of the Hampshire County Council annual contract fee.
- 3.4 Governance and oversight expenses are broadly in line with previous years. However, the finance employee recharge increased during 2020/21, resulting from the review of the Tri-Borough Section 113 Agreement.
- 3.5 Investment management costs increased during 2020/21 and are expected to increase further in 2021/22. This is due to increased fund manager cost transparency and disclosure as a result of the LGPS Cost Transparency Code. An increase in asset market values and the transition of investments to more complex asset classes have also resulted in fee increases.
- 3.5 A detailed Fund cost analysis can be found within Appendix 1.

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

**Billie Emery [bemery@westminster.gov.uk](mailto:bemery@westminster.gov.uk)**

**BACKGROUND PAPERS:** None

**APPENDICES:**

Appendix 1: Detailed Fund Cost Analysis to 2020/21 and Budget for 2021/22  
(Exempt)

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# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>24 June 2021</b>
<b>Classification:</b>	<b>Public</b>
<b>Title:</b>	<b>Government Actuaries Department (GAD) LGPS Draft Triennial Report of 2019</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Policy Context:</b>	<b>Effective control over council activities</b>
<b>Financial Summary:</b>	<b>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.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b> <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

## 1. Executive Summary

- 1.1 This report and appendix provide the Pension Fund Committee with the Government Actuary's Department's (GAD) draft report on the 2019 LGPS triennial actuarial valuation.

## 2. Recommendation

- 2.1 The Committee is asked to note the initial findings.

## 3. Background

- 3.1 Section 13 of the Public Service Pension Schemes Act 2013 requires a "suitably qualified person" appointed by the Secretary of State to carry out a review of the triennial actuarial valuations of funded public service pension schemes. This requires the Government Actuary to report on whether a scheme has achieved the following four aims:

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

3.2 GAD has carried out its initial review and has provided a two-page summary for the City of Westminster Pension Fund (Appendix 1). The initial findings on the individual funds have resulted in some warning flags across a few LGPS funds. However, Westminster is not one of those funds.

#### **4. City of Westminster Pension Fund: GAD position**

- 4.1 The Westminster City Council received green flags across the spectrum on the GAD's various different financial tests. This reflects the Fund is in a relatively strong position.
- 4.2 The funding level of the Pension Fund, as per the triennial valuation, has increased from 80% as at 31 March 2016 to 100% as at 31 March 2019. The main drivers for this improvement were the significant investment returns of £209m above what was assumed in the 2016 valuation. The best estimate funding level for the Fund based on the GAD assessment is 110.6%, which puts the Fund comfortably in a surplus position.
- 4.3 The City of Westminster Fund is ranked top out of 87 LGPS funds for required investment return to achieve full funding in 20 years' time on the standardised market consistent basis, with a 0.3% return required. Additionally, the Fund is also ranked first for required investment return rates, compared with the Fund's expected best estimate future returns assuming current asset mix maintained.

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

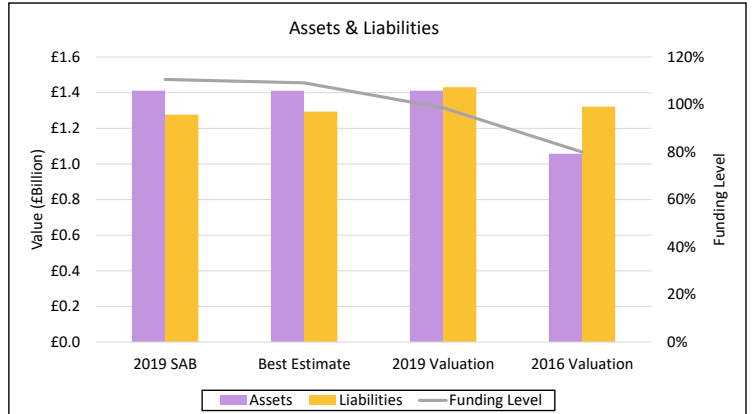
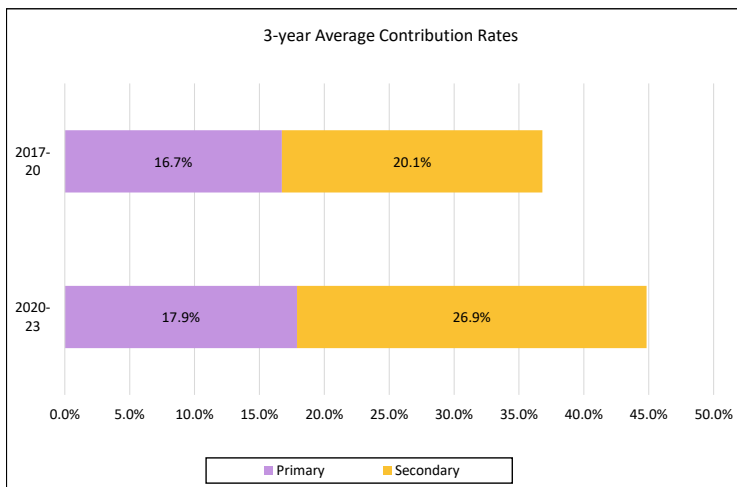
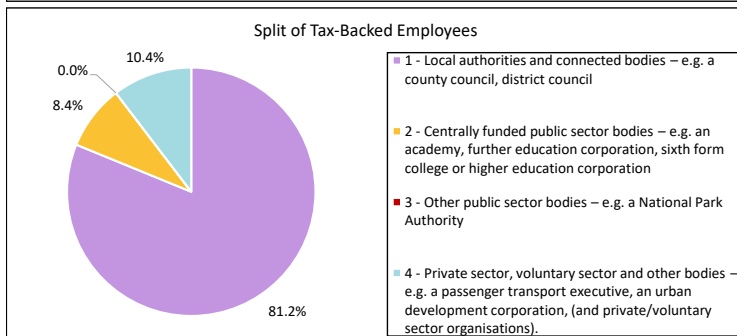
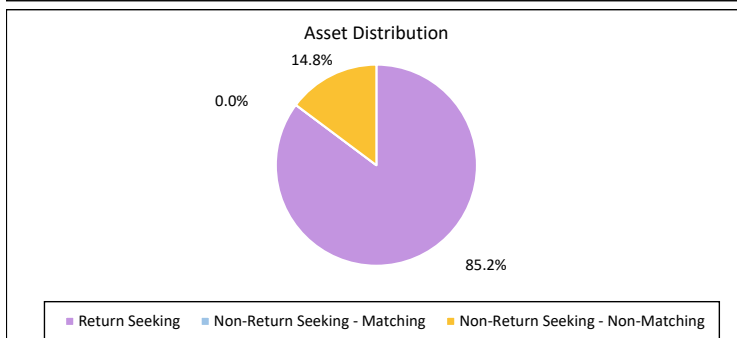
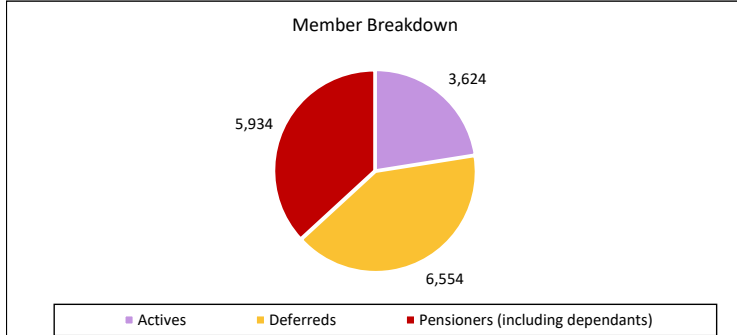
Billie Emery [pensionfund@westminster.gov.uk](mailto:pensionfund@westminster.gov.uk)

**BACKGROUND PAPERS:** None

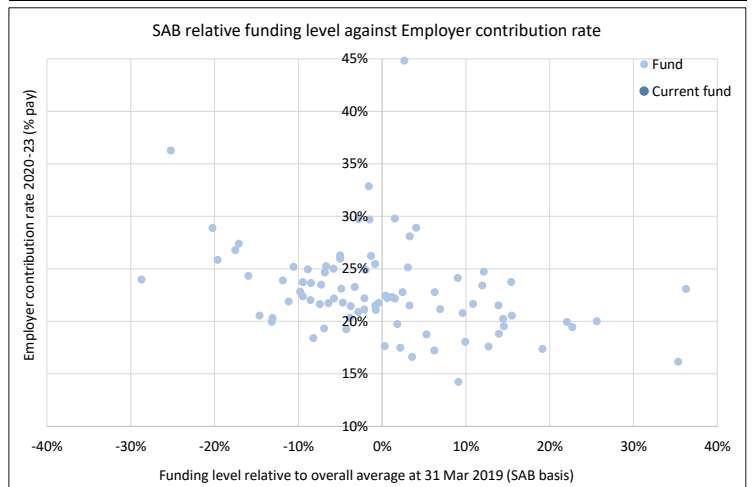
**APPENDICES:**

Appendix 1: GAD Initial Summary 2019

### City of Westminster Pension Fund



Local Authority	Core Spending (£m)	Core Spending (%)
<b>Total</b>	<b>£273.7</b>	<b>100.0%</b>
Westminster	£198.1	72.4%
Westminster GLA	£75.6	27.6%



## City of Westminster Pension Fund

### Solvency Breakdown

#### Asset Shock

Assets are divided into the following classes:

Return seeking - Equity, Property, Infrastructure debt & other return seeking assets

Non-return seeking - All other assets

Return seeking assets are stressed by reducing them by 15%

New deficit allocated to tax-raising authorities

= (Pre-stress asset value - Post-stress asset value) × % Tax backed employees

This deficit is then spread over 20 years of annual payments, and compared to the fund's core spending

	£m
Pre-stress asset value	£1,418.3
Return seeking assets	£1,208.7
Non-return seeking assets	£209.6
Post-stress asset value	£1,237.0
Return seeking	£1,027.4
Non-return seeking	£209.6
Percentage of tax-backed employees (Group 1 + Group 3)	81.2%
New deficit allocated to tax raising authorities	£147.2
Annual deficit payment (spread over 20 years)	£7.9
Total core spending (pensionable payroll used where core spending unavailable)	£273.7
Deficit percentage of core spending	2.9%
Deficit percentage of core spending (allowing for post-asset shock surplus)	2.9%

#### Liability Shock

Non-matched liabilities are stressed by increasing them by 10%

New deficit allocated to tax-raising authorities

= (Post-stress liability value - Pre-stress liability value) × % Tax backed employees

Deficit is spread over 20 years and compared to the fund's core spending

	£m
Liability value pre-stress (GAD's best estimate calculation)	£1,292.9
Liability value post-stress	£1,422.2
New deficit allocated to tax raising authorities	£105.0
Annual deficit Payment (spread over 20 years)	£5.7
Deficit percentage of core spending	2.1%
Deficit percentage of core spending (allowing for post-liability shock surplus)	2.1%

#### Employer Default Shock

Determine funding level on GAD's best estimate basis

If the fund is in deficit, non-tax backed deficits are allocated to tax-backed

The non-tax backed deficit is spread over 20 years and compared to the fund's core spending

	£m
Deficit on best estimate basis	£0.0
Proportion of deficit allocated to non-tax raising authorities	£0.0
Annual deficit payment (spread over 20 years)	£0.0
Deficit percentage of core spending	Surplus
Fund Open/Closed	Open
SAB Funding Level	110.6%
Percentage of Non-Statutory Employees (Group 3 + Group 4)	10.4%

Minor inconsistencies in totals may occur due to rounding.

### Long Term Cost Efficiency

#### Deficit Recovery Period

Implied deficit recovery period calculated on a standardised market consistent basis

Recovery period (years)	Surplus
Ranking of fund (out of 87 funds)	N/A

#### Required Return

Required investment return rates to achieve full funding in 20 years' time on the standardised market consistent basis

Required return under best estimate basis	0.3%
Ranking of fund (out of 87 funds)	1

#### Repayment Shortfall

Difference between the actual deficit recovery contribution rate and the annual deficit recovery contributions required as a percentage of payroll to pay off deficit in 20 years, where the deficit is calculated on a standardised market consistent basis

Annual deficit recovery payment as % of implied 31 March 2019 payroll	0.0%
Actual contribution rate paid less SCR on best estimate basis	29.1%
Difference	29.1%

#### Return Scope

Required investment return rates as calculated in required return, compared with the fund's expected best estimate future returns assuming current asset mix maintained

Expected return	4.6%
Required return	0.3%
Difference	4.3%
Ranking of fund (out of 87 funds)	1

#### Deficit Recovery Plan

Consideration of how the deficit recovery plan has changed compared to 2016 valuation

Valuation	2016	2019
Deficit Recovery End Point	2038	2038
2017-20 Average Contribution Rate		36.8%
2020-23 Average Contribution Rate		44.8%
Increase in contributions		
Difference in Average Contribution Rate between 2017-20 and 2020-23		8.0%
Increase in deficit recovery end point (years)		0





# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>24 June 2021</b>
<b>Classification:</b>	<b>General Release (Appendices Exempt)</b>
<b>Title:</b>	<b>London CIV CQS Multi Asset Credit Solution</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Policy Context:</b>	<b>Effective control over council activities</b>
<b>Financial Summary:</b>	<b>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.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b> <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

## 1. EXECUTIVE SUMMARY

- 1.1 This report provides an update on developments within the London CIV (LCIV) CQS Multi Asset Credit (MAC) Fund, following an announcement by the LCIV of its intention to add an additional manager to the MAC fund. Attached at Appendix 1 is a paper from the London CIV on the second manager selection process.
- 1.2 Also attached is a report (Appendix 2) prepared by our investment advisor, Deloitte, following discussions with the Chairman of the Committee, regarding Deloitte's views on the LCIV Multi Asset Credit fund.

## 2. RECOMMENDATIONS

- 2.1 The Committee is recommended to:

- Note both the LCIV appendix and Deloitte report.
- maintain the current investment with the LCIV MAC mandate.
- Approve the LCIV's proposal of a second manager to be added on a 50/50 weighting.

### **3. BACKGROUND**

- 3.1 The LCIV MAC Fund is currently invested via a single investment manager: CQS. The London CIV has shared concerns regarding manager performance, staff turnover and the investment opportunity set within the CQS portfolio being too restrictive to protect the sub fund adequately in all market events. LCIV believes a more diversified opportunity set across the credit spectrum would result in an improved risk/return profile for the fund.
- 3.2 Through a manager selection process, the LCIV has aimed to select a manager which complements the existing holdings and would result in the fund being better equipped to meet its objectives by investing in a broader range of credit asset classes. Alongside this, the LCIV has sought to select a strategy which would reduce management fees and improve ESG credentials.

### **4. MANAGER SELECTION PROCESS**

- 4.1 As part of the manager selection process, the LCIV compiled a long list of managers, which was reduced through a series of quantitative screening, due diligence, questionnaires, interviews and clarification questions. Further details on the management selection process can be found within Appendix 1.
- 4.2 Following this process, LCIV has selected a second manager, as detailed in Appendix 1, with a focus on higher credit quality with key exposures to investment grade, high yield and emerging market debt. This second manager has historically achieved above the benchmark of LIBOR + 4-5%, but with 25% less volatility than the existing fund.
- 4.3 Each manager will be allocated a 50% holding within the fund, with rebalancing to be done on a mechanistic basis when a 10% deviation is triggered.

### **5 RECOMMENDATIONS AND NEXT STEPS**

- 5.1 The London CIV will continue to engage with client funds and collate feedback by June 2021. Following this, the proposal will be taken to the Executive and Investment Committees for consideration. Final contract negotiations and updates to the LCIV ACS prospectus will take place before FCA approval.

- 5.2 The Committee is recommended to maintain its existing investment within the LCIV MAC sub fund, with the proposal of a second complementing manager to be approved.

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

**Billie Emery** [bemery@westminster.gov.uk](mailto:bemery@westminster.gov.uk)

**BACKGROUND PAPERS:**

None

**APPENDICES:**

Appendix 1 - LCIV Second Manager Selection Process (Exempt)

Appendix 2 - Deloitte CQS MAC Update (Exempt)

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>24 June 2021</b>
<b>Classification:</b>	<b>Public</b>
<b>Title:</b>	<b>Cash Management</b>
<b>Wards Affected:</b>	<b>None</b>
<b>Policy Context:</b>	<b>Effective control over Council Activities</b>
<b>Financial Summary:</b>	<b>There are no immediate financial implications arising from this report.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b> <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

## 1 Executive Summary

- 1.1 This paper provides the Pension Fund Committee with a summary of the Northern Trust Sterling Conservation Ultra Short ESG Bond fund, with recommendations for the effective management of cash for the Pension Fund.

## 2 Recommendation

- 2.1 The Pension Fund Committee is requested to:
- note the key details of the Northern Trust Ultra Short Bond fund; and
  - approve the account opening and use of Northern Trust as the main account for any future asset transitions involving cash receipts.

## 3 Background

- 3.1 The Pension Fund currently manages its cash using the pension fund bank account with Lloyds Bank and within the bank account held at custody.

- 3.2 The Lloyds bank account is the Fund's main account for day-to-day transactions which include receiving member contributions and transacting out pension payments to scheme members. Following the fall in Bank of England base rate to 0.1% during March 2020, the Lloyds bank account now attracts a nominal interest rate of 0.0%.
- 3.3 Fund manager distributions, deficit recovery receipts and proceeds from the sale of assets, are paid into the Fund's custody account at Northern Trust. These income distributions are largely from the Baillie Gifford Global Alpha and CQS Multi Asset Credit mandates. Following the sale of the Hermes property mandate in January 2021, the cash balance held at Northern Trust is circa £60m. This account currently attracts a nominal interest rate of 0.0% on Sterling balances.

## 4 Proposal

- 4.1 The Northern Trust Sterling Conservative Ultra ESG Fund seeks to provide a yield in excess of money market funds, with a lower volatility than short duration bond funds. The target duration of the fund is 0.5 years and is suitable for investors with a three to nine-month investment horizon. The fund invests within sterling denominated investment grade government, corporate and asset backed securities. An ESG exclusionary screening is integrated into the investment process to ensure sustainability of the investment.
- 4.2 The table below details the key features of the Northern Trust Ultra Short ESG Bond Fund.

	<b>Northern Trust ESG Bond Fund</b>
<b>Return Rate since inception</b>	0.805%
<b>Fees</b>	0.10%
<b>Investment Dealing Cut-off</b>	2pm on the dealing date
<b>Settlement Details</b>	Trade plus two days

- 4.3 The fund offers high security and the likelihood of it ceasing operation unexpectedly is very low.
- 4.4 The fund is benchmarked against the Bloomberg Barclays Sterling Gilt 0 to 12 months GBP Unhedged and has returned 0.805% since inception in August 2019, outperforming the benchmark by 0.495%. Over the one-month period to 30 April 2021 the fund returned 0.046% and 1.054% over the year.
- 4.5 Northern Trust offers liquidity of trade plus two working days and should allow sufficient time to meet requirements for emergency payments and short notice capital calls.

- 4.6 The Committee is recommended to approve the transfer of the funds in the Ultra Short ESG Bond fund and use Northern Trust as the main account for transition cash receipts going forward.

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

**Billie Emery [bemery@westminster.gov.uk](mailto:bemery@westminster.gov.uk)**

**BACKGROUND PAPERS:** None

**APPENDICES:**

Appendix 1: Northern Trust Sterling Ultra Short Fund Fact Sheet at 30 April 2021

Appendix 2: Northern Trust Conservative Ultra Short ESG Strategy Profile

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# THE STERLING CONSERVATIVE ULTRA SHORT ESG SHARE CLASS E

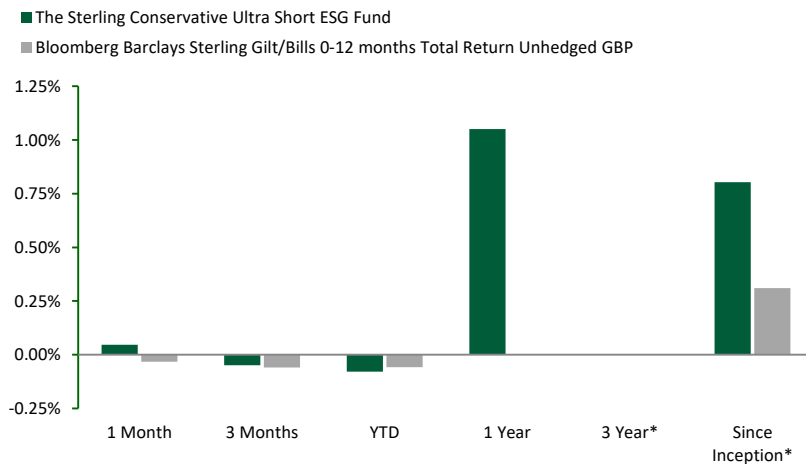
## Investment Objective

The Sterling Conservative Ultra ESG Fund seeks to provide yield in excess of money market funds with lower volatility than short duration bond funds. It strives to maintain a target duration of 0.5 years and is intended for investors with an investment time horizon of three to nine months. Based on proprietary fundamental research the Fund invests in higher quality Sterling denominated investment grade government, corporate and asset backed securities with a maximum duration of three years and applies exclusionary ESG screens whilst integrating sustainability into the investment process.

AS OF APRIL 2021



## PERFORMANCE % — IN GBP AS OF 04/30/2021



	1 Month	3 Month	YTD	1 Year	3 Year	Since Inception
<b>Share Class</b>	0.046%	-0.050%	-0.075%	1.054%	-	0.805%
<b>Benchmark</b>	-0.033%	-0.059%	-0.057%	0.003%	-	0.310%

Historic performance prior to the share class launch date is based on share class I adjusted for the ongoing charges of share class E

\*Performance shown annualized for periods greater than 1 year.

## FUND OVERVIEW

Domicile	Ireland
Legal Structure	ICVC
Regulatory Structure	UCITS
Currencies Offered	GBP
Distributions	Accumulating
Total Fund Assets	177m GBP
Benchmark	Bloomberg Barclays Sterling Gilt/Bills 0-12 months Total Return Unhedged GBP
Fund Launch Date	6 <sup>th</sup> August 2019
Share Class Launch Date	9 <sup>th</sup> December 2020
Bloomberg Ticker	SCUSEFA
ISIN	IE00BK6S5J17
Dealing Frequency	Daily
Dealing Deadline	2pm Irish Time
Settlement	T+2
Fund Rating; Fitch	AAf/S1
Portfolio Manager	Daniel Farrell

## 12 MONTH PERFORMANCE PERIODS – TO LAST MONTH END IN GBP

	30/04/2020 30/04/2021	30/04/2019 30/04/2020	30/04/2018 30/04/2019	30/04/2017 30/04/2018	30/04/2016 30/04/2017	Calendar Year 2020
<b>Share Class</b>	1.054%	-	-	-	-	1.120%
<b>Benchmark</b>	0.003%	-	-	-	-	0.376%

Historic performance prior to the share class launch date is based on share class I adjusted for the ongoing charges of share class E

## PORTFOLIO CHARACTERISTICS

Yield to Maturity (%)	0.54
WAM	274
WAL	367
Modified Duration (Years)	0.78
Spread Duration	0.92
MSCI ESG Weighted Avg. Rating	5.32

### UN SDG ALIGNMENT

Aligned with UN Sustainable Development Goals (UN SDGs) 3, 7 & 16.



## THE STERLING CONSERVATIVE ULTRA SHORT ESG FUND

## INSTRUMENT ALLOCATION %

	Fund
Agency	11.3%
Supranational	0.5%
Industrial	19.2%
Utility	10.4%
Financial Industries	37.8%
ABS	6.0%
Covered	8.9%
Other	5.9%

## CREDIT RATING ALLOCATION %

	Fund
AAA	8.2%
AA+	1.9%
AA	3.1%
AA-	9.3%
A+	15.6%
A	9.6%
A-	13.7%
BBB+	14.0%
BBB	7.4%
BBB-	1.0%
A1+ (Short Term)	3.2%
A1 (Short Term)	3.7%
A2 (Short Term)	0.0%
NR	9.3%

## MATURITY ALLOCATION %

	Fund
0-15 days	1.6%
16-30 days	0.6%
31-60 days	11.8%
61-97 days	5.1%
98-180 days	18.0%
181-270 days	6.1%
271-366 days	6.6%
367 days – 2 Years	28.9%
2 Years – 3 Years +	21.3%

## ESG EXCLUSIONS

ESG Screen	# of Issuers
Tobacco	1
UN Global Compact	3
Weapons	5
Coal	1
Combined Basket	8

From the universe of all investment grade bonds with zero to three years maturity (whilst excluding money market instruments)

## MSCI ESG RATING ALLOCATION %

	Fund
Leaders	29.9%
Average	30.7%
Laggards	30.2%
Unrated	9.1%

## For More Information Please

visit [www.northerntrust.com/pooledfunds](http://www.northerntrust.com/pooledfunds) or please contact your local Northern Trust representative using the information below.

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	NTAM_APAC_Sales@ntrs.com + 852 2918 2948		NTAM_NOR_Sales@ntrs.com + 46 10 555 5160
APAC		NORDICS	
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## DISCLOSURE

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# CONSERVATIVE ULTRA SHORT ESG

Designed to fill the gap between money market and short duration investing

The Northern Trust Conservative Ultra Short ESG strategy seeks to provide yield in excess of money market funds with the potential for capital appreciation and integrating sustainability into the investment process. For over 40 years and with more than \$328 billion AUM\* in liquidity solutions, Northern Trust Asset Management has helped clients preserve capital, achieve yield, maintain liquidity and manage risk.

1

## HIGHER YIELD POTENTIAL

Longer time horizon of three to nine months to target a yield higher than cash, with lower volatility expectation than short duration bond strategies.

2

## SUSTAINABILITY

Integration based on a two pillar approach, through firstly the application of exclusionary screens and secondly the integration of ESG within the portfolio construction process.

3

## CAPITAL PRESERVATION/ RISK MANAGEMENT

Investing in higher quality securities based on proprietary fundamental research, whilst seeking to ensure capital preservation, diversification and liquidity.

## INVESTMENT OBJECTIVE

The strategy is designed to maximise risk adjusted returns, utilising a longer target duration and a broader investment universe than money market strategies whilst integrating sustainability into the investment process.

## INVESTMENT GUIDELINES

Base Currencies	GBP/EUR/USD
Target Duration	0.5 years
Maximum Maturity Per Issue	Three years fixed/three years floating rate
Average Portfolio Quality	A/A+
Minimum Issue Rating	BBB
Investment Universe	Investment Grade Government, Corporate and ABS
Non-Eligible Investments	High Yield Bonds, Cross-Currency Bonds and Derivatives
ESG	Exclusionary screens and integration of ESG metrics

## CASH SEGMENTATION – OPTIMISING YOUR CASH MANAGEMENT

We believe the optimal way to navigate the current ‘lower for longer’ interest rate environment and regulatory changes is to adopt a **cash segmentation strategy**. Bucketing cash according to its uses and needs allows investors to take incremental credit and duration risk to target a better balance between risk and reward. This journey extends beyond money market funds, into Conservative Ultra Short and Ultra Short strategies, offering investors a **holistic approach to enhance returns without exposing them to inappropriate levels of risk**.

\*Data as at 30 June 2020

## CASH SEGMENTATION

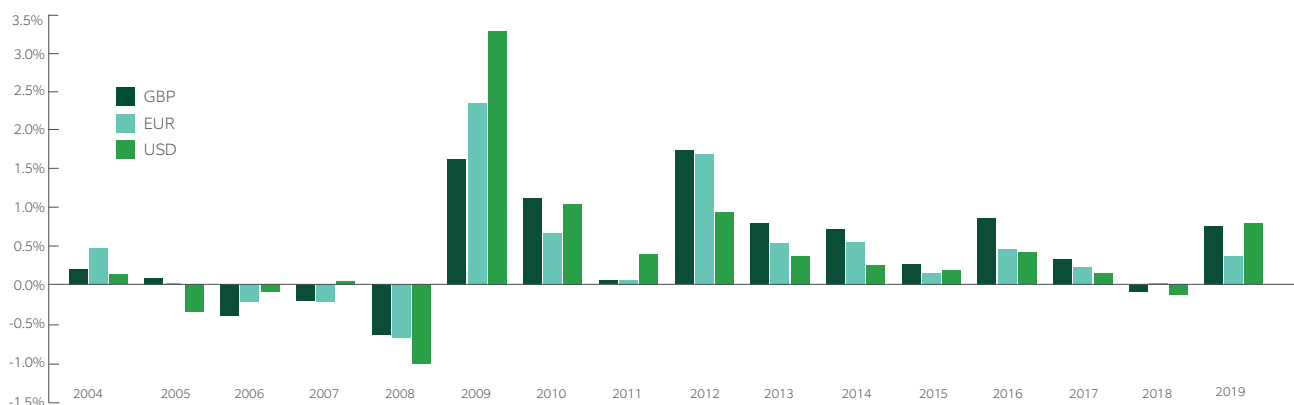
Segment cash based on what you need and when you need it.

<b>OPERATIONAL</b> <b>One day to three month horizon</b> <ul style="list-style-type: none"> <li>• Day-to-day spending needs</li> <li>• Highly liquidly, invested conservatively</li> <li>• 30-60 day (Wtd.Avg.Mat)</li> <li>• Minimum credit rating: A</li> </ul>	<b>RESERVE</b> <b>Three to nine month horizon</b> <ul style="list-style-type: none"> <li>• Intermediate or uncertain spending needs</li> <li>• Slightly reduced liquidity</li> <li>• 0.5 year (target duration)</li> <li>• Minimum credit rating: BBB</li> </ul>	<b>STRATEGIC</b> <b>Nine to 18 month horizon</b> <ul style="list-style-type: none"> <li>• Long-term spending needs</li> <li>• Reduced liquidity</li> <li>• Seeks highest possible yield while preserving principal</li> <li>• One year (target duration)</li> <li>• Minimum credit rating: BBB</li> </ul>
<b>STRATEGY TYPE:</b> <b>Money Market</b>	<b>STRATEGY TYPE:</b> <b>Conservative Ultra Short</b>	<b>STRATEGY TYPE:</b> <b>Ultra Short</b>

## PURSUING YIELD AND RETURN WITH INCREMENTAL RISK

Increasing investment horizon can enhance yield while only modestly increasing risk. Back-tested performance data.

### EXCESS RETURNS – INVESTING IN CONSERVATIVE ULTRA SHORT\* VS MONEY MARKET FUND



Excess return – conservative ultra short\* return – money market fund return

\*75% money market/25% one to three year corporate

Source: iMoneyNet and Barclays Live as of 31 December 2019

For EUR returns, money market – IMMFA MMI Euro Prime Stable Avg. and one to three year corporate – Bloomberg Barclays EUR one to three year corporate index For GBP returns, money market – IMMFA MMI Sterling Prime Avg. and one to three year corporate – Bloomberg Barclays STG one to three year corporate index For USD returns, money market – IMMFA MMI USD Prime Stable Avg. and one to three year corporate – Bloomberg Barclays USD one to three year corporate index

Back-tested and actual past performance is not a reliable indicator of future results and should not be the sole factor of consideration when selecting an investment product or strategy.



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## Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>24 June 2021</b>
<b>Classification:</b>	<b>Public</b>
<b>Title:</b>	<b>Performance of the Council's Pension Fund</b>
<b>Wards Affected:</b>	<b>All</b>
<b>Policy Context:</b>	<b>Effective control over council activities</b>
<b>Financial Summary:</b>	<b>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.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b> <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

### 1. Executive Summary

- 1.1 This report presents the performance of the Pension Fund's investments to 31 March 2021, together with an update of the funding position.
- 1.2 The Fund outperformed the benchmark net of fees by 0.2% over the quarter to 31 March 2021 and the estimated funding level was 102.3% as at 31 March 2021.

### 2. Recommendation

- 2.1 The Pension Fund Committee is asked to:

- Note the performance of the investments and the funding position.
- Give consideration to transitioning the Baillie Gifford Global Alpha Equity mandate into the Paris Aligned version of the fund.

### **3. Background**

- 3.1 This report presents a summary of the Pension Fund's performance to 31 March 2021 and estimated funding level following the actuarial valuation. The investment performance report (Appendix 1) has been prepared by Deloitte, the Fund's investment advisor.
- 3.2 The investment performance report shows that, over the quarter to 31 March 2021, the market value of the assets increased by £42m to £1,749m. The Fund outperformed the benchmark net of fees by 0.2% over the quarter, with all managers delivering positive performance with the exception of Insight. Longview, CQS, Aberdeen Standard and Pantheon all outperformed their benchmarks during this period.
- 3.3 Over the 12-month period to 31 March 2021, the Fund outperformed its benchmark net of fees by 4.6% returning 32.7%. This was achieved largely as a result of excellent performance within the Baillie Gifford Global Equity portfolio and the CQS MAC mandate, which outperformed their benchmarks by 17.3% and 20.8% net of fees respectively. Over the longer three-year period to 31 March 2021, the Fund outperformed the benchmark net of fees by 0.5%, again with Baillie Gifford being the major contributor. Longview underperformed their benchmark net of fees by -2.5% during this period.
- 3.4 The advisors continue to rate the fund managers favourably, with the exception of Longview. Deloitte removed Longview's Global Equity strategy from its rated manager list, following the departure of the co-founder and CIO Ramzi Rishani. During January 2021, Jamie Carter joined as Chief Operating Officer and Matt Tunna joined the Investment team as a Research Analyst.
- 3.5 Following the end of the quarter, LCIV announced they are in the process of hiring a new Chair and it is expected they will make an official announcement in due course. During April 2021, Alison Lee joined the team as a new Responsible Investment manager and will work on development of the LCIV's sustainable investment strategies. Rob Hall, Head of Public Markets, will be leaving the LCIV in June 2021 and the recruitment process for his replacement has commenced.
- 3.6 During April 2021, the LCIV launched a Paris Aligned version of the Baillie Gifford Global Alpha Equity fund. The Paris Aligned fund is an exclusions-based version of the traditional Global Alpha fund, which the City of Westminster currently holds, and both funds are managed by the same investment team with the same fees and investment objectives.

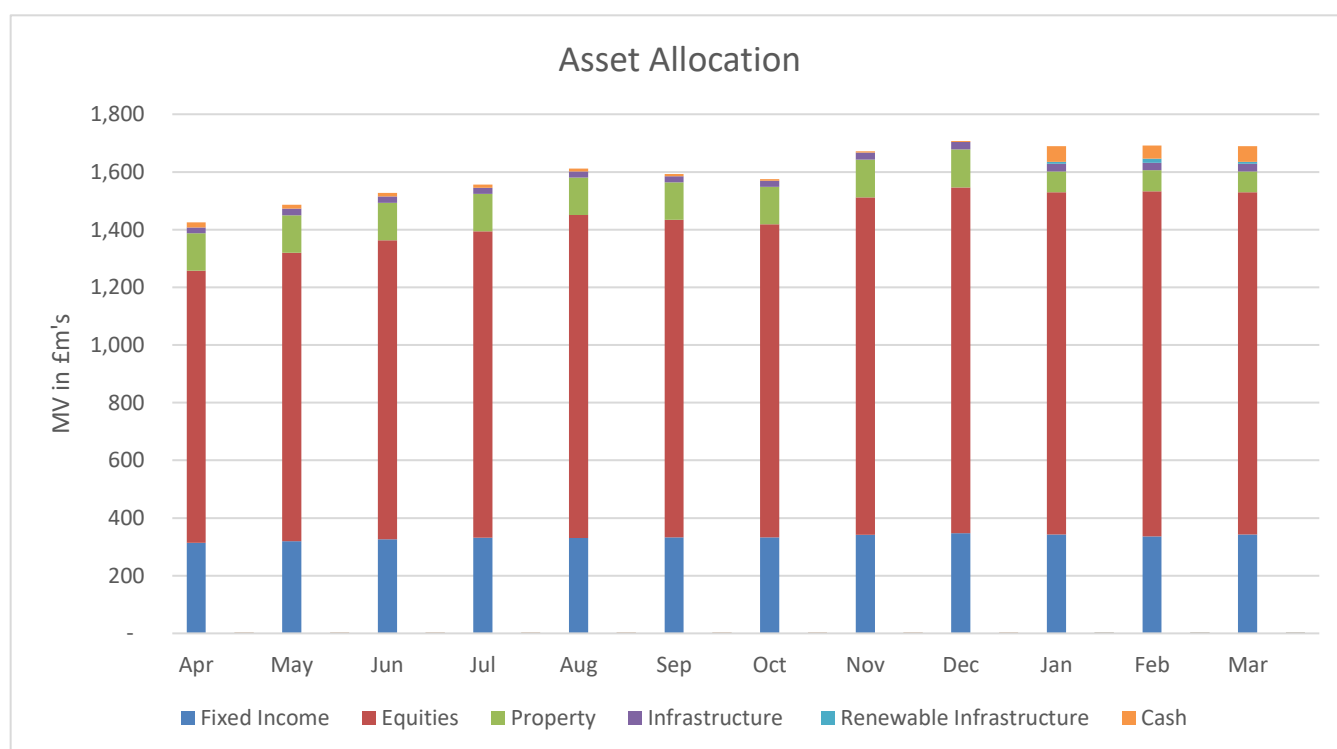
- 3.7 There is a stock overlap of circa 94% between both funds, and the Paris Aligned version is expected to track the Global Alpha performance over time. The Paris Aligned version has two carbon screens applied to the fund, which currently excludes nine of the Alpha core portfolio.
- 3.8 The Paris Aligned fund aims to have a weighted average greenhouse gas intensity lower than the MSCI ACWI Climate Paris Aligned Index, which is consistent with the reduction in emissions needed to meet the Paris Agreement targets. The fund has a carbon intensity 50% lower than the MSIC ACWI and targets a year-on-year decarbonisation rate of 10%, to meet the 1.5C warming target limit. As at 30 April 2021, the fund has invested capital of £483m from two London boroughs, with more investments anticipated.
- 3.9 The Fund holds Booking Holdings Inc. within its LCIV (Baillie Gifford) Global Alpha and LGIM Future World equity funds. The company has been identified by the United Nations (UN) as conducting business in Israeli/Palestine territories, under its subsidiary Booking.com. Booking.com is an online travel agency for making reservations at properties listed on the site. It should be noted that the company does not currently report annually on its climate impact, strategy, sustainability goals or plans to transition to net carbon zero. In addition to this, Booking Holdings has only recently drafted a sustainability report, which includes a small section on human rights, but however this report makes no such mention of its operations in the Israeli/Palestine territories.
- 3.10 There are three resolutions to be voted on at Booking Holdings Inc. upcoming AGM on 3 June 2021. These relate to two resolutions on climate change put forward by As You Sow, a non-profit foundation with the aim of promoting corporate responsibility. Alongside a resolution by the company to re-elect Glenn Fogel as the Chief Executive Officer (CEO). The Local Authority Pension Fund Forum (LAPFF), of which Westminster is a member, has recommended that shareholders vote for the proposals on climate disclosures and against the re-election of CEO Glenn Fogel. The LAPFF believes that the company's position on human rights is inadequate and considers the CEO accountable for this lack of awareness.
- 3.11 The London CIV has insisted to Baillie Gifford that they should vote in line with the LAPFF voting alert on these resolutions and has requested a clearer stance and further discussions from the manager on Booking Holdings. Baillie Gifford has advised that they are concerned about the broader reputational impact this could have on the business and is actively engaging with the company to understand what its policy is on this issue.

3.12 LGIM has voted for the climate proposals, citing it seeks to encourage Booking Holdings to make further efforts on its climate change related actions and reporting. The manager also voted for the proposal to re-elect the CEO, but did vote against the Executive Officers' performance remuneration. LGIM does not take unsolicited political positions on behalf of clients and their investments reflect national and international laws and treaties.

3.13 The estimated funding level (Appendix 2) for the Westminster Pension Fund has increased by 2.9% to 102.3% as at 31 March 2021 (99.4% at 31 December 2020). The funding level for Westminster City Council as an employer has also increased, with a funding level of 91.0% as at 31 March 2021 (90.0% at 31 December 2020). The Council plans to pay off its deficit by 2022, with a final payment of £80.0m due during 2021/22.

#### 4. Asset Allocation and Summary of Changes

4.1 The chart below shows the changes in asset allocation of the Fund from 1 April 2020 to 31 March 2021. Asset allocations may vary due to changes in market value.



\*Fixed Income includes bonds and Multi Asset Credit

4.2 The current Westminster Pension Fund target asset allocation is 65% of assets within equities, 19% in fixed income, 5% within infrastructure, 5% within property and 6% in renewable infrastructure.

- 4.3 Following the appointment of two new renewables infrastructure managers in December 2020, the sale of the Hermes property fund took place during mid-January 2021. Subsequent to this, the first Quinbrook drawdown took place during January and in February for Macquarie. It is expected that these funds will be circa 50% drawn by March 2022.
- 4.4 A capital call for the Pantheon Global Infrastructure Fund took place during March 2021, with the fund 45% drawn as at 31 March 2021.
- 4.5 The value of Pension Fund investments managed by the LCIV as at 31 March 2021 was £866m. This represents 50% of Westminster's investment assets. A further £398m continues to benefit from reduced management fees, Legal and General having reduced its fees to match those available through the LCIV.

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

Billie Emery [pensionfund@westminster.gov.uk](mailto:pensionfund@westminster.gov.uk)

**Background Papers:** None

**Appendices:**

Appendix 1: Deloitte Investment Report, Quarter Ending 31 March 2021

Appendix 2: Barnett Waddingham Funding Level Update at 31 March 2021

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# City of Westminster Pension Fund

Funding update report as at 31 March 2021

**Barnett Waddingham LLP**

25 May 2021

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## Introduction

Westminster City Council, as administering authority for the City of Westminster Pension Fund (the Fund), has asked that we carry out a quarterly monitoring assessment of the Fund as at 31 March 2021. The purpose of this assessment is to provide an update on the funding position.

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

We have taken account of current LGPS Regulations (as amended) as at the date of this report.

On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases in relation to age discrimination. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published. At the same time, the Government also announced the unpausing of the 2016 cost cap process and that it would take into consideration the McCloud remedy. At the time of producing this report the outcome of these matters is still to be agreed so the exact impact they will have on LGPS benefits is unknown. An allowance consistent with that adopted for the Fund's 31 March 2019 valuation has been made for the current uncertainties in LGPS benefits, details of which can be found in the Changes in market conditions – market yields and discount rates section.

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

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

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

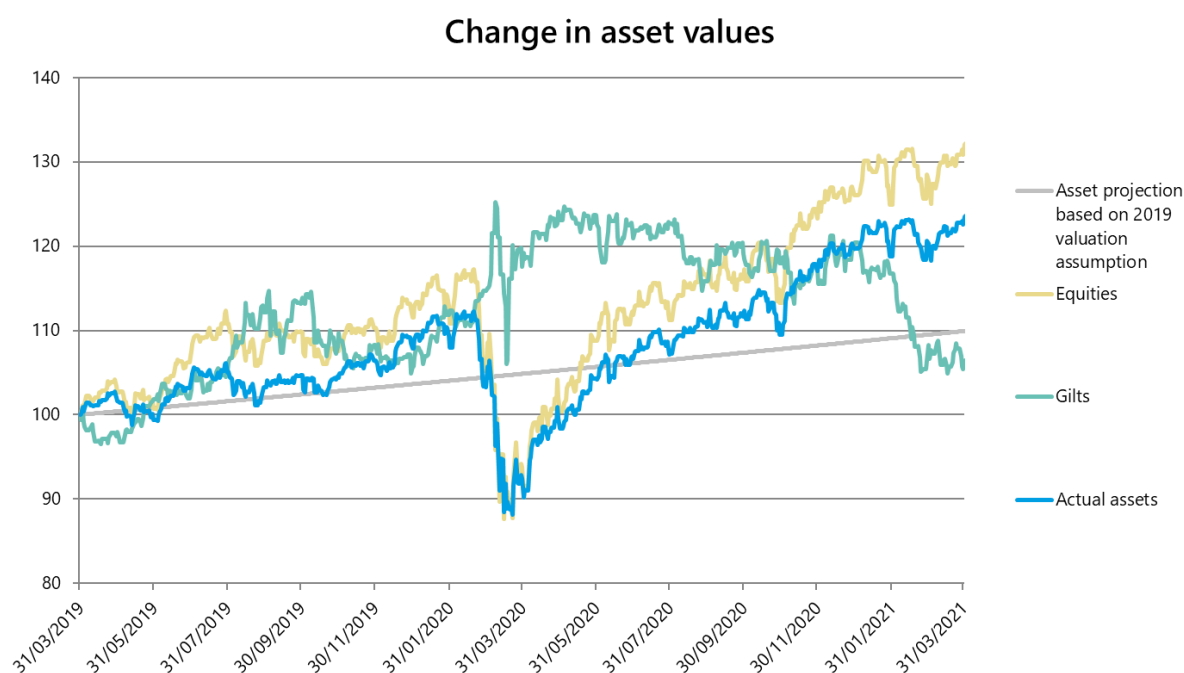
## Assets

The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 31 March 2021, based on data received from Westminster City Council, is as follows:

Assets (market value)	31 March 2021		31 December 2020		31 March 2019	
	£000s	%	£000s	%	£000s	%
Equities	1,330,021	76%	1,295,495	76%	1,064,368	75%
Other bonds	240,140	14%	251,128	15%	198,690	14%
Property	114,386	7%	157,855	9%	144,358	10%
Cash	62,805	4%	2,550	0%	10,916	1%
<b>Total assets</b>	<b>1,747,353</b>	<b>100%</b>	<b>1,707,028</b>	<b>100%</b>	<b>1,418,332</b>	<b>100%</b>

The investment return achieved by the Fund's assets in market value terms for the quarter to 31 March 2021 is estimated to be 2.4%. The return achieved since the previous valuation is estimated to be 22.5% (which is equivalent to 10.7% p.a).

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



As we can see the asset value as at 31 March 2021 in market value terms is more than where it was projected to be at the previous valuation.

For funding purposes, we use a smoothed value of the assets rather than the market value. The financial assumptions that we use in valuing the liabilities are smoothed around the valuation date so that the market conditions used are the average of the daily observations over the six month period around 31 March 2021. Therefore, we value the assets in a consistent way and apply the same smoothing adjustment to the market value of the assets.

## 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 2019 actuarial valuation, updated where necessary to

reflect market conditions, except for the inflation assumption which has been updated in light of new market information. Following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030, it has been agreed with the administering authority that CPI inflation will be 0.8% p.a. below the 20 year point on the Bank of England implied inflation curve with effect from 31 December 2020. This has been updated from the assumption at the 2019 valuation where this gap was assumed to be 1.0% p.a. We have implemented this change and smoothed it into our assumptions over the six month period straddling this date (consistent with the Fund's existing funding approach) and this results in an overall assumption that CPI inflation will be 0.8% p.a. below the 20 year point on the Bank of England implied inflation curve as at 31 March 2021. Further details of this update are available on request.

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

Assumptions (smoothed)	31 March 2021		31 December 2020		31 March 2019	
	Nominal	Real	Nominal	Real	Nominal	Real
	% p.a.		% p.a.		% p.a.	
Pension increases (CPI)	2.62%	-	2.42%	-	2.65%	-
Salary increases	3.62%	1.00%	3.42%	1.00%	3.65%	1.00%
Discount rate	4.12%	1.50%	4.01%	1.60%	4.84%	2.19%

The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. Consistent with the method adopted for the 31 March 2019 valuation, we have included in the discount rate assumption an explicit prudence allowance of 0.7%. This incorporates an allowance for current uncertainties in LGPS benefits (relating to the effects of the McCloud/Sargeant judgement and the cost cap).

As noted in the Introduction, the final remedy in response to the McCloud/Sargeant judgement will only be known once the Government's consultation is finalised and a final set of remedial Regulations are published. Furthermore, it is also not known yet what benefit changes in addition to the McCloud remedy (if any) may be made in light of the results of the cost cap process.

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As we see, the real discount rate is lower than at the 31 March 2019 valuation, increasing the value of liabilities used for funding purposes.

## Results

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

The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 March 2021 is 102.3% and the average required employer contribution would be 21.1% of payroll assuming the deficit is to be paid by 31 March 2039.

- This compares with the reported (smoothed) funding level of 98.6% and average required employer contribution of 18.8% of payroll at the 31 March 2019 funding valuation.

The discount rate underlying the smoothed funding level as at 31 March 2021 is 4.1% p.a. The investment return required to restore the funding level to 100% by 31 March 2039, without the employers paying deficit contributions, would be 4.0% p.a.

Whilst the funding level has improved and the deficit has reduced, the cost of benefits has increased due to a fall of the discount rate relative to assumed pension increases, resulting in an increase in the total required contribution rate.

## Westminster City Council

We have also estimated the funding position of Westminster City Council. The development since 31 March 2019 can be found in the table below.

Smoothed results	Assets	Liabilities	Surplus / (Deficit)	Funding level	CARE ongoing cost
Valuation date	£000s	£000s	£000s	%	% of pay
31 Mar 2019	952,247	1,104,595	(152,348)	86%	16.8%
30 Apr 2019	967,125	1,117,039	(149,914)	87%	17.1%
31 May 2019	978,573	1,126,775	(148,202)	87%	17.3%
30 Jun 2019	990,090	1,134,713	(144,623)	87%	17.5%
31 Jul 2019	995,425	1,139,250	(143,825)	87%	17.5%
31 Aug 2019	1,002,471	1,144,578	(142,107)	88%	17.6%
30 Sep 2019	1,005,329	1,148,818	(143,489)	88%	17.6%
31 Oct 2019	1,007,432	1,154,176	(146,744)	87%	17.7%
30 Nov 2019	1,009,145	1,159,693	(150,548)	87%	17.8%
31 Dec 2019	991,682	1,146,605	(154,923)	86%	17.3%
31 Jan 2020	979,867	1,139,276	(159,409)	86%	17.0%
29 Feb 2020	1,008,599	1,137,337	(128,738)	89%	16.9%
31 Mar 2020	986,513	1,141,440	(154,927)	86%	17.0%
30 Apr 2020	992,299	1,146,594	(154,295)	87%	17.0%
31 May 2020	998,034	1,155,822	(157,788)	86%	17.2%
30 Jun 2020	1,021,497	1,183,178	(161,681)	86%	17.9%
31 Jul 2020	1,044,076	1,210,734	(166,658)	86%	18.7%
31 Aug 2020	1,112,534	1,232,766	(120,232)	90%	19.2%
30 Sep 2020	1,107,124	1,253,261	(146,137)	88%	19.8%
31 Oct 2020	1,125,404	1,271,148	(145,744)	89%	20.2%
30 Nov 2020	1,144,683	1,282,005	(137,322)	89%	20.5%
31 Dec 2020	1,157,578	1,292,871	(135,293)	90%	20.7%
31 Jan 2021	1,177,276	1,307,945	(130,669)	90%	21.0%
28 Feb 2021	1,202,060	1,319,874	(117,814)	91%	21.3%
31 Mar 2021	1,211,453	1,327,003	(115,550)	91%	21.4%

## 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, financial risks (including inflation and investment risk) and regulatory risks. There is more detail on this contained within the Fund's Funding Strategy Statement and the 31 March 2019 actuarial valuation report.

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

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



**Barry McKay FFA**  
**Partner**  
**Barnett Waddingham LLP**



## Appendix 1 Financial position since previous valuation

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

Please note that the results shown below are sensitive to the underlying assumptions. For example, increasing the discount rate assumption by 0.5% will increase the funding level by about 10%, and increasing the CPI inflation assumption by 0.5% will reduce the funding level by about 9%.

Smoothed results	Assets	Liabilities	Surplus / (Deficit)	Funding level	CARE ongoing cost	Past service ctbn	Total ctbn	Discount rate	Return required to restore funding level
Valuation date	£000s	£000s	£000s	%	% of pay	% of pay	% of pay	% p.a.	% p.a.
31 Mar 2019	1,410,581	1,430,547	(19,966)	99%	17.9%	0.9%	18.8%	4.8%	4.9%
30 Apr 2019	1,447,503	1,447,420	83	100%	18.2%	0.0%	18.2%	4.8%	4.8%
31 May 2019	1,454,375	1,460,533	(6,158)	100%	18.4%	0.3%	18.7%	4.7%	4.8%
30 Jun 2019	1,483,529	1,471,765	11,764	101%	18.6%	0.0%	18.6%	4.7%	4.7%
31 Jul 2019	1,494,312	1,478,072	16,240	101%	18.7%	0.0%	18.7%	4.6%	4.6%
31 Aug 2019	1,490,620	1,485,419	5,201	100%	18.7%	0.0%	18.7%	4.6%	4.6%
30 Sep 2019	1,497,782	1,491,329	6,453	100%	18.8%	0.0%	18.8%	4.5%	4.5%
31 Oct 2019	1,509,343	1,498,720	10,623	101%	18.9%	0.0%	18.9%	4.5%	4.4%
30 Nov 2019	1,522,534	1,506,309	16,225	101%	19.0%	0.0%	19.0%	4.4%	4.4%
31 Dec 2019	1,507,589	1,489,490	18,099	101%	18.5%	0.0%	18.5%	4.4%	4.4%
31 Jan 2020	1,478,239	1,480,233	(1,994)	100%	18.1%	0.1%	18.2%	4.4%	4.4%
29 Feb 2020	1,481,306	1,478,878	2,428	100%	18.0%	(0.1%)	17.9%	4.4%	4.4%
31 Mar 2020	1,447,859	1,484,922	(37,063)	98%	18.1%	1.6%	19.7%	4.4%	4.5%
30 Apr 2020	1,450,763	1,492,138	(41,375)	97%	18.2%	1.8%	20.0%	4.3%	4.5%
31 May 2020	1,461,205	1,502,891	(41,686)	97%	18.3%	1.8%	20.1%	4.3%	4.4%
30 Jun 2020	1,500,202	1,539,265	(39,063)	97%	19.1%	1.7%	20.8%	4.2%	4.4%
31 Jul 2020	1,538,006	1,575,929	(37,923)	98%	19.9%	1.6%	21.5%	4.2%	4.3%
31 Aug 2020	1,623,472	1,605,344	18,128	101%	20.5%	(0.8%)	19.7%	4.1%	4.1%
30 Sep 2020	1,613,561	1,632,733	(19,172)	99%	21.0%	0.8%	21.8%	4.1%	4.1%
31 Oct 2020	1,637,610	1,656,717	(19,107)	99%	21.5%	0.8%	22.3%	4.0%	4.1%
30 Nov 2020	1,665,945	1,670,080	(4,135)	100%	21.7%	0.2%	21.9%	4.0%	4.0%
31 Dec 2020	1,676,728	1,684,659	(7,931)	100%	22.0%	0.3%	22.3%	4.0%	4.0%
31 Jan 2021	1,708,397	1,704,767	3,630	100%	22.3%	(0.1%)	22.2%	4.0%	4.0%
28 Feb 2021	1,753,162	1,720,716	32,446	102%	22.6%	(1.3%)	21.3%	4.1%	4.0%
31 Mar 2021	1,770,648	1,730,384	40,264	102%	22.7%	(1.6%)	21.1%	4.1%	4.0%

## 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 2019 which was carried out for funding purposes;
- Actual whole Fund income and expenditure items for the period to 31 March 2021; and
- Estimated Fund returns based on Fund asset statements provided to 31 March 2021, 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 March 2021, we have rolled forward the value of the liabilities calculated for the funding valuation as at 31 March 2019 using the financial assumptions below and actual 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 March 2021 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2021 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 actual cashflows paid to and from the Fund. The latest date that we have been provided with the Fund assets is 31 March 2021.

### 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 2019 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.

As noted in the Introduction, an allowance has been made for current uncertainties in LGPS benefits (relating to the effects of the McCloud/Sargeant judgement and the cost cap). This is allowed for within the prudence allowance which is incorporated into the discount rate assumption.

At the time of producing this report the outcome of the effects relating to the McCloud/Sargeant judgement are still to be agreed upon. The final remedy in response to the judgement will only be known once the

Government's consultation is finalised and a final set of remedial Regulations are published. Furthermore, it is also not known yet what benefit changes in addition to the McCloud remedy (if any) may be made in light of the results of the cost cap process.

The main demographic assumptions are:

- The post retirement mortality tables adopted are the S3PA tables with a multiplier of 110% for males and 105% for females.;
- The dependant post retirement mortality tables adopted are the S3DA tables with a multiplier of 70% for males and 85% for females.

These base tables are then projected using the CMI 2018 Model, allowing for a long-term rate of improvement of 1.25% p.a, a smoothing parameter of 7.5 and an initial addition parameter of 0.5% p.a.

The other key demographic assumptions are:

- 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.

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# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>24 June 2021</b>
<b>Classification:</b>	<b>Public</b>
<b>Title:</b>	<b>Responsible Investment Statement</b>
<b>Wards Affected:</b>	<b>None</b>
<b>Policy Context:</b>	<b>Effective control over council activities</b>
<b>Financial Summary:</b>	<b>There are no immediate financial implications arising from this report.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b> <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

## 1 Executive Summary

- 1.1 In late 2019, the Local Government Pension Scheme (LGPS) Scheme Advisory Board (SAB) issued draft guidance on Responsible Investment in the LGPS. This guidance outlined the duties of investment decision makers in LGPS administering authorities.
- 1.2 This paper presents the updated Responsible Investment Statement for the Westminster Pension Fund, which is attached as Appendix 1.

## 2 Recommendation

- 2.1 The Pension Fund Committee is requested to:
  - Approve the final version of the Responsible Investment Statement for publishing on the website.

### 3 Background

- 3.1 The purpose of the Responsible Investment Statement is to make clear the Pension Fund's approach to investing responsibly. This includes the integration of environmental, social and governance (ESG) factors as part of the Pension Fund's investment strategy.
- 3.2 The aim of the Responsible Investment Statement is to demonstrate to scheme members the direction in which the Pension Fund is moving in terms of responsible investment, decarbonisation/climate change and other ESG related issues.
- 3.3 The statement covers in detail topics such as:
- **The investment horizon of the Fund:** this highlights the Fund's potential investment priorities over the long term, including socially beneficial housing, renewable infrastructure and green bonds.
  - **Carbon journey:** over the last 24 months, the Pension Fund has taken significant steps to reduce its carbon footprint by transitioning equities into ESG focused funds and diversifying into renewable infrastructure. Since June 2019, the Fund's average carbon to value invested has fallen by circa 60%.
  - **Voting and engagement:** collaboration with key stakeholders in the investment community will be key in influencing companies to run their businesses more sustainably.
- 3.3 Several investment cases study examples have also been included in the Responsible Investment statement to demonstrate how the Pension Fund has been implementing the policy.
- 3.4 This statement will be subject to regular, ongoing review.

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

**Billie Emery** [bemery@westminster.gov.uk](mailto:bemery@westminster.gov.uk)

**BACKGROUND PAPERS:** None

**APPENDICES:**

Appendix 1: Responsible Investment Statement



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# Responsible Investment Statement

City of Westminster Pension Fund • **2021**





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## Introduction

Responsible Investment is defined by the United Nation's 'Principles for Responsible Investment' document as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long term returns.

The City of Westminster Pension Fund is committed to being a responsible investor and a long-term steward of the assets in which it invests. The Fund has a fiduciary duty to act in the best interests of its beneficiaries and this extends to making a positive contribution to the long-term sustainability of the global environment.

There are a wide range of ESG issues, with none greater currently than climate change and carbon reduction. The Pension Fund recognises climate change as the biggest threat to global sustainability alongside its administering authority employer, Westminster City Council, which has committed itself to achieving carbon neutrality by 2030.

The Pension Fund acknowledges that the neglect of corporate social responsibility and poor attention paid to environmental, social and governance issues is more likely to lead to poor or reduced shareholder returns. Therefore, the ESG approach has become integral to the Fund's overall investment strategy and recognises ESG factors as central themes in measuring the sustainability and impact of the Fund's investments.

## Investment Horizon

The City of Westminster Pension Fund Investment Strategy Statement (ISS) sets out the Fund's policy on investment, risk management, LGPS pooling and environmental, social and governance issues. Alongside this the Fund's core investment beliefs set out the foundation of discussions, regarding the structure of the Fund, its strategic asset allocation and the selection of investment managers, incorporating ESG factors into this decision-making process.

The Fund's investment priorities over the coming years will be centred around the following topics:



# Carbon Journey

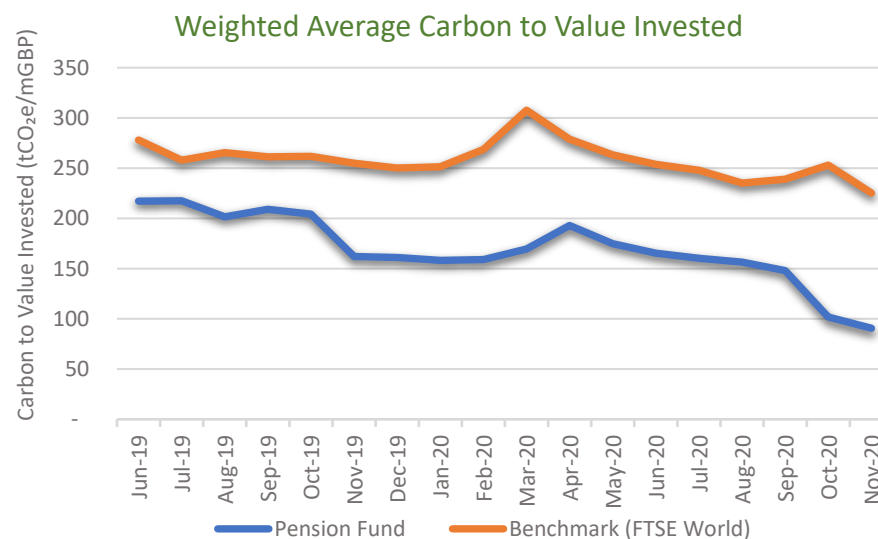
The City of Westminster Pension Fund has committed to reducing its carbon emissions, alongside Westminster City Council. The Pension Fund appointed TruCost to undertake a carbon mapping of the Fund's equity and property investments as at 30 September 2019. This included metrics such as carbon intensity, carbon emissions, stranded assets and energy transition.

Since this mapping took place, the Fund has transitioned its London CIV (LCIV) UK Equity allocation and Legal & General (LGIM) Global Passive Equities into the LCIV Global Sustain Fund and LGIM Future World Fund. The Global Sustain Fund seeks to provide a concentrated high-quality global portfolio of companies, however, excludes tobacco, alcohol, adult entertainment, gambling, civilian weapons, fossil fuels, and gas or electrical utilities. The LGIM Future World Fund tracks the L&G ESG Global Markets Index, whereby an Environmental, Social and Governance screening of companies takes place to remove those companies which do not meet the required ESG criteria.

Alongside this, a 6% commitment has been made towards investment within renewable infrastructure, with funds from the sale of the Hermes Property Fund. A fund manager selection process took place during December 2020, with Macquarie and Quinbrook each selected to manage a 3% allocation. The first drawdowns totalling c.£15m, took place during Q1 of 2021.

During November 2020, the Pension Fund commissioned TruCost to undertake a Carbon Review of the Fund following the transition into the ESG equity mandates, as at 31 October 2020.

The *carbon to value invested* metric is used by TruCost to reflect how efficient companies are at creating shareholder value, relative to the carbon emissions produced. The following graph depicts the Fund's carbon to value invested journey against the benchmark, within the equity allocation, from 30 June 2019 to 30 November 2020. The Pension Fund has been benchmarked against the FTSE World Index.



# ESG Case Studies

## Environmental



## Social



## Governance



Environmental, Social and Governance factors are key indicators in measuring the sustainability and suitability of an investment. There is growing research which suggests, when integrated into business decisions and portfolio construction, these can offer stability in future returns.

The Fund expects managers to integrate ESG factors into investment analysis and decision making. Monitoring these effectively can assist with resolving issues at early stages through effective engagement with companies and board members. The Fund expects asset managers where possible to engage and collaborate with other institutional investors, as permitted by relevant legal codes to ensure the greatest impact.

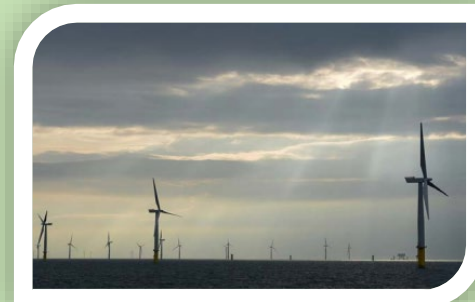
The measurement of ESG performance is still developing and benefitting from significant improvements. There are several performance benchmarks and disclosure frameworks that exist to measure the different aspects of available ESG data which include carbon emissions and a variety of social impact scores.

## Environmental: Gwynt y Môr case study

Gwynt y Môr is a 576-megawatt wind farm located off the coast of North Wales, and it's held within our Macquarie Renewable Energy Fund.

The fund has a 10% stake in the windfarm and is the fifth largest operating offshore wind farm in the world. Macquarie manages an additional 10% exposure in Gwynt Y Môr through their existing renewable infrastructure funds and therefore is already familiar with the asset. Operational since 2015, Gwynt y Mor is comprised of 160 Siemens 3.6MW wind turbines spread across 80 square kilometres and provides enough clean electricity to power approximately 430,000 UK homes each year.

It is estimated that the windfarm cuts carbon emissions by around 2m tonnes a year, with the CO2e avoided equivalent to taking 234,680 cars off the road.



Source: Macquarie Renewable Energy Fund

## Social: Teladoc case study

The Pension Fund holds, Teladoc, within its LCIV (Baillie Gifford) Growth Alpha Equity portfolio. The company is the largest telemedicine company in the US, providing remote access to services such as primary care appointments, expert second opinions, health support and chronic care management.

By providing healthcare services via video or phone consultants, this increases the accessibility to the services, helps to lower average healthcare costs and improves efficiency of the healthcare system.

In the first quarter of 2020, following the COVID-19 outbreak, Teladoc welcomed over a million new customers, ensuring the ability to continue to access healthcare at a time when hospitals and clinics would otherwise be unavailable to them. Teladoc operates in over 175 countries, and the company claims in the US an average saving of \$472 per medical visit. Alongside this, in countries with nationalised healthcare, savings will benefit the government and therefore the public.



Source: Baillie Gifford: Positive Change Impact Report

## Governance: Cardinal Health case study

Cardinal Health is an American integrated pharmaceuticals company, providing medical products to hospitals, health systems, pharmacies, clinical laboratories and physician offices worldwide. The Pension Fund holds Cardinal Health within its LGIM Future World Fund.

During 2020, the company paid out an above target bonus to the CEO, in the same year which it recorded a pre-tax charge of \$5.63bn for opioid settlement costs. It was found the compensation committee excluded these costs when calculating the bonus, resulting in executive pay being boosted. Additionally, the CEO had been the global head of pharma during the worst years of the opioid crisis.

LGIM voted against the pay resolution and signalled concern over the bonus payment in the same year as the company recorded an expected settlement. LGIM continues to engage with US companies on their pay structures and has published specific pay principles for US companies.



Source: LGIM ESG Impact Report Q4 2020

## Fund Key Facts




### Aberdeen Standard Long Lease

77%  Energy data collected

74%  Water data collected

83%  A-D Energy Performance Certificate rating

5  Metric tonnes of carbon saved by solar installation

Source: ASI Long Lease Key ESG Metrics 2020

### Pantheon Global Infrastructure

 5% Invested in solar

 4% Invested in wind

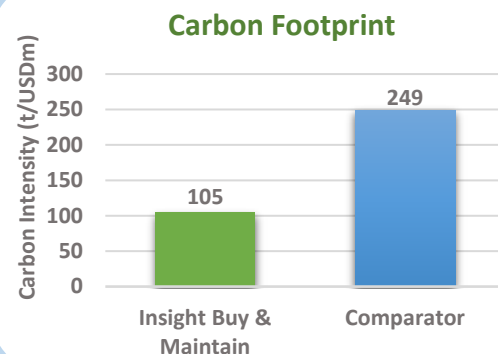
 43% of senior roles held by women

 100% recycling rate

Source: Pantheon Infrastructure ESG Report Q3 2020

### Insight Buy & Maintain

The carbon intensity of the fund is 84 (t/USDm) lower than its comparators.



Source: Insight Buy & Maintain ESG Report Q2 2020

### LGIM Future World

Companies failing to meet globally accepted business practices are excluded from the Future World Fund, based on any of the following criteria:



Involved in production of controversial weapons



Involved solely in the extraction of coal



Violators of the UN Global Compact initiative

### LCIV Global Alpha



48% women employed



52% men employed

41.8%  Lower relative carbon footprint than the benchmark

Source: Baillie Gifford Gender Pay Gap 2019

### LCIV Global Sustain

The Global Sustain Fund avoids sectors such as alcohol, tobacco, weapons, gambling, fossil fuels and electric utilities and undertakes an engaged investment approach considering financial returns and ESG criteria.



## Voting & Engagement

The Committee has delegated the Fund's voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Committee expects the investment managers to vote in the best interests of the Fund. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund will continue to collaborate with the London CIV on maintaining a shared voting policy for the equity managers on the London CIV platform and actively seek to align these policies with manager insights. Lobbying with other London CIV clients will give the Pension Fund greater control and impact over our voting choices and a centralised process will ensure our voting remains consistent and has the greatest impact.

The Pension Fund views engagement with companies as an essential activity and encourages companies to take positive action towards reversing climate change. The Westminster Pension Fund is a responsible owner of companies and cannot exert that positive influence if it has completely divested from all carbon intensive producing companies. The Pension Fund will continue to encourage positive change whilst officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including carbon and other ESG considerations.

### Engagement: Microsoft case study

As part of the LCIV Global Sustain Fund, Morgan Stanley have engaged with Microsoft on a number of issues including carbon and diversity and inclusion.

Microsoft have pledged to become carbon-negative by 2030, Morgan Stanley have engaged with the company on these decarbonisation targets and how they can be achieved. This engagement has shown that Microsoft is increasingly focusing on decarbonising their supply chains, not just direct operations. To assist in understanding and reducing these supply chain emissions, Microsoft has started charging a carbon price on these activities and developed tools to incentivise suppliers to reduce these. Other Microsoft initiatives include \$1bn funding new carbon removal technologies, transition to renewable energy and establishing a net zero initiative with other large companies.

The company has disclosed that they include diversity as part of senior management remuneration and have set up recruitment campuses at universities with high levels of diversity.



Source: Morgan Stanley ESG Report Q3 2020



## LCIV Global Sustain



99

Total Management Meetings



68

ESG Engagements

### ESG Engagements by Topic:



23

Environment



36

Social



31

Governance

### Of which, engagements on:



13

Climate Change



6

Diversity



4

Cyber Security

Source: Morgan Stanley ESG Report Q4 2020

## LGIM Future World



489

Total number of engagements



428

Number of companies engaged with

### ESG Engagements by Topic:



357

Environment



64

Social



139

Governance

### Top 5 engagement topics:

1.

Climate Change

3.

Diversity

2.

Remuneration

4.

COVID-19

5.

Strategy

Source: LGIM ESG Report Q4 2020

## LCIV Global Alpha



98

Total number of engagements



61

Number of companies engaged with

### ESG Engagements by Topic:



10

Environment



18

Social



37

Governance

### Percentage resolutions voted:

91%



With management

4%



Against management

Source: Baillie Gifford Proxy Voting Q3 2020

## Connected Organisations



The Pension Fund recognises that significant value can be achieved through collaboration with other stakeholders. The Pension Fund works closely with its LGPS pool company, other LGPS funds and member groups such as the Local Authority Pension Fund Forum (LAPFF), Pensions and Lifetime Savings Association (PLSA) and ShareAction to ensure corporate interests are aligned with the Pension Fund's values.

The Pension Fund actively contributes to the engagement efforts of pressure groups, such as the Local Authority Pension Fund Forum (LAPFF) and requires investment managers to vote in accordance with the LAPFF's governance policies. In exceptional cases, investment managers will be required to explain their reason for not doing so, preferably in advance of the AGM.

### Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum are a collection of over 83 local authority pension funds, with assets under management of over £300bn, promoting the highest standard of governance with the aim of protecting the long-term value of pension funds. The LAPFF engage directly with companies, on behalf of all asset owners and pension fund trustee members, on issues such as executive pay, reliable accounting and a transition to a net carbon zero economy.

### LAPFF Case Study

The LAPFF produce quarterly engagement reports, covering all ESG related issues from climate change, governance, human rights and cyber security.

Over the quarter to 30 September 2020, the LAPFF engaged with 27 companies, including Sainsbury, Tesco and the National Grid.

At the National Grid 2020 AGM, LAPFF asked the National Grid to commit to its delayed setting of scope 3 carbon emission reduction targets. The company published a response on its website, signifying that it would provide information on scope 3 targets in October.

Alongside this, the company has set a target of aiming for a carbon-neutral grid by 2025, including the provision of electric vehicle charging stations.



Source: LAPFF Quarterly Engagement Report 30 September 2020

## Pensions and Lifetime Savings Association

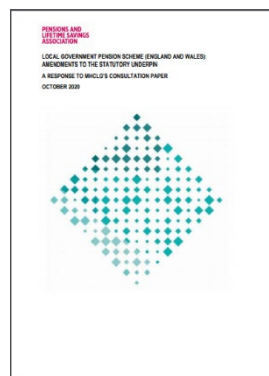
The City of Westminster Pension Fund is a member of the PLSA, who aim to raise industry standards, share best practice and support members. The PLSA works across a range of stakeholders including governments, regulators and parliament to help the implementation of sustainable policies and regulation. They represent over 1,300 pension schemes totalling £1.3tn in assets under management, including those in the public and private sectors.

The PLSA provide an important source for training, support and guidance on regulations and pension support services.

### PLSA Case Study

The PLSA published its response to the MHCLG proposals regarding the McCloud and Sargeant discrimination cases by, extending the underpin to younger scheme members with the underpin period applying from the 1st April 2014 to the 31st March 2022.

The PLSA conducted a survey of its members and consulted the Local Authority Committee on the proposals within the MHCLG consultation. On the whole the PLSA was supportive of the Government's plan to implement a two-stage underpin process, however they did express concerns about the impact these proposals would have on funds and pensions administrators given the significant resourcing requirements.



Source: PLSA Response to MHCLG's Consultant Paper

## ShareAction



ShareAction is a registered charity who promotes responsible investment, working with investors to help influence how companies operate their business on a range of Environmental, Social and Governance (ESG) factors. This includes areas such as climate change, gender diversity, living wages, decarbonisation, biomass and healthy markets.

Most recently, ShareAction has been working on a Healthy Markets coalition group. The Healthy Market Initiative aims to make food retailers and manufacturers take on accountability for their role and impact on people's diets. The City of Westminster is a member of the Healthy Markets coalition and along with other members, represents over \$1 trillion in assets under management. The Fund has actively engaged with ShareAction on this initiative, attending coalition meetings, as well as contacting our equity managers and the LAPFF on their behalf to see if they would be willing to engage.

### ShareAction Case Study

In 2019 ShareAction partnered with the Access to Nutrition Initiative (ATNI) on its Healthy Markets Campaign. ATNI adapted the core methodology used for the Global Access to Nutrition Indexes to assess the disclosure of the UK food retail sector. In March 2020, the ATNI published its UK Supermarkets spotlight analysing the top 10 food retailers in the UK, scoring them against a number of indicators including governance, nutrient profiling, promotions and labelling. Whilst some retailers provide better transparency than others, all of them have the scope to explain more fully their commitments and action in all areas. Following the outcome of the report ATNI recommended that all 10 supermarket chains publish comprehensive strategies on diet, nutrition and health.

Source: ATNI UK Supermarket Spotlight 2020

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# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>24 June 2021</b>
<b>Classification:</b>	<b>Public</b>
<b>Title:</b>	<b>Tri-Borough Section 113 Agreement Review</b>
<b>Wards Affected:</b>	<b>None</b>
<b>Policy Context:</b>	<b>Effective control over Council Activities</b>
<b>Financial Summary:</b>	<b>There are no immediate financial implications arising from this report.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b> <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

## 1 Executive Summary

- 1.1 This paper presents the Tri-Borough Section 113 (S113) Agreement review of the Tri-Borough Treasury and Pensions and Treasury Services, as undertaken by an independent consultant during August 2020.

## 2 Recommendation

- 2.1 The Pension Fund Committee is requested to note the attached S113 Tri-Borough Treasury and Pensions agreement review and recommendations.

## 3 Background

- 3.1 Westminster City Council, the Royal Borough of Kensington and Chelsea and the London Borough of Hammersmith and Fulham operate Treasury and Pensions services through a Tri-Borough joint working arrangement established under S113 of the Local Government Act 1972.
- 3.2 The agreement for shared Treasury and Pension services commenced in February 2012, and the Council commissioned an independent consultant to review this agreement in August 2020.

3.3 The scope of this review covered the following areas, with particular focus on development of the performance management and cost recharging arrangements.

- Governance arrangements
- Identifying key tasks and processes
- Oversight of third party activities
- Quality standards and internal audit coverage
- Key performance indicators (KPIs)
- Added value
- Staff structures, liaison and communication
- Contract monitoring
- Cost recharging arrangements

## **4 Recommendations for the Tri-Borough Treasury and Pensions Service**

4.1 The following key recommendations have arisen from the review:

- **Governance Arrangements:**

S113 agreement expanded to reflect current expectations in key processes undertaken by the Tri-Borough team, quality standards/KPIs, cost recharging and added value identification and delivery.

- **Identifying key tasks and processes:**

Key tasks, as shown within Appendix 1 of the S113 Review, should be included within the S113 agreement and form the basis for performance management.

- **Oversight of third party activities:**

S113 agreement updated to reflect that the Tri-Borough team is not directly responsible for delivering pensions administration but has a role of oversight and performance monitoring.

- **Quality standards and internal audit coverage:**

The agreement requires all staff to hold or be working towards Central Council of Accounting Bodies (CCAB) qualifications and attend regular technical training. It should be noted that all Tri-Borough pension managers and treasury managers currently meet this recommendation.

S113 agreement amended to include specific requirements for regular internal audit and controls assurance reports from all third party service providers. It should be noted that the City of Westminster Pension Fund already requests these reports from third party providers and is subject to an internal audit every two to three years.

- **KPIs:**

It is recommended that the following KPIs are included in the S113 agreement:

Key performance target	Measured by
Funding level at least equal to LGPS averages	Actuarial revaluation every three years
Investment management costs under 0.5% of year end net asset value (NAV) of each fund	Calculate based on year end fund accounts
Maintain asset allocations in line with strategy approved by members	Confirmed (or otherwise) by the independent investment advisor's quarterly review
All contributions due from employing bodies are collected promptly	Reported quarterly to members and monthly to S151 officer
Sufficient cash is available to pay pension benefits as they fall due	Reported quarterly to members and monthly to S151 officer

- **Added value:**

The Strategic Investment Manager should spend at least a third of their time on added value activities, determined in principle at the start of each financial year.

- **Staff structures, liaison and communication:**

S113 agreement updated to reflect the current staffing structure. Key tasks in regard to communication and engagement across the Tri-Borough, as shown within Appendix 1 within the S113 review, should be included within the S113 agreement and form the basis for performance management.

- **Contract monitoring:**

The Council is provided with a short dashboard report each month, summarising key transactions/balances, that these are in line with strategies and whether key performance targets have been met. This should form the basis as of an annual review of the S113 agreement with each S151 officer.

A suggested format is provided within Appendix 3 of the S113 review. It should be noted that the Fund is provided with a

performance report every month from the custodian, Northern Trust.

Alongside this, the Fund reports monthly to ELT on asset values, funding position, cashflows, investment/administration updates and performance.

- **Cost recharging arrangements:**

Annual cost reallocations should be increased to cover accommodation, overheads and other direct expenditure. Shared posts should be allocated in proportion to the relative value of the assets and liabilities under management, as shown below:

Westminster	40%
Hammersmith and Fulham	30%
Kensington and Chelsea	30%

It should be noted that the Fund already includes such overheads and accommodation charges within its annual cost recharging exercise. In addition to this, the Fund has amended the reallocation as a result of this exercise from 2020/21 onwards.

Recharges are agreed at the start of the year, based on approved revenue budgets and monitored by the Council. It should be noted that this process is already undertaken by the Council's departmental finance teams.

- 4.2 A more detailed analysis of the review undertaken can be found within Appendix 1 of this report. In addition to this an updated version of the S113 agreement, to reflect the recommendations arising from the review, is included within Appendix 2.

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



Billie Emery [bemery@westminster.gov.uk](mailto:bemery@westminster.gov.uk)

**BACKGROUND PAPERS:** None

**APPENDICES:**

Appendix 1: S113 Review August 2020

Appendix 2: Tri-Borough S113 updated agreement

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

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**DATED**

**2021**

**(1) THE LORD MAYOR AND CITIZENS OF THE CITY OF WESTMINSTER**

**AND**

**(2) THE MAYOR AND BURGESSES OF THE  
LONDON BOROUGH OF HAMMERSMITH AND FULHAM**

**AND**

**(3) THE MAYOR AND BURGESSES OF THE ROYAL BOROUGH OF  
KENSINGTON AND CHELSEA**

**TRI-BOROUGH JOINT WORKING AGREEMENT**

**PENSIONS AND TREASURY SERVICES**

Peter Large  
Head of Legal Services  
Westminster City Council  
City Hall  
64 Victoria Street  
London SW1E 6QP

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## **SECTION 1 - DATE OF AGREEMENT, PARTIES AND BACKGROUND**

**THIS AGREEMENT** is made on **the**                      day of **X 2021**

### **PARTIES**

**(1) THE LORD MAYOR AND CITIZENS OF THE CITY OF WESTMINSTER**  
of City Hall, 64 Victoria Street, London SW1E 6QP

**(2) THE MAYOR AND BURGESSES OF THE LONDON BOROUGH OF  
HAMMERSMITH AND FULHAM** of the Town Hall, King Street, London,  
W6 9JU

**(3) THE MAYOR AND BURGESSES OF THE ROYAL BOROUGH OF  
KENSINGTON AND CHELSEA** of The Town Hall, Hornton Street,  
London W8 7NX

### **1. BACKGROUND**

1.1 The Parties wish to realise future efficiencies and resilience through the combination, sharing and closer integration of a range of services including pensions and treasury services.

1.2 Although the Parties wish to combine and integrate the Services, they wish to do so initially through a process of alignment, joint working and co-location rather than through the appointment of a lead authority to whom all relevant functions are delegated and staff transferred. The Parties intend that the pension fund and other investment funds of each authority shall remain separate and segregated and shall not be pooled. The Parties have given a Sovereignty Guarantee to ensure that the independence of the authorities as political and legal entities is protected.

1.3 To combine and integrate the Services in the manner described in Paragraph 1.2, the Parties have agreed to develop a bespoke joint



working arrangement. The terms of this arrangement are documented in this Agreement and includes the exercise of powers contained in Section 113 of the 1972 Act so that officers of each authority are made available to the other authorities for the purposes of performing functions as an officer of the other authorities for the purpose of co-locating and integrating the future marketing and delivery of the Pensions and Treasury Service. In the future it is intended that the arrangements described in this Agreement will be further developed to improve the resilience of the team and its capacity to take on additional work from other London Boroughs.

## **SECTION 2 - INTERPRETATION, DURATION & THE ARRANGEMENTS**

### **2. DEFINITIONS AND INTERPRETATION**

This Agreement shall be interpreted in accordance with **Schedule 1**.

### **3. DURATION OF THE AGREEMENT**

This Agreement shall commence on the Commencement Date and shall continue in force until it is terminated in accordance with **Clause 25**.

### **4. THE ARRANGEMENTS**

4.1 The Parties agree that **Schedule 2** sets out the:

- 4.1.1. aims, benefits and intended outcomes of the Parties in entering into the Arrangements; and
- 4.1.2. high level principles which underpin the delivery of the Parties' obligations under this Agreement
- 4.1.3. key tasks and activities to be provided as part of these arrangements
- 4.1.4. key performance targets and quality standards anticipated.

4.2 The Parties agree that the aims, benefits and intended outcomes and the principles set out in **Schedule 2** are aspirational and are not

intended to give rise to legally binding rights and obligations between the Parties.

4.3 Subject to and in accordance with the terms of this Agreement and with effect from the Commencement Date, the Parties have agreed to implement the Arrangements, being:

4.3.1 the arrangements regarding Combined Teams in **Section 3**

4.3.2 the governance arrangements in **Section 4**; and

4.3.3 the financial arrangements in **Section 5**;

4.4 The Arrangements shall not affect the liabilities of the Parties to any third parties for the exercise of their respective functions and obligations.

## **5. DELEGATION OF FUNCTIONS**

5.1 Nothing in this Agreement has (or is intended to have) the effect of transferring statutory functions from one Party to another. This means that the performance by a Post Holder of their S113 Duties is done in their capacity as an officer of the Non-Employing Party. That Post Holder is not exercising functions delegated by the Non-Employing Party to the Employing Party.

5.2 Parties may only delegate their statutory functions to each other in exercise of the powers contained in S101 of the Local Government Act 1972 and S17 of the Local Government Act 2000. In the event that any of the Parties agree to enter into such an arrangement it will be recorded in a separate agreement that has been signed by participating Parties.

## **SECTION 3 – SECTION 113 ARRANGEMENTS**

## **6. SHARING EMPLOYEES**

6.1 With effect from the Commencement Date, it is agreed that, in exercise of the powers contained in Section 113 of the 1972 Act and in accordance with **Schedule 5** the Parties will make those individuals identified in **Schedule 5**, available to the other Parties for the purposes of enabling each Post Holder to deliver the Services through the combined performance of their Employee Duties and, in accordance with their individual Agreement, their S113 Duties.

6.2. **Tri-borough Director of Pensions and Treasury Post**

6.2.1. The Employing Party shall at its absolute discretion deal with any management issues relating to the Tri-borough Director of Pensions and Treasury, including but not limited to those relating to capability, performance and conduct, as it considers appropriate in consultation with the Non-employing Parties. Before taking any decision to act, or to decline to act, the Employing Party shall consider any representations from the Non-employing Parties and, if requested by either of them, provide reasons for its decision in writing.

6.2.2 The Non-employing Parties will provide information with structured comment and feedback on the performance reviews of the Tri-borough Director of Pensions and Treasury which shall be conducted using the Employing Party's appraisal and performance management scheme in force from time to time. The Employing Party undertakes to take the Non-employing Parties views and representations into consideration in conducting the performance review.

6.2.3 The Parties may carry out joint supervisions of the work of the Tri-borough Director of Pensions and Treasury. at six monthly intervals or as otherwise agreed..

6.2.4 Without prejudice to Clause 6 1-3 above, if a Non-employing Party is dissatisfied with the capability, performance or conduct of the Tri-borough Director of Pensions and Treasury it may request a meeting with the Employing Party by giving five (5) working days notice to that effect.

- 6.2.5 At such a meeting the Parties will discuss and agree an action plan under which the Employing Party and the Tri-borough Director of Pensions and Treasury will be give a reasonable period of time to resolve the Non-employing Party's concerns ("the agreed period").
- 6.2.6 Where the Non-employing party is not reasonably satisfied that their concerns have been resolved within the agreed period they may initiate the Dispute Resolution Procedure.
- 6.2.7 The Non-employing Parties shall provide any information, documentation, access to their premises, employees and assistance (including but not limited to providing witnesses to attend before any committee, court or tribunal) as may reasonably be required by the Employing Party to enable it to deal with any management issues in relation to the Tri-borough Director of Pensions and Treasury whether under its own procedures or before any court or tribunal.

## **SECTION 4 – GOVERNANCE, ACCOUNTABILITY, MONITORING AND REVIEW**

### **7. ACCOUNTABILITY**

- 7.1 For the purposes of these Arrangements, the Post Holder will be accountable to:
- 7.1.1 the Non-Employing Party for the performance of their S113 Duties; and
  - 7.1.2 the Employing Party for the performance of their Employee Duties

## **8. ANNUAL REVIEW**

- 8.1 The Tri-borough Director of Pensions and Treasury shall carry out an annual review of the Arrangements for the purpose of evaluating;
  - 8.1.1 performance of the Arrangements against the targets, priorities and outcomes specified in this Agreement (or such other targets, priorities and outcomes as may be agreed between the Parties in writing from time to time);
  - 8.1.2 targets and priorities for the next Financial Year;
  - 8.1.3 the operation and effectiveness of the Arrangements;
  - 8.1.4 delivery of agreed outcomes and benefits and the role of the arrangements in relation to such delivery.
- 8.2 Following a review held in accordance with **Clause 8.1**, the Tri-borough Director of Pensions and Treasury will make recommendations to the Parties in respect of Arrangements.
- 8.3 The Parties will consider the recommendations made by the Tri-borough Director of Pensions and Treasury pursuant to **Clause 8.2** with a view to agreeing an “Annual Pensions & Treasury Services Strategic Business Plan” summarising the priorities, targets, budgets for the next Financial Year together with any variations to the Arrangements.

## **SECTION 5 – FINANCIAL & HR ARRANGEMENTS**

### **9. FINANCIAL ARRANGEMENTS FOR POST HOLDERS**

- 9.1 In respect of each Post Holder, the Employing Party shall be responsible for the payment (**subject to Clause 9.2 and 12**) of all sums due and payable to that Post Holder in accordance with their Employment Contract, including (without limitation) all tax, national insurance and pension contributions.

- 9.2 The Non-Employing Party will reimburse the Employing Party for all expenses incurred by a Post Holder in the performance of their S113 Duties (where such expenses are recoverable from the Employing Party's expenses policy). In the event that expenses relate to both S113 Duties and Employee Duties, the Non-Employing Party will reimburse the Employing Party for such proportion as is agreed between the Parties.
- 9.3 The costs of any training which a Post Holder is required or requested by the Non-Employing Party to attend for purposes connected with the performance of a Post Holder's S113 Duties, or which is requested by the Post Holder and agreed to by the non-Employing Party, will be funded by the Non-Employing Party.

## **10. FINANCIAL PROTOCOL**

- 10.1 As part of the Parties wider commitment to combination, integration and joint working, the Parties have developed a Financial Protocol set out in **Schedule 4** that establishes the principles of their financial relationship with effect from the Commencement Date. The Parties agree to be bound by the terms of the Financial Protocol and to fulfil their respective obligations there under.
- 10.2 The Parties may agree to vary the Financial Protocol from time to time in accordance with **Clause 26**.

## **11. HUMAN RESOURCES (HR) PROTOCOL**

- 11.1 The Parties have jointly developed the HR Protocol set out in **Schedule 3** for the ongoing management of the combined teams arising out of or in relation to the Arrangements. This protocol is designed to support the Arrangements but is not intended to be (and, unless the Parties expressly agree otherwise in writing, will not have the effect of being) a substitute for a Party's existing HR policies and procedures.

11.2 The Parties agree to be bound by the terms of the HR Protocol and to fulfil their respective obligations there under.

11.3 The Parties may agree to vary the HR Protocol in accordance with **Clause 26**.

## **SECTION 6 - LIABILITIES AND INSURANCE**

### **12. INDEMNITIES, LIABILITIES AND INSURANCE**

12.1 Each Party shall indemnify the other Party against any Loss (excluding Indirect Loss) suffered or incurred by the indemnified Party arising out of or in connection with:

12.1.1 the indemnifying Party's negligence or breach of contract; and

12.1.2 any claim made by a third party arising out of or in connection with the indemnifying Party's negligence or breach of contract, in each case in connection with the performance or failure of performance of the indemnifying Party's obligations under this Agreement, except to the extent that such Loss has been caused by any negligence, act or omission by, or on the part of, or in accordance with the instructions of the other Party.

12.2 Subject to clause 12.3 the Parties agree that they will be responsible for the activities of a Post Holder as follows:

12.2.1 the Non-Employing Party will be responsible for the acts or omissions of any Post Holder when performing their S113 Duties or otherwise acting in their capacity as an officer of the Non-Employing Party; and

12.2.2 the Employing Party will be responsible for the acts or omissions of any Post Holder when performing their Employee Duties or otherwise acting in their capacity as an officer of the Employing Party.

- 12.3 Subject to **Clauses 12.4 to 12.7**, any Loss incurred in relation to or arising from a Post Holder's employment whether or not following termination of employment of a Post Holder or termination of this Agreement including any award by a court or tribunal shall be the responsibility of the Employing Party. As between the Parties to this Agreement, the Non-Employing Party shall have no liability in respect of such Loss and the Employing Party agrees to indemnify the Non-Employing Party against any such Loss.
- 12.4 The Parties hold the view that TUPE will not apply on the commencement of this Agreement, during the term of the Agreement or on the expiry or termination of this Agreement (in whole or in part). However if TUPE operates so as to transfer the contract of employment of any Post Holder due to a Relevant Transfer from one Party ("the Transferor Party") to the other Party ("the Transferee Party"), the Parties shall comply with their legal obligations under TUPE.
- 12.5 Subject to **Clause 12.7**, the Transferor Party shall be liable for and shall indemnify the Transferee Party against any Employee Liabilities incurred by the Transferee Party which arise before on or after the Relevant Transfer and out of an act or omission of the Transferor Party in connection with:
- 12.5.1 the Post Holder's employment with the Transferor Party;
- 12.5.2 any failure to comply with the obligations under Regulations 13 and 14 of TUPE (including any claim brought by an employee representative for breach of Regulations 13 and/or 14 of TUPE) except where such failure arises from the Transferee Party's failure to comply with its obligations under Regulations 13 and/or 14 of TUPE.
- 12.6 Subject to **Clause 12.7** the Transferee Party shall be liable for and shall indemnify the Transferor Party against any Employee Liabilities incurred by the Transferor Party which arise before on or after the



Relevant Transfer caused by an act or omission of the Transferee Party in connection with:

12.6.1 the Post Holder's employment with the Transferee Party;

12.6.2 any failure to comply with the obligations under Regulations 13 and 14 of TUPE (including any claim brought by an employee representative for breach of Regulations 13 and/or 14 of TUPE.

12.7 Where any Employee Liabilities arise partly as a result of any act or omission of the Transferee Party and partly as a result of any act or omission of the Transferor Party whether before on or after the date of the Relevant Transfer, the Parties shall indemnify each other against only such part of the Employee Liabilities sustained by the other Party as is reasonably attributable to the act or omission of that Party.

### **Mitigation**

12.8 In relation to the indemnities of this **Clause 12**, the Parties agree to co-operate with each other and take all reasonable steps to mitigate any costs and expenses and any adverse effect on industrial or employee relations.

## **13. INSURANCE**

13.1 Each Party may choose to maintain policies of insurance in respect of all potential liabilities arising from these Arrangements (as outlined in the Financial Protocol). A decision not to insure does not relieve a Party of its responsibilities under this Agreement.

13.1.1 Each Party agrees to ensure that:

13.1.2 where they are the Non-Employing Party, the insurance policies maintained pursuant to **Clause 13.1** cover liabilities that may be incurred through the performance, by a Post Holder, of their S113 Duties;

13.1.3 where they are the Employing Party, the insurance policies maintained pursuant to **Clause 13.1** cover liabilities that may be incurred through the performance, by a Post Holder, of their Employee Duties.

## **SECTION 7 - OVERARCHING OPERATIONAL ISSUES**

### **14. STANDARDS OF CONDUCT**

- 14.1 The Parties will comply and will ensure the Arrangements comply with all statutory requirements national and local and other guidance on conduct and probity and good corporate governance (including the Parties' respective Constitutions and Standing Orders).
- 14.2 The Parties will review and, where permitted and appropriate, amend their Constitution including but not limited to Standing Orders, Financial Standing Orders Schemes of Delegation, Banking Mandates and other relevant documents as necessary to ensure compliance with their obligations under this Agreement and to enable the Arrangement to operate as smoothly and efficiently as practicable. Nothing in this clause shall require a Party to make amendments which in its reasonable belief would be inconsistent with the Sovereignty Guarantee.

## 15. CONFLICT OF INTEREST

15.1 The Parties acknowledge that conflicts of interest may arise during the course of this Agreement. The Parties agree that circumstances in which a conflict of interest may arise include, but are not limited to, the following:

15.1.1 when the private interests of a Post Holder conflict with the interests of the Non-Employing Party in the context of the Arrangements (a “**Private Interest Conflict**”);

15.1.2 when the duties of a Post Holder arising under or in connection with the furtherance of integrated working conflict with the duties owed by that Post Holder to the Employing Party (a “**Combined Working Conflict**”).

### **Private Interest Conflict**

15.2 In the event that a Private Interest Conflict arises, or a Post Holder suspects that it will arise, the Employing Party shall procure that full details of such Private Interest Conflict shall as soon as possible be reported to and recorded by the Employing Party in accordance with the Employing Party’s policies and procedures for handling conflicts of interest.

15.3 When an Employing Party receives notification or otherwise becomes aware of a Private Interest Conflict pursuant to **Clause 17.2** the Employing Party shall as soon as possible notify the Chief Executives of such Private Interest Conflict who shall take such action as is appropriate in the circumstances to resolve the conflict.

15.4 In the event that the Chief Executives receives notification of a Private Interest Conflict pursuant to **Clause 17.3** and any Chief Executive considers that he is likewise subject to that or another conflict of interest

that Chief Executive shall as soon as possible notify the Leaders of the relevant Parties.

- 15.5 Upon receiving notification from a Chief Executive pursuant to **Clause 17.4** the Parties shall ensure that the Leaders of the relevant Parties shall do what is required in order to ensure that the interests of the Parties are protected in accordance with applicable best practice for the management of conflicts of interests and having due regard to the employment policies and procedures of the Employing Party.

### **Combined Working Conflict**

- 15.6 In the event that a Combined Working Conflict arises and which affects the Tri-borough Director of Pensions and Treasury's or member of the Pension and Treasury team ability to act in the best interests of both Parties, the Tri-borough Director of Pensions and Treasury shall as soon as possible inform Parties that a Combined Working Conflict exists.
- 15.7 On receiving notice from the Tri-borough Director of Pensions and Treasury pursuant to **Clause 15.6** the Non Employing Party or Parties shall appoint an interim Director on such terms and for such duration as they believe is reasonably necessary and appropriate in the circumstances.
- 15.8 In the event that a Combined Working Conflict arises which is not covered by **Clause 15.6**, the Parties will ensure that the Tri-borough Director of Pensions and Treasury shall ensure that immediate steps are taken to promote and protect the interests of all Parties and their respective employees and where necessary the Parties shall use reasonable endeavours to procure that the Tri-borough Director of Pensions and Treasury seeks appropriate independent professional advice.

15.9 The Parties acknowledge that a Combined Working Conflict arising may require each of the Parties to seek separate and independent legal advice.

15.10 The Parties acknowledge and agree that nothing in this **Clause 15** replaces either Party's obligations to comply with all relevant Law in relation to conflicts of interest.

## **16. COMPLAINTS**

16.1 Subject to **Clause 17**, complaints by third parties arising out of or in connection with these Arrangements will be dealt with in accordance with the complaints policy of the appropriate Party in force from time to time.

16.2 Subject to all relevant law and guidance, the Parties reserve the right to agree a combined complaints procedure(s). Any such procedure(s) shall be documented in writing and signed by the Parties.

## **17. OMBUDSMAN**

The Parties will co-operate with investigations undertaken by their respective Ombudsman.

## **18 INTELLECTUAL PROPERTY**

18.1 The Parties shall to the extent permissible by law grant to each other a licence to use the other Party's relevant IPR solely and exclusively for the purposes of and in connection with this Agreement and the Arrangements.

18.2 Subject to **Clauses 18.1 and 18.3**, neither Party shall acquire from the other Party any rights to that other Party's IPR.

18.3 If any IPR is created, brought into existence or acquired in relation to anything jointly developed by the Parties in relation to the Agreement

or the Arrangements, the Parties shall negotiate in good faith and use all reasonable endeavours to agree the rights that each Party shall have in relation to such IPR. Following any such agreement the Parties shall to the extent permissible by law do all things and execute all documents necessary to give full effect to the agreement. If the Parties are unable to reach agreement the matter shall be referred to the Dispute Resolution Procedure.

## **19. CONFIDENTIALITY & DATA PROTECTION**

19.1 Subject to the disclosure requirements of any Laws, nothing in this Agreement shall oblige a Party or a Post Holder to disclose information where such disclosure would be in breach of:

19.1.1 any contract; and/or

19.1.2 any other relevant and applicable internal or external policies or codes of conduct in relation to a confidentiality and disclosure of information

19.2 Each Party agrees at all times during the continuance of this Agreement and after its termination to keep confidential all information or data that it receives or otherwise acquires in connection with the other Parties and which by its nature is confidential or which has reasonably been marked with such words signifying that it should not be disclosed, except where:

19.2.1 the disclosure is made in connection with the Dispute Resolution Procedure or any litigation between the Parties;

19.2.2 the disclosure is required to comply with Law (including the FOIA);

19.2.3 the disclosure is made to a Party's professional advisors who owe a similar obligation of confidentiality; or

19.2.4 the information was in the possession of the Party without obligation of confidentiality or was in the public domain (otherwise than by breach of this Agreement) before receiving it from the other Party.

19.2.5 The Employing Party shall take reasonable steps to procure that staff who process any Personal Data or Sensitive Personal Data in accordance with or in the course of this Agreement, and

19.2.6 the Non-Employing Party shall take reasonable steps to procure that Post Holders who, while undertaking S113 Duties, process any Personal Data or Sensitive Personal Data in accordance with or in the course of this Agreement, to do so in accordance with the provisions and principles of the 1998 Act and any other relevant data protection legislation and guidance (including but not limited to the Employment Practices Data Protection Code).

## **20. FREEDOM OF INFORMATION**

20.1 The Parties will each comply with their respective obligations pursuant to the FOIA but, without prejudice to this general obligation, will consult the other Parties prior to the disclosure of any information relating to these Arrangements.

20.2 Each Party will co-operate fully with the other Party for the purposes of enabling that other Party to properly fulfil its obligations under the FOIA.

## **SECTION 8 - DEFAULT, DISPUTES AND TERMINATION**

### **21. DEFAULT**

21.1 In the event of a Party (the “**Defaulting Party**”) being, in the reasonable opinion of the either or both Parties (the “**Other Party**”), in breach of its obligations under this Agreement and such breach being capable of remedy, the following procedure will apply:

21.1.1 the Other Party may request a meeting with the Defaulting Party by giving five (5) Working Day's written notice to that effect. The meeting will include the Representative of each Party.

21.1.2 following such a meeting, the Parties will discuss and agree an action plan under which the Defaulting Party will be given a reasonable period of time to remedy the default to the satisfaction of the other Party (the "**Remedial Action Plan**").

21.1.3 Where an Other Party is not reasonably satisfied that the Defaulting Party has complied with the Remedial Action Plan, the Other Party will have the right, at its discretion, either to initiate the Dispute Resolution Procedure or to exercise its right to terminate this Agreement in accordance with **Clause 23.6.2**.

## **22 DISPUTES**

22.1 In the event of a dispute between the Parties in connection with this Agreement the Parties shall refer the matter to their Representatives (or their nominated deputies) who shall endeavour to settle the dispute between themselves.

22.2 In the event that the Representatives (or their nominated deputies) cannot resolve the dispute between themselves within a reasonable period of time having regard to the nature of the dispute, the matter will be referred to the responsible cabinet members of the Parties for resolution. In the event that the dispute cannot be resolved within a reasonable period of time (having regard to the nature of the dispute) by the relevant cabinet members, the matter will be referred to the Leaders of the Parties for resolution.

22.3 In the event that the dispute cannot be resolved in accordance with **Clause 22.2** within a reasonable period of time (having regard to the nature of the dispute) the Parties will attempt to settle it by mediation in



accordance with the CEDR Model Mediation Procedure or any other model mediation procedure as agreed by the Parties ("Mediation").

- 22.4 To initiate the Mediation, a Party or Parties may give notice in writing (a "**Mediation Notice**") to the other Party or Parties requesting mediation of the dispute and shall send a copy thereof to CEDR or an equivalent mediation organisation as agreed by the Parties asking them to nominate a mediator. The Mediation shall commence within twenty Working Days of the Mediation Notice being served.
- 22.5 The Parties will co-operate with any person appointed as mediator, providing him or her with such information and other assistance as he or she shall require and will pay his or her costs as he or she shall determine or in the absence of such determination such costs will be shared equally between the participating Parties.
- 22.6 No Party may commence any court proceedings/arbitration in relation to any dispute arising out of this Agreement until it has attempted to settle the dispute by mediation and either the mediation has terminated or the other Party or Parties have failed to participate in the mediation, provided that the right to issue proceedings is not prejudiced by a delay.

## **23 TERMINATION**

### **General**

- 23.1 This Agreement may be terminated (in whole or in part) at any time by written agreement between the Parties.
- 23.2 Any Party shall have the right to terminate this Agreement at any time by service of 12 Months' written notice to the other Parties.
- 23.3 This Agreement may be terminated immediately at any time in respect of any or all of the Post Holders by written agreement between the Parties.

- 23.4 This Agreement, in respect of any individual Post Holder, will terminate forthwith in respect of that particular Post Holder upon the dismissal or resignation of the Post Holder from their Employing Party or upon the Post Holder withdrawing their consent to being made available pursuant to these Arrangements where applicable.
- 23.5 This Agreement will terminate in respect of any individual Post Holder upon any reorganisation or reconstruction affecting any Party whereby the Post Holder no longer holds office with their Employing Party.
- 23.6 A Party may at any time by notice in writing to an other Party terminate this Agreement upon service of 20 Working Days written notice if:
- 23.6.1 the other Party commits a material breach of any of its obligations hereunder which is not capable of remedy; or
  - 23.6.2 the other Party commits a material breach of any of its obligations hereunder which is capable of remedy but has not been remedied in accordance with **Clause 21**.
- 23.7 A Party may by written notice to an other Party in accordance with **Clause 24.8** terminate this Agreement if:
- 23.7.1 as a result of any change in law or legislation it is unable to fulfil its obligations under this Agreement;
  - 23.7.2 its fulfilment of its obligations hereunder would be in contravention of any guidance from any Secretary of State issued after the Commencement Date;
  - 23.7.3 its fulfilment of its obligations would be ultra vires or otherwise unlawful, and the Parties shall be unable to agree a modification or variation to this Agreement (which may include termination in part only) so as to enable the Parties to fulfil its obligations in accordance with law and guidance.

- 23.8 In the case of notice pursuant to **Clause 23.7.1 or 23.7.2**, the Agreement shall terminate after such reasonable period as shall be specified in the notice having regard to the nature of the change referred to in **Clause 23.7.1** or the guidance referred to in **Clause 23.7.2** as the case may be. In the case of notice pursuant to **Clause 23.7.3**, the Agreement shall terminate with immediate effect.
- 23.9 Notices served pursuant to **Clause 23.6 or 23.7** will result in termination of the whole of the Agreement unless the Parties agree otherwise in writing.

## **CONSEQUENCES OF TERMINATION**

- 23.10 Termination of this Agreement in whole or in part (whether by effluxion of time or otherwise) shall be without prejudice to the Parties' rights in respect of any antecedent breach and the provisions of this Clause and **Clauses 2, 14, 15, 19-25 (inclusive), and 27-34 (inclusive)** shall continue in full force and effect.
- 23.11 In the event of termination of this Agreement, the Parties will use all reasonable endeavours to agree arrangements which will minimise disruption to:
- 23.11.1 the continued delivery of the Services to service users;
- 23.11.2 staff working within the Arrangements.
- 23.12 In the event that this Agreement is terminated in part only, the Parties will agree appropriate variations to the Agreement. Such variations will be documented in writing and signed by all Parties.
- 23.13 Where the Agreement is terminated in part, then except for that part of the Agreement that has been terminated, this Agreement shall continue in full force and effect.

## SECTION 9 - GENERAL PROVISIONS

### 24 VARIATIONS

- 24.1 The Parties may agree to vary the Agreement including for the avoidance of doubt the HR Protocol and the Financial Protocol, from time to time in accordance with this **Clause 24**.
- 24.2 Any Party may propose a variation to the Agreement and the Parties shall use reasonable endeavours to agree the variation. In the event of any disagreement in relation to the variation any Party may refer the matter to the Dispute Resolution Procedure.
- 24.3 Any variation of the Agreement, the HR Protocol and Financial Protocol must be in writing and signed by, or on behalf of, each of the Parties.

### 25. NOTICES

- 25.1 Any notice of communication shall be in writing.
- 25.2 Any notice or communication to the relevant Party shall be deemed effectively served if sent by registered post or delivered by hand at an address set out in **Clause 25.4** and marked for the Representative or to such other addressee and address notified from time to time to the other Parties.
- 25.1 Any notice served by hand delivery shall be deemed to have been served on the date it is delivered to the addressee if delivered before 15.00hrs on a Working Day. Hand delivery after 15.00 and or on a weekend or English public holiday shall be deemed served on the next Working Day. Where notice is posted it shall be sufficient to prove that the notice was properly addressed and posted and the addressee shall be deemed to have been served with the notice 48 hours after the time it was posted.

25.2 For the purposes of this **Clause 25**, the addresses at which notice must be served are, unless either Party is notified otherwise in writing as follows:

25.2.1 CEO

Westminster City Council  
City Hall  
64 Victoria Street  
London  
SW1E 6QP

25.2.2 CEO

The London Borough of Hammersmith and Fulham  
Town Hall  
King Street  
London  
W6 9JU

25.2.3 CEO

The Royal Borough of Kensington & Chelsea  
Town Hall  
Hornton Street  
London  
W8 7NX

## 26 WAIVERS

26.1 The failure of any Party to enforce at any time or for any period of time any of the provisions of this Agreement shall not be construed to be a waiver of any such provision and shall not in any way affect the right of that Party thereafter to enforce such provision.

26.2 No waiver in any one or more instances of a breach of any provision hereof shall be deemed to be a further or continuing waiver of such provision in other instances.

## **27 SEVERANCE**

- 27.1 If any provision of this Agreement becomes or is declared by any court of competent jurisdiction to be invalid or unenforceable in any way, such unenforceability shall in no way impair or affect any other provision of this Agreement all of which will remain in full force and effect.

## **28 TRANSFERS**

- 28.1 A Party may not assign, mortgage, transfer, sub-contract or dispose of this Agreement or any benefits and obligations hereunder without the prior written consent of the other Parties except to any statutory successor in title to the appropriate statutory functions.

## **29 NO PARTNERSHIP**

- 29.1 Nothing in this Agreement shall create or be deemed to create a legal Partnership or the relationship of employer and employee between the Parties or render any Party directly liable to any third party for the debts, liabilities or obligations of an other party.
- 29.2 Save as specifically authorised under the terms of this Agreement no Party shall hold itself out as the agent of another party.

## **30 ENTIRE AGREEMENT**

- 30.1 The terms contained in this Agreement together with the contents of the Schedules and Appendices constitute the complete agreement between the Parties with respect to the Arrangements and supersede all previous communications, representations, understandings and agreement and any representation, promise or condition not incorporated herein shall not be binding on any Party.

30.2 No agreement or understanding varying or extending any of the terms or provisions hereof shall be binding upon a Party unless in writing and signed by a duly authorised officer or representative of each Party.

### **31 THE CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999**

Unless the right of enforcement is expressly provided, no third party shall have the right to pursue any right under this Agreement pursuant to the Contracts (Rights of Third Parties) Act 1999.

### **32 GOVERNING LAW**

This Agreement shall be governed by and construed in accordance with English law and, without prejudice to **Clause 22**, shall be subject to the exclusive jurisdiction of the English courts.

**IN WITNESS** whereof this Agreement has been executed by the Parties on the date of this Agreement

**EXECUTED BY**

**THE CITY OF WESTMINSTER**

by:

Signed (Authorised Officer):.....

Name/Position: .....

Signed (Authorised Officer):.....

Name Position: .....

**EXECUTED BY**

**THE LONDON BOROUGH OF HAMMERSMITH AND FULHAM**

by:

Signed (Authorised Officer):.....

Name/Position: .....

Signed (Authorised Officer):.....

Name/Position: .....

**EXECUTED BY**

**THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA**

by:

Signed (Authorised Officer):.....

Name/Position: .....

Signed (Authorised Officer):.....

Name/Position: .....



## **SCHEDULE 1: DEFINITIONS AND INTERPRETATION**

In this Agreement the following expressions shall have the following meanings:

**"1972 Act"**

the Local Government Act 1972;

**"2018 Act"**

the Data Protection Act 2018;

**"Agreement"**

this agreement and the Schedules annexed as may be varied from time to time;

**"Arrangements"**

the arrangements made by the Parties for combination and integration pursuant to this Agreement, as summarised in **Clause 4**;

**"Cabinet Member"**

a member appointed by the Leader of a Party to its executive pursuant to Part II of the Local Government Act 2000

**"CEDR"**

Centre for Effective Dispute Resolution;

**"Chief Executive Officer"**

a Party's Head of Paid Services designated pursuant to s.4 of the Local Government & Housing Act 1989.

**"Combined Team"**

a team created by the Parties in accordance with Section 113 of the 1972 Act and established pursuant to **Clause 12 and 13**;

**"Combined Working Conflict"**

has the meaning given to it in **Clause 15.1.2**;

.

**"Commencement Date"**

20th February 2012 "Dispute Resolution Procedure"  
the procedure set out in **Clause 24**;

**"Employee Duties"**

the duties which a Post Holder performs on behalf of the Employing Party as determined in accordance with their Employment Contract;

**"Employee  
Liabilities"**

all damages, losses, liabilities, claims, actions, costs, expenses (including the cost of legal or professional services, legal costs being on an indemnity basis), proceedings, demands and charges whether arising under statute, contract or at common law;

**"Employing Party"**

in respect of each individual Post Holder the Party that employs that Post Holder. Subject to the subsequent operation of TUPE, the Parties shall agree which Party shall be the Employing Party in accordance with the HR Protocol;

**"Employment Contract"**

the contract of employment between the Post Holder and the Employing Party;

**"Financial Protocol"**

the financial protocol included at **Schedule 4** as amended or replaced by the Parties from time to time;

**"FOIA"**

the Freedom of Information Act 2000;

**"HR"**

human resources;

**“HR Protocol”**

the document entitled “HR and Management Protocol for Establishing and Working in Combined Teams” included at **Schedule 3** as amended or replaced by the Parties from time to time;

**“Indirect Loss”**

loss of profits, loss of use, loss of production, increased operating costs, loss of business, loss of business opportunity, loss of reputation or goodwill or any other consequential or indirect loss of any nature, whether arising in tort or any other basis;

**“Intellectual Property Rights” or “IPR”**

all patents, rights to inventions, utility models, copyright and related rights, trade marks, service marks, trade, business and domain names, rights in trade dress or get-up, rights in goodwill or to sue for passing off, unfair competition rights, rights in designs, rights in computer software, database right, topography rights, moral rights, rights in confidential information (including know-how and trade secrets) and any other intellectual property rights, in each case whether registered or unregistered and including all applications for, and renewals or extensions of, such rights, and all similar or equivalent rights or forms of protection in any part of the world;

**“Internal Governance Documents”**

each Party’s internal governance documents which includes its constitution, maintained pursuant to s.37 of the Local Government Act 2000, standing orders and procedure rules;

**“Law”**

- (a) any applicable statute or proclamation or any delegated or subordinate legislation;

- (b) any enforceable community right within the meaning of section 2(1) European Communities Act 1972;
- (c) any applicable guidance, regulations, direction or determination with which the Parties are bound to comply to the extent that the same are published and publicly available or the existence or contents of them have been notified to it by the other Party; and
- (d) any applicable judgement of a relevant court of law which is a binding precedent in England;

in each case in force in England;

**“Loss”**

all damage, loss, liabilities, claims, actions, costs, expenses (including cost of legal or professional services), proceedings, demands and charges whether arising under statute, contract or at common law;

“

**"Non-Employing Party"**

in respect of each individual Post Holder the Party that is not the Employing Party;

**"Ombudsman"**

the Local Government Commissioner for England (or any successor to their functions);

**"Party"**

each of the parties to the Agreement;

**“Personal Data”**

as defined in Section 1(1) of the 1998 Act;

**"Post Holders"**

individuals made available by the Parties for a Combined Team in accordance with the HR Protocol;

**“Private Interest Conflict”**

has the meaning given to it in **Clause 15.1.1**;

**"Relevant Transfer"**

a relevant transfer for purposes of TUPE;

**“Representative”**

the individual appointed by the Council from time to time (and notified to the other parties) as its representative for the purposes of the Arrangements;

**“Sensitive Personal Data”**

as defined in Section 2 of the 1998 Act;

**“Services”**

Pensions and Treasury Services

**“Sovereignty Guarantee”**

the principles agreed by the Parties confirming their independence set out in **Schedule 5**

**"S113 Duties"**

those duties which a Post Holder will perform for and on behalf of the Non-Employing Party being the duties identified in the documentation establishing the Combined Team under the HR Protocol (subject to such variations as may be agreed between the Parties (and, where appropriate, the Post Holder) from time to time);

**“Term”**

the duration of the Agreement in accordance with **Clause 3**.

**“Tri-borough Director of Pensions and Treasury”**

The shared Tri-borough Director of Pensions and Treasury Services appointed by the Parties to lead and manage the co-located Teams;

**"TUPE"**

the Transfer of Undertakings (Protection of Employment) Regulations 2006 (SI 2006 No. 246) as amended;

**"Transferee Party"**

the Party to whom, subject to Regulations 4 (7) and 4 (9) of TUPE, a Post Holder's employment contract transfers, or a Post Holder contends that his or her employment contract transfers, due to a Relevant Transfer;

**"Transferor Party"**

the Party who immediately before the Relevant Transfer was the employer of a Post Holder whose contract of employment, subject to Regulations 4 (7) and 4 (9) of TUPE, is subject to a Relevant Transfer or of a Post Holder who contends that, subject to Regulations 4 (7) and 4 (9) of TUPE, his or her contract of employment is subject to a Relevant Transfer;

**"Working Day"**

8.00am to 6.00pm on any day except Saturday, Sunday, Christmas Day, Good Friday or a day which is a bank holiday (in England) under the Banking & Financial Dealings Act 1971.

References to statutory provisions shall be construed as references to those provisions as respectively amended or re-enacted (whether before or after the Commencement Date) from time to time.

The headings of the Clauses in this Agreement are for reference purposes only and shall not be construed as part of this Agreement or deemed to indicate the meaning of the relevant clauses to which they relate.

References to Clauses, Sections and Schedules are references to the clauses, sections and schedules to this Agreement respectively and a reference to a Paragraph is a reference to the paragraph in the Schedule containing such reference.

References to a person or body shall not be restricted to natural persons and shall include a company corporation or organisation.

Words importing the one gender only shall include the other genders and words importing the singular number only shall include the plural.

References to the Parties shall include any statutory successors to those local authorities.

## SCHEDULE 2: AIMS, INTENDED OUTCOMES AND PRINCIPLES

### Objective

1. To form a single delivery service that provides Treasury Management and Pension Fund services within a combined team to improve service resilience and mutual support.

### Key Elements

2. That services are to be provided by the combined team by mutual agreement and in accordance with Appendix 1, with Westminster as the Lead Borough.
3. That the quality targets and performance indicators set out in Appendix 2 will apply
4. That both Treasury and Pension Fund monies will continue to be managed separately (**not pooled**) in accordance with the strategies agreed by the home boroughs
5. That benefits will arise from having a larger team to provide resilience and give support to the other team members and share skills, knowledge and expertise.
6. That the Tri-borough Director of Pensions & Treasury reviews the future potential for generating income, or reducing costs through the:
  - (a) Rationalisation of the use of current software/applications;
  - (b) Rationalisation or price reduction of treasury advisers;
  - (c) Rationalisation or price reduction Pension Fund Investment Advisers, Custodians, Actuaries and Fund Managers;
  - (d) Increased returns which may be obtainable on larger tranches of investment will be explored where possible;
  - (e) Offering the combined service to other local authorities in the future;
  - (f) Reviewing staffing arrangements in the event of retirement or resignation of team members.
7. That the combined team will not be directly responsible for delivering pension administration services but will have an oversight role in terms of ensuring that:
  - (a) contracts with third party providers are subject to market testing via appropriate tendering and procurement processes at least once every five years;
  - (b) clear and consistent standards are in place regarding speed and accuracy of transactions processing (see below);
  - (c) regular performance reports are presented to pensions committee and local pension board;
  - (d) action is taken to address any performance issues identified.
8. The combined team will be located at Westminster City Hall. Westminster will be the Host Borough.



## Appendix 1 - Key tasks and activities undertaken by the combined Treasury Management and Pension Fund services

### 1) Treasury and Investment Management

Key Task for each Council	Timing
Treasury Management (TM) Strategy to be discussed and agreed with s151 officers (including key prudential indicators, expected CFR, MRP policy and overall financing of the expected capital programme)	By 31 December each year
Investment Strategy to be discussed and agreed with s151 officers (including overall investment allocation strategy, due diligence/credit rating requirements and benchmark returns for each category of investments)	By 31 December each year
TM and Investment Strategies drafted and reviewed by s151 officers	By 31 January each year
Confirm that content of TM and Investment Strategies meet relevant CIPFA and MHCLG requirements	By 31 January each year
Ensure TM Strategy is consistent with the Capital Budget and other Council plans	By 31 January each year
TM and Investment Strategy approved by members following pre-meeting briefing, and presented to Full Council as part of budget reports pack	As part of budget setting each year
Agree and deliver a programme of added value activities with each s151 officer. Report monthly to s151 and quarterly to members on work done and outcomes achieved.	Strategic Finance Manager to spend 33%- 50% of their time on these activities
TM and Investments year-end report discussed with s151 and presented to members	By 30 April each year
Evaluate the potential for, and value for money offered by, current opportunities for early debt repayment or rescheduling	Quarterly
TM monitoring reports discussed with officers and presented to members	Quarterly
Investment monitoring reports discussed with officers and presented to members	Quarterly
Hold regular meetings with Link Asset Management and other TM advisers to identify new borrowing and investment opportunities (s151 officers to attend)	Quarterly
No breach of Prudential Indicators set out in TM Strategy and monitoring reports	Monitor quarterly
Reconcile TM Strategy to capital outturn reports and update as necessary	Monitor quarterly
Ensure full compliance with agreed due diligence policies	Monitor quarterly
No late payments or default events on investment balances and counterparty loans	Monitor quarterly
All investment and loan transactions processed in line with strategies once agreed	Monitor monthly
100% accuracy rate in posting treasury and investment journals to relevant GL	Monitor monthly
Counterparty list ratings in line with TM and Investment Strategies	Monitor monthly
Average bank balances maintained in line with TM Strategy approved by members.	Monitor weekly
No overdrawn cash balances outside of agreed limits	Monitor weekly
Ensure each Council has sufficient liquid funds available to make payments as liabilities fall due	Monitor weekly
Counterparty list ratings updated within 24 hours of notification of change	Monitor weekly
All bank transfers, CHAPS payments and treasury management transactions processed within 24 hours of receiving authorisation/ request	Monitor weekly
100% accuracy rate in processing cash, bank and treasury transactions	Monitor weekly
Ensure each investment portfolio achieves diversification/asset allocation targets	Cover in year-end report
Confirm that CFR disclosures in each council's year end Statement of Accounts are consistent with Prudential Indicators	As part of year end close

## 2) Pensions

Key Task for each pension fund	Timing
Ensure adequate arrangements are in place to review and re-tender contracts for pensions administration services, including appropriate performance targets where required.	At least once every 5 years
Update strategy statements and policies as follows - obtain member approval following s151 review: <ul style="list-style-type: none"> <li>• Pensions Administration Strategy</li> <li>• Funding Strategy Statement and Investment Policy</li> <li>• Communications Policy</li> <li>• Policies on local discretions</li> <li>• Policy for managing conflicts of interest</li> </ul>	Update each key policy document at least once every 2 years
Ensure relevant legal and corporate requirements are met when appointing fund managers, custodians and other advisers	As part of ongoing work programme
Draft annual Governance Compliance Statement and obtain member approval following s151 review	By 31 March each year
Commission external training and ensure that the agreed training programme is delivered as planned	By 31 March each year
Complete training needs assessment and agree training programmes with each committee and pension board	By 1 April each year
Review and update pensions administration contract with third party provider(s), including new performance targets where required.	By 1 April each year
Update annual business plan for each LGPS, including forward work programmes for pension/investment committees and local pension boards	By 1 April each year
Liaise with Actuary and employing bodies to provide information for triennial revaluations and IAS 19 reports	Each year in line with timetable set by actuary
Obtain third party assurances from fund managers, custodians, and administration providers	By 31 May each year
Draft pension fund accounts and disclosure notes	By 31 May each year
Draft pension fund annual report and	By 30 September each year
Publish annual report following s151 review and member approval	By 1 December each year
Update ESG policy and keep under review as a regular agenda item for members	At least twice a year
Ensure that a formal review of pensions administration performance is presented to each pension board and committee, and that any remedial action required has been put in place.	Every 6 months
Prepare agendas for committee meetings and pension boards	Quarterly
Liaise with independent advisor to obtain reports and address any issues arising	Quarterly
Prepare summary budget and cash flow report comparing actual vs expected fund transactions and balances to committee and board members	Quarterly
Ensure correct recovery of early retirements and other employing body costs	Monthly
Post Valuations and Fund movements to relevant GL	Monthly
Review payroll reports and post journals to the relevant GL	Monthly
Clear pension transactions from suspense accounts	Monthly
Reconcile actual and expected contributions received. Chase up late or missed contributions	Monthly
Reconcile Fund Manager and Custodian Reports	Monthly
Post LGPS transactions to relevant GL (including early retirement and other costs)	Monthly
Prepare and monitor cash flow forecasts (short and long term)	Monthly
Prepare and monitor annual budget for administration, IM and governance costs	Monthly

### 3) Generic

Key Task	Timing
Independent review of LGPS governance to ensure compliance with The Pension Regulator's Code of Practice 14	At least once every 3 years
Annual review of performance against agreement for shared service activities, discuss/agree key performance indicators, cost sharing arrangements and budgets for the forthcoming year	Annual meeting with s151 officers
Monitor MIFID II compliance and update annual assessment of professional investor status for each council's TM and pension functions	Formal review at least once a year
Complete annual staff survey	Satisfaction good or better
Monitor average sickness per FTE	5 days absence or less per FTE each year
Ensure Council finance staff are seconded to shared service teams (especially CIPFA trainees)	At least 1 secondment each year
Draft and present committee and pension board reports as required. Ensure all reports are presented in an appropriate format and on time.	Quarterly meetings
Attend all committee and board meetings and training events relevant to treasury and pensions functions	All events
Informal briefing sessions to take place between Tri-borough Director and committee chairs/portfolio holders	At least twice a year
Director to meet with or teleconference all 3 s151 officers regularly. Meetings to be minuted and informed by follow-up action plans.	At least monthly
Prepare monthly "dashboard" reports and discuss with s151 officers	Within 2 weeks of each month end
Arrange interim cover for long term sick and other absences	All absences over 20 days
Ensure all shared service staff hold, or are working towards, recognised CCAB or TM qualifications	Ongoing
Ensure all staff attend regular update training and participate in local TM and pensions networks	Ongoing
Participate in appropriate benchmarking activities for TM and pension functions and report on outcomes and benefits achieved	Ongoing, with annual report to members
Staff from Tri-borough team to work at RBKC and LBHF offices	At least one day per week

## Appendix 2 - Quality targets and performance indicators:

### Quality Standards

1. All work undertaken by the combined team will meet the following quality standards:
  - full compliance with statutory requirements and MHCLG guidance
  - all CIPFA Code of Practice requirements met in full
  - all functions maintain MIFID II professional client status
  - all LGPS meet the Pension Regulator's Code of Practice requirements
  - all staff to hold, or be working towards, recognised CCAB or Treasury Management qualifications
  - all staff to attend regular technical training and participate in local Treasury Management and LGPS networks
  - all team members comply with their own professional bodies' requirements
  - all services provided will be subject to regular Internal Audit coverage
  - obtain annual independent assurance reports from 3rd party service providers
  - no significant issues raised by Internal Audit work
  - no material errors identified by external audit.

### Key Performance Indicators

2. The following key performance targets will be applied:

#### Pensions

<b>Key performance target</b>	<b>Measured by</b>
Funding level at least equal to LGPS averages	Actuarial revaluation every 3 years
Investment management costs under 0.5% of year end net asset value (NAV) of each fund	Calculate based on year end Fund Accounts
Maintain asset allocations in line with strategy approved by members	Confirmed (or otherwise) by the independent investment advisor's quarterly review
All contributions due from employing bodies are collected promptly	Reported quarterly to members and monthly to s151
Sufficient cash is available to pay pension benefits as they fall due	Reported quarterly to members and monthly to s151

#### Treasury management

<b>Key performance target</b>	<b>Measured by</b>
No breach of Prudential Indicators	Confirmed by year end Treasury Management report
Each Council has sufficient funds to make payments as they fall due	Reported monthly to s151
Investment income matches or exceeds budget	Confirmed by year end revenue outturn report
Interest paid does not exceed budget levels	Confirmed by year end revenue outturn reports
New borrowing does not exceed Bank of England base rate +2%	Confirmed by year end Treasury Management report
Annual investment yield exceeds LIBID 7-day rate	Confirmed by year end Treasury Management report

## Schedule 3 HR Protocol



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### HR Protocol for Establishing and Working in Integrated Teams

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In terms of employment legislation the procedure is for guidance only and does not form part of an employee's contractual rights.

The contents may be subject to revision as required.

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## **1. Purpose of the Protocol**

### **1.1 Guiding principles are:**

- To protect the rights and duties of our staff under their contract of employment
- To ensure staff within integrated teams are treated fairly and equitably
- To resolve any difficulties and other issues as far as is practicable at local management level
- To develop a shared set of working standards
- To ensure managers receive clear guidance and advice from the respective Human Resource Departments on how to apply HR policies and procedures appropriately.

## **2. Clarity in the contractual relationship**

### **2.1 The HR policies, procedures and terms and conditions of staff and the statutory obligations of the partner organisations are unchanged by this protocol. Staff employed in integrated teams (WCC & RBK&C) will continue to be contracted to their current employer on the same terms and conditions provided under the respective individual and organisations contract of employment. Plus:**

- The employing organisation remains responsible for exercising the rights and duties of the employer
- The HR Protocol requires parties to liaise with each other regarding the contracts of employment of those they manage and to take advice from HR staff of the employing organisation where interpretation or formal action under the contract of employment is required
- Existing and established posts that have become part of an integrated team arrangement should normally be filled on the same and continuing basis unless otherwise agreed between the partners.

## **3. The status of the Protocol**

### **3.1 This protocol :**

- will complement, but not replace, the HR Policies and Procedures of the partner organisations. However, where any conflict/disagreement occurs between the protocol and any HR Policies/Procedures, then the HR Policy/Procedure will take precedence;

- In no way affects the statutory obligations of the Partner organisations;
- In no way affects the contracts of employment or terms and conditions of the staff of the Partner organisations; and
- Is designed to support those working in joint or integrated teams.

#### **4. What is an integrated Team?**

4.1 For the purposes of building a partnership between LBH&F, RBK&C and WCC, an integrated team will usually be based on a mix of the 2 Council's staff (WCC & RBK&C) who:

- Will retain their employment role and status with no material changes to their terms and conditions, which means that employees of RBK&C and WCC will work alongside each other on the different terms and conditions of each organisation, staff working on LBH&F will be employed by WCC;
- Will be managed by the Tri-Borough Director of Treasury & Pensions, whom is employed by WCC;
- May be co-located with the rest of the team;
- May include colleagues from other partnership organisations;
- Will be part of an identified Team who report through to a designated Director, Executive Director or Chief Executive;
- Will share team goals and objectives but will continue to be subject to the staff / individual performance review process relating to the organisation that employs them;
- Work within a team that can be integrated as part of an organisational restructuring; and
- Can be part of organisation under a joint budgeting agreement.
- Will work under a S113 arrangement agreed between the three Boroughs

4.2 An integrated team at this point in time will not usually be:

- A team where all members are employed by the same organisation;
- A team involving TUPE processes: roles/employment will not be transferred; and
- A team made up solely of secondees.



## **5. Recording agreement to create an integrated team**

- 5.1 When agreement has been reached to create an integrated team, the details of such team, must be recorded using the template.
- 5.2 The template should be signed by the appropriate lead Directors of the 3 Boroughs and the completed copy will be kept by the HR Departments on behalf of all 3 organisations.
- 5.3 Any subsequent changes to the financial arrangements must be updated on the template.

## **6. Recruitment to an integrated team**

- 6.1 In all cases, whether for new posts, reorganisations or replacements RBK&C and WCC agree that the terms of the employing organisation will prevail and the integrity of the terms and conditions and job evaluation processes to determine those terms will be upheld. No individual shall be subject to a hybrid set of terms and conditions.
- 6.2 Regardless of the sources of funding for posts within the team, all staff will be treated fairly and equitably and in accordance with the policies of RBK&C and WCC.
  - In relation to the appointment of a new member of staff, managers should refer to local policies on recruitment and should work with the appropriate Human Resources team who will advise on applying the following criteria: How the vacancy is to be managed and the nature of the replacement post
  - Job descriptions should reflect the integrated nature of the structure, the role and duties expected of the post-holder in accordance with integrated team and service requirements.
  - The evaluated salary range
  - The process of advertising; and
  - Recruitment costs.
- 6.3 There might be a joint appointment. Where the post is a joint appointment, the contract of employment will reside with one of the 3 Boroughs and should detail the role and accountabilities reflecting the integrated nature of the joint appointment
- 6.4 The recruitment process will be in accordance with the employing Borough's policies and procedures and will conform to the principles for safer recruitment.

- 6.5 The manager designated to lead the recruitment process will ensure appropriate use of employer brand, logo and internal / external vacancy circulation appropriate to the posts being advertised. Recruitment literature to reflect the joint nature of the service.
- 6.6 There are separate job evaluation schemes in place in the three Boroughs. The employing Borough will evaluate the post where appropriate.

## **7. Management Arrangements**

- 7.1 This protocol sets out the line management arrangements for an integrated team. The manager of an integrated team:
- Shall have the right to give any reasonable instructions to staff of the Boroughs, who are members of the team
  - Will manage staff in accordance with the expectations of the 3 Boroughs (reflecting the relevant policies and procedures) in matters relating to a range of areas, including but not exclusively relating to :
    - Health and safety;
    - Training and Development;
    - Code(s) of Conduct;
    - Conflict of Interests/Confidentiality;
    - Communications;
    - Performance Management & Appraisal;
    - Recruitment and selection;
    - Sickness Management;
    - Annual leave;
    - Grievance and discipline;
    - Whistle-blowing;
    - Bullying and harassment;
    - Work life balance/Improving Working Lives policies;
    - Equal opportunities; and
    - Staff and Trade Union Consultation.
  - It must be acknowledged that the management of integrated teams, particularly those that are not co-located, will place additional demands upon the manager of the team. Knowledge of many aspects of the 3 Boroughs HR policies and procedures will be a pre-requisite to applying staff management processes across the team. This will require training and support, with guidance from HR and line management, encouraging the development of managerial confidence and skill

- The team manager must clarify roles and set clear outcomes for the team as a whole and ensure that there are regular meetings balanced with one to ones in order to develop team skills and coherence
- Clear lines of accountability must be established, including responsibilities and reporting requirements.

## **8. Training and Development**

- 8.1 The manager of the integrated team should be able to access development opportunities for staff they manage across the 3 Boroughs unless exceptional circumstances prevail where funding is identified (ring fenced) for specific service areas and/or staff groups.

## **9. Induction**

- 9.1 Consistent induction should be developed across integrated teams.
- 9.2 Newly appointed team members should participate in a full induction, within their employing organisation, which will be tailored to individual need, to ensure they can operate effectively within the integrated environment.
- 9.3 Managers of integrated teams must ensure that they undertake a familiarisation session with each team member based on filling in the gaps regarding the knowledge needed to function effectively in the host organisation.
- 9.4 Managers will receive appropriate induction/management development in accordance with their individual need. All existing, as well as new managers, who are managers of staff from across the 3 Councils, must familiarise themselves with the key policies and procedures of LBH&F, RBK&C and WCC.

## **10. Performance Appraisal Process**

- 10.1 Staff will be performance managed in accordance with their employing Council's contractual policies and procedures.

- 10.2 All of the staff across the 3 Boroughs are subject to the annual appraisal process which should also include, at least, a mid-year review.
- 10.3 Key objectives will be set which support the aims of the team, the organisational priorities and the integrated arrangement. Individual training and development needs will be identified through the process. The 3 Boroughs will provide appropriate training to supervisors to enable them to effectively undertake the relevant appraisal processes for their staff.
- 10.4 To ensure all staff are appraised according to their employing organisations' procedures, all managers of integrated teams, regardless of their own employment status, must ensure that they have good working knowledge of the appraisal procedures applicable for staff at all levels in each of the 3 Boroughs.
- 10.5 This means that the manager of the integrated service/team must clarify his/her responsibilities under their own Council's appraisal scheme as well as those in each of the 2 other Boroughs. Support should be accessed through the local HR team do we mean local or employing.

## **11. Poor Performance**

- 11.1 The capability procedure for the relevant employing Borough should be used to manage any problems that arise, irrespective of the employing organisation of the line manager concerned.
- 11.2 Managers contemplating taking formal poor performance action will take advice from the employee's HR service to ensure adherence to contractual procedures.
- 11.3 Any decision to dismiss can only be taken by a senior manager, as identified within the employing organisation's HR policy, based on the recommendation and case presented by the manager of the integrated team, allow the concerned the opportunity to full representation.

## **12. Grievance**

- 12.1 Any grievance issues will be dealt with under the appropriate employing organisation's grievance procedure.

- 12.2 It is essential that managers of integrated teams make themselves aware of the timescales under the procedure.
- 12.3 HR advice will be provided, from within the employing organisation on the application of the grievance procedure.
- 12.4 Where one Council employee in an integrated team submits a grievance about an employee in another HR in the two Councils will identify how the investigation and resolution process should be managed; practically applying the relevant grievance procedure
- 12.5 Collective grievances or disputes can only be raised by trade unions.
- 12.6 Pay and Terms & Conditions remains the province of the relevant Council, therefore there can be no shared dispute on these grounds.

### **13. Disciplinary**

- 13.1 Any formal action against an employee will be taken under their employing Borough's Disciplinary Policies and Procedures. Where these procedures state the immediate line manager, this will mean the employee's line manager, regardless of the line manager's employing organisation.
- 13.2 Appropriate HR advice from the employing organisation must be sought, but always in the following instances:
- in all cases of potential gross misconduct;
  - when there is police, fraud or safeguarding involvement;
  - where a trade union representative is involved; and
  - where there is an allegation of bullying or harassment made by an employee of one organisation against an employee of another organisation.

### **14. Job Evaluation**

- 14.1 The Councils use the GLPC job evaluation schemes at various levels in the separate organisations.
- 14.2 Market supplements may be paid across the 2 Boroughs (WCC & RBK&C) in line with the employing boroughs policy

- 14.3 These arrangements will continue, as at present, and will therefore apply to each team member of an integrated team, as appropriate and in line with the policy of their employing organisation

## **15. Sickness/Absence Management**

- 15.1 Any issues arising from the sickness and/or absence of members of staff within the integrated team will be managed in accordance with the employing organisation's policies and procedures and contract of employment.
- 15.2 Managers will need to be mindful of the relevant trigger points for consideration, under the relevant sickness procedure, in line with the HR and Occupational Health advice available. Appropriate direction will be provided through the relevant HR function.
- 15.3 Line managers will have access to advice from the relevant HR Team/Occupational Health service representing the employing organisation on issues of long-term sickness line

## **16. Smoking and the Consumption of Alcohol or Drugs**

- 16.1 The rules of the employing organisation must be followed with regard to the consumption of alcohol during working hours.
- 16.2 Smoking whilst on duty is allowed only in accordance with the employing organisation's policies and procedures and also in accordance with the policies and procedures of the organisation in whose premises staff are working.

## **17. Leave**

- 17.1 The policies of the employing organisation apply.

- 17.2 The immediate line manager, regardless of employing organisation, can authorise flexi/annual leave for staff. It is the immediate line manager's responsibility to ensure that this is done in a planned manner according to the exigencies of the service. It is the line manager's responsibility to keep a record of staff leave and to ensure that this information is forwarded as required to the relevant payrolls and/or HR Teams.
- 17.3 The immediate line manager, regardless of employing organisation, should in the first instance refer to the appropriate policy and ultimately seek guidance, from the HR team of the employing organisation, regarding Special Leave, Compassionate Leave, Maternity Leave, Paternity Leave and other forms of paid and unpaid leave.
- 17.4 For matters of Maternity and Paternity Leave, the integrated team manager must seek advice as soon as possible. This should be from the relevant HR section of the employer of the member of staff concerned.
- 17.5 For matters concerning Sabbaticals or employment breaks, the integrated team manager must seek advice from the relevant HR section according to the employing organisation of the member of staff concerned.

## **18. Shared policies and procedures**

- 18.1 In adopting the principle of best practice in an integrated service, it is determined that some policies, procedures and protocols may be adopted jointly, regardless of their employing organisation. Individual policies and procedures will make it clear if this applies. Opportunities to integrate and harmonise policies and procedures will be maximised, as will partner organisations commitment to respond joint to new legislation and initiatives.

## **19. Whistleblowing**

- 19.1 The policy of the organisation employing the whistleblower will apply. However, it is accepted that if the member of staff reveals concerns that are related to one or both of the other Boroughs, these will be shared on a confidential 'need to know'/'need to act' basis and managed in accordance with best practice.

## **20. Code of Conduct**

- 20.1 The code of conduct of the employing organisation will apply to its own staff regardless of their place of work and their team/managerial arrangements.
- 20.2 Any local protocols as part of the integrated teams will apply.

## **21. Equal Opportunities/ Equalities and Diversity**

- 21.1 Staff will adhere to the relevant organisation's policy and comply with the requirements regarding Race/Equality Impact Assessments.

## **22. Bullying and Harassment**

- 22.1 The Bullying and Harassment Policies of the relevant organisations will be used and applied in relation to the staff concerned in any bullying/harassment allegations and/or situations.

## **23. Staff Consultation**

- 23.1 Staff consultation processes within each organisation will continue, namely informal sessions, and formal meetings. Joint meetings will also be arranged as the HR and Integrated Managers determine, in consultation with the trade unions.

## **24. Sharing of Information**

- 24.1 Information will be shared across the 3 organisations, in relation to the effective operation of the integrated team, with due adherence to any legal requirements e.g. data protection act and any logistical/ICT restraints

## **25. Notes**

- 25.1 Action initiated under one procedure may be changed to an alternative procedure if investigation of the circumstances indicates this would be more appropriate.



- 25.2 In applying this protocol the council will pay due regard to providing reasonable adjustments under the Disability Discrimination Act 1995 to an employee who has a disability.

## **26. Compliance**

- 26.1 Failure to follow the procedure set out in this protocol may impact on good employee relations and the reputation of the council as a good employer. In addition, it may result in the council breaching employment legislation, incurring financial penalties and / or damage to its reputation.

## **27. Impact on individual Council Key Priorities**

- 27.1 The protocol provides the cornerstone for developing integrated teams, which will be one of the key elements in enabling the 3 Boroughs to deepen and strengthen their partnership working. This underpins service provision and enables each organisation to effectively meet its key priorities.

## **28. Training and Awareness Requirements**

- 28.1 Managers and employees will be informed about this policy and procedure via relevant communication channels.
- 28.2 HR will liaise with directorate management teams to establish and agree support arrangements to assist managers to carry out their responsibilities.

## **29. Monitoring**

- 29.1 HR will be notified of any cases where it is concluded that the policy was breached. The notification will indicate whether there are any changes or improvements required to the policies, procedure, training, support or any other aspect of the council's approach to dignity at work matters.

- 29.2 HR will monitor the effectiveness of the policy through information received via feedback from managers and employees through, for example, management team meetings, Employee Surveys and exit interviews, as well as the numbers of employees using this procedure.

## **30. Review**

- 30.1 This document will be regularly reviewed to ensure relevance and fitness for purpose.

## **APPENDIX 1**

### **HEALTH AND SAFETY FRAMEWORK**

#### **1 INTRODUCTION**

- This agreement supplements, but does not replace the Health and Safety policies and procedures of each of the 3 Councils.
- This agreement in no way dilutes or undermines the statutory duties of each of the partner organisations.

#### **AIMS OF LOCAL AGREEMENT**

- The aim of the local agreement is to ensure that whilst the statutory duties of Health and Safety are met by the 3 Councils, they work together in an integrated manner to assess and manage the risks to the Health and Safety of their staff and others who may be affected by work activities.

#### **GENERAL PRINCIPLES**

- LBH&F, RBK&C and WCC are committed to achieving the highest level of Health and Safety management.
- Every effort will be made to harmonise the Health and Safety policies and procedures of the 3 Councils and to provide clarity for staff of each of the 3 Councils.
- The 3 organisations will work towards harmonising the risk assessment process.
- The 3 organisations will work toward harmonising the accident /incident reporting and investigation process.
- All relevant information obtained from accident/incident investigation will be shared between the 3 organisations.
- The 3 organisations will work towards harmonising Health and Safety Training.
- The 3 organisations will share between them all relevant Health and Safety information.

## **POLICIES AND PROCEDURES**

- The Health and Safety policies and procedures of the relevant organisation will be available to staff in all places of integrated working. This information will be updated and maintained by a designated responsible manager.
- A designated manager will be responsible for the fire and emergency arrangements at each integrated location.

## **2 RISK ASSESSMENT**

- Designated managers will be responsible for the implementation of the risk assessment process at all integrated workplaces.

## **3 INCIDENT REPORTING**

- Until harmonisation of accident/ incident reporting investigation procedures are established, the existing arrangements of the partner organisation will continue.
- Where appropriate the results and follow up actions of any investigation will be shared by health and safety managers of each partner organisation.

## **TRAINING**

- All line managers will be provided with familiarisation in the Health and Safety procedures and protocols of each partner organisation.
- A designated manager at each integrated workplace will be responsible for the arrangement of fire and emergency training and drills in respect of all staff based at the premises.

## **INDUCTION**

The senior manager, regardless of employing organisation, will be responsible for ensuring that all staff receive a comprehensive local Health and Safety induction, as soon as is practicable on joining the integrated team.

## **SCHEDULE 4: FINANCIAL PROTOCOL**

1. In principle, it is agreed that the total cost of the combined team, including:

- staff costs and training
- employers national insurance and superannuation contributions
- IT provision
- Accommodation, and
- Other support service costs

are apportioned across all three participating boroughs in line with ratios agreed at the start of each financial year.

2. For financial periods commencing on and after 1 April 2021, these ratios will be:

(a) For staff costs relating to shared posts:

- Westminster City Council 40%
- Royal Borough of Kensington and Chelsea 30%
- London Borough of Hammersmith and Fulham 30%

(b) For IT, accommodation and overhead costs incurred by Westminster City Council, the Royal Borough of Kensington and Chelsea and the London Borough of Hammersmith and Fulham shall each pay 24% of budget charges allocated to the Tri-borough team.

3. Recharges between authorities will be adjusted to reflect any expenditure pertaining to the activities of the combined team which has been incurred directly eg staff currently employed by Royal Borough of Kensington and Chelsea.
4. Recharges will be calculated based on the annual revenue budget for the combined team and will be fixed and agreed as part of the corporate budget setting process at the start of each financial year.
5. As the host authority, Westminster City Council will be responsible for managing actual costs against budget and will be accountable for any under or overspends that might occur.

## SCHEDULE 5: S113 ARRANGEMENTS

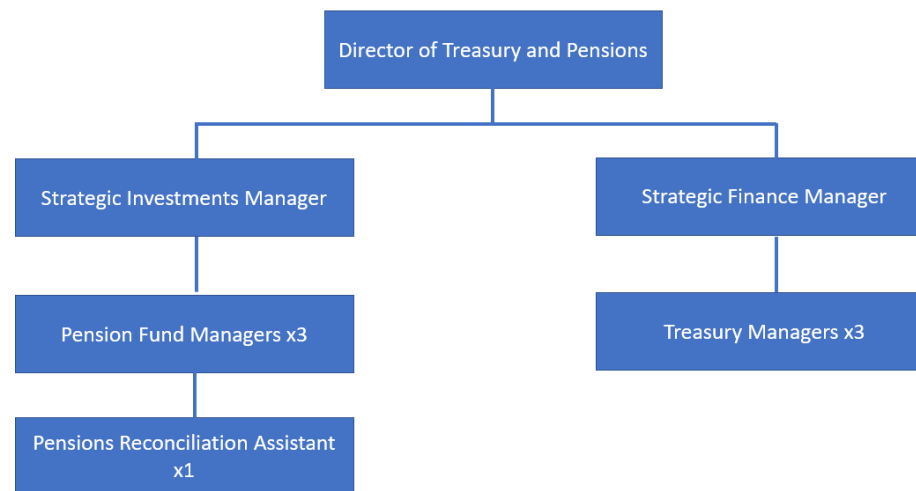
1. The permanent shared posts subject to the Arrangements are as follows:

<b>Role</b>	<b>FTE</b>	<b>Employing Party</b>	<b>Allocated to</b>
Director of Pensions and Treasury	1	WCC	Shared post
Strategic Finance Manager	1	WCC	Shared post
Strategic Investment Manager	1	WCC	Shared post
Pension Fund Manager	1	RBKC	RBKC
Treasury Manager	1	RBKC	RBKC
Pension Fund Manager	1	WCC	WCC
Treasury Manager	1	WCC	WCC
Pension Fund Manager	1	WCC	LBHF
Treasury Manager	1	WCC	LBHF
Pensions Reconciliation Assistant	1	WCC	Shared post

2. The management arrangements for the combined team are set out in Schedule 6.
3. The Director of Pensions and Treasury will be authorised to recruit engage new staff within this overall structure and to engage agency staff as necessary to fill vacancies in the above structure for the purposes of the Arrangements.
4. Recharging mechanisms for shared posts and for staff employed by one borough but allocated to the activities of another borough are set out in Schedule 4.
5. The combined team will provide each authority with a monthly report to:
  - summarise key transactions and balances
  - confirm that these transactions and activities have taken place in line with strategies and policies approved by s151 officers and elected members
  - confirm that the key tasks, activities and processes set out in Schedule 2 are taking place as anticipated.
  - confirm that the quality assurance processes set out in Schedule 2 Appendix 2 are in place
  - confirm that key performance targets set out in Schedule 2 Appendix 2 have been met.
6. Monthly reports, together with outcomes from monthly meetings, will be used as the basis for each s151 officer to carry out annual reviews of the Arrangements and, where necessary, changes to service requirements for the following financial year.

## SCHEDULE 6: TRI-BOROUGH DIRECTOR PENSIONS AND TREASURY AND COMBINED TEAM

Tri-borough Team staff structure – August 2020



## **SCHEDULE 7: SOVEREIGNTY GUARANTEE**

All three Councils are committed to continuing to represent the needs, priorities and ambitions of local people in their neighbourhoods.

They are exploring reducing costs by working together. They are also keen to take new devolved responsibilities from Government and manage these together, where this makes sense.

Commissioning or delivering services together is not designed to change how residents experience services. It is about how to get things done more efficiently.

### **To safeguard local autonomy the Council confirm:**

1. Local residents will continue to elect the same number of councillors to each Council.
2. Each Council will retain its own constitution, setting out how it makes decisions, organises scrutiny and delegates authority.
3. Each Council will continue to set its own council tax and publish its own budget and accounts.
4. Each Council will continue to be able to set out its own spending priorities.
5. No Council can be 'out-voted' by the two other Councils in a way which requires that Council to adopt a policy, accept a cost or change a priority that its decision makers are not willing to support.
6. There will be no change in the name of any of the Council.
7. The costs of changes and the benefits achieved from change will be fairly attributed and shared to the satisfaction of all three Councils, if necessary using mediation.
8. No Council will be obliged to break an existing contract.
9. The boundaries of the areas for which each Council is responsible will not change. Each Council will continue to speak up for its own residents, even where there is an apparent conflict of interest between the boroughs.
10. Each Council will be able to set its own policy for how services are delivered.
11. The Councils will commission service from contractors, voluntary bodies and others together, but can also decide to commission, or grant aid, on their own.
12. Nothing in these proposals is intended to stop Councils developing local ideas about how to support their local communities.

### **A commitment to shared learning, innovation and value for money**

13. The Councils will share what works in service delivery and encourage their neighbours to learn from successful innovation.



14. The Councils will adopt common specifications where these are compatible with each Council's policy objectives and budget preferences and where these are likely to give best value to taxpayers.
15. The Councils commit to a continuing process of exploring how working together might lower costs; be a better platform for developed responsibilities from Government; and/or improve the quality of service delivery.
16. The Councils will commit to exploring how by working together, councillors can enhance the ways in which their Councils deliver their responsibilities.
17. The Councils will expect to keep these arrangements under review, in order to ensure they remain fit for purpose.
18. Any of the arrangements that constitute agreements between the Councils can be ended on notice, though any Council withdrawing will be responsible for its own consequent costs. Any joint external contracts will be covered by the same legal considerations as now.
19. Where shared services arrangements are brought to an end then the notice period will be twelve months, unless a shorter period is expressly agreed by the other parties and the costs arising from termination will be fairly shared between the Councils in a pre-agreed manner.





# Committee Report

<b>Decision Maker:</b>	<b>PENSION FUND COMMITTEE</b>
<b>Date:</b>	<b>24 June 2021</b>
<b>Classification:</b>	<b>Public</b>
<b>Title:</b>	<b>The Pensions Regulator (TPR) Single Code Consultation</b>
<b>Wards Affected:</b>	<b>None</b>
<b>Policy Context:</b>	<b>Effective control over council activities</b>
<b>Financial Summary:</b>	<b>There are no immediate financial implications arising from this report.</b>
<b>Report of:</b>	<b>Phil Triggs</b> <b><i>Tri-Borough Director of Treasury and Pensions</i></b> <a href="mailto:ptriggs@westminster.gov.uk">ptriggs@westminster.gov.uk</a> <b>020 7641 4136</b>

## 1 Executive Summary

- 1.1 The Pensions Regulator (TPR) has drafted a new single code of practice (COP) for all UK pension schemes. The purpose of this single code is to merge the ten existing COPs into one single document, which should be easier to navigate, understand and keep up to date.
- 1.2 The regulator invited views on the draft code, with the consultation closing on 26 May 2021. The City of Westminster's response to this consultation is attached at Appendix 2.

## 2 Recommendation

- 2.1 The Pension Fund Committee is requested to:
  - Note the attached TPR single code of practice consultation and Westminster City Council's response.

### **3 Background**

- 3.1 The Pensions Regulator has drafted a new single code of practice for all pension schemes in the UK, replacing the ten current COPs. The main purpose of the single code is for all pension schemes to be held to a comparable standard. The transition to a single code will be phased, with a review project of guidance aligned with the new code, to take place in late 2021.
- 3.2 The consultation also incorporates changes introduced by the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018. These relate to effective systems of governance and own risk assessment. Following the consultation, attached at appendix 1, TPR will consider any representations and make any appropriate changes to the code before setting before Parliament. There is currently no deadline for completion of these works.

### **4 TPR Single Code**

- 4.1 The new single code of practice will replace the existing codes, as follows:
- Reporting breaches of the law
  - Early leavers
  - Reporting of late payment of contributions to occupational pension schemes
  - Reporting of late payment of contributions to personal pension schemes
  - Trustee knowledge and understanding
  - Member nominated trustees and member nominated directors
  - Internal controls
  - Dispute resolution
  - Governance and administration of the occupational trust based schemes providing money purchase benefits
  - Governance and administration of public service pension schemes
- 4.2 Once the new code comes into practice, the COPs that are being replaced will be revoked in their entirety.

### **5 Consultation Analysis**

- 5.1 Westminster City Council's response to the consultation is summarised as follows:
- The code needs to distinguish between the tasks/responsibilities of the LGPS Pension Fund Committee and the LGPS Local Pensions Board.
  - Some concern exists as to where the code has introduced new requirements or where changes have been made to existing requirements, or where no changes have been made at all. No comparison is provided as to the current state of play.

- The “Mays”, “Shoulds” and “Musts” are not indicated, making it challenging for LGPS funds to make a judgement on governance priorities. It is not always clear where the code applies to the LGPS, with a filter as to relevance to LGPS a good idea.
- Guidance/examples are not provided where new frameworks/policies are required.
- No account is taken of the special circumstances in which LGPS pension fund committee/local board members are elected, appointed, trained or how LGPS governance works.
- There is a new document called the “Own Risk Assessment”, with no guidance/examples provided and no guidance on how it should relate to existing LGPS risk registers.
- There is a proposed arbitrary limit (20%) on investing in unregulated markets. The LGPS moved away from such prescribed limits some years ago when these were abolished by the most recent government investment regulations. The new proposed limit does not take account of the special circumstances of the LGPS being long-term and not so reliant on liquid availability required by the private sector funds.

5.2 The Fund’s full consultation response is attached at Appendix 2.

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

**Billie Emery [bemery@westminster.gov.uk](mailto:bemery@westminster.gov.uk)**

**BACKGROUND PAPERS:** None

#### **APPENDICES:**

Appendix 1: TPR Single Code Consultation & Questions

Appendix 2: Westminster City Council’s Response

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Consultation document

# The new code of practice

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# 1. Scope of the consultation

We are consulting on the draft content for the first phase of our new code of practice. This begins the process of replacing our existing codes of practice (COPs). The new code incorporates changes introduced by the Occupational Pension Schemes (Governance) (Amendment) Regulations 2018 (the governance regulations).

The COPs that have been replaced by the new code in this phase are shown on page 8.

We welcome comments on any aspect of the draft content of the new code and have provided specific questions on certain areas of interest.

The new code is designed to be a web-based product. Therefore, the appearance of modules online may vary from the way they appear in the consultation documents. An online demonstration version of the new code is available for users during this consultation.

You can submit feedback on issues such as the web design, navigation and functionality of the new code via the online demonstration version. We know from stakeholder feedback that users value ease of use, simple navigation and an efficient search. We are developing the online functionality alongside this consultation and further user testing will be taking place to ensure it will meet users' needs. If you would like to be involved in user testing, contact: [webfeedback@tpr.gov.uk](mailto:webfeedback@tpr.gov.uk)

Following the consultation, we will consider any representations made on the draft content and make any appropriate changes before laying the new code in Parliament. We will also be undertaking work to adjust guidance in relation to the new code.

## Who is this consultation for?

We are interested to hear from pensions professionals who provide support and advice in relation to understanding and meeting the expectations we set in our COPs.

We value responses from trustees and managers of occupational and personal pension schemes and scheme managers, advisory boards and pension boards of public service pension schemes. We are also particularly interested to hear from non-professionals, such as member-nominated and lay trustees, and whether they find the new code easier to use and understand.

## Responding to the consultation

We have provided forms for responses which you can complete electronically and submit to us. It is our strong preference that respondents use the forms which can be found at: [www.tpr.gov.uk/en/document-library/consultations/new-code-of-practice](http://www.tpr.gov.uk/en/document-library/consultations/new-code-of-practice). We can accept responses in other formats, but you should retain the same structure as the forms. You can send your response:

- by email to: [newcodeofpractice@tpr.gov.uk](mailto:newcodeofpractice@tpr.gov.uk)
- by post to: **Nick Gannon**, Regulatory Policy, The Pensions Regulator, Napier House, Trafalgar Place, Brighton, BN1 4DW

Due to the current national lockdown, there may be a delay in postal communications and any responses arriving after the closing date may not be considered.

We may need to share any comments you send us within our own organisation or with other government bodies, including the Department for Work and Pensions (DWP). We may publish comments as part of our response to the consultation.

If you want your comments to remain anonymous, please state this explicitly in your response. If you want your response to be confidential, please let us know and we will take the necessary steps to meet your request.

However, please be aware that, if we receive a formal request under the Freedom of Information Act, we may have to make your response available. When responding, please advise whether you are responding as an individual or on behalf of an organisation (and, if the latter, which organisation).

## Closing date

This consultation document was published on **17 March 2021**. The closing date for responses is **26 May 2021**.

## Government consultation principles

For the purposes of this consultation paper, we are following the government's consultation principles at: [www.gov.uk/government/publications/consultation-principles-guidance](https://www.gov.uk/government/publications/consultation-principles-guidance)

The key principles state that consultations should:

- be clear and concise
- have a purpose
- be informative
- be only part of a process of engagement
- last for a proportionate amount of time
- be targeted
- take account of the groups being consulted
- be agreed before publication
- facilitate scrutiny

## 2. Background

The governing bodies (see [section 5: Explanatory notes for other content](#)) for more information about our use of this term) of workplace pension schemes play a pivotal role in achieving good outcomes for savers. Running a pension scheme is an increasingly demanding task in an environment that is constantly changing and growing in complexity.

The DWP chose to transpose the changes from the second European Pensions Directive (IORP II) to UK legislation in the governance regulations. The governance regulations came into effect from 13 January 2019 and required us to change some of our existing COPs. They also required us to introduce new expectations in some areas, such as the introduction of an “effective system of governance”. The new code addresses those requirements.

It is important to note that the governance regulations only transpose certain aspects of IORP II into UK law. Elements of IORP II that were not transposed are considered to already be present in UK law.

The governance regulations set out measures to improve the standards of governance across pension schemes. Good governance is key to a well-run scheme. With increased member engagement and the need to publish additional information about schemes, the public scrutiny of pension schemes and those running them will increase. Growing concerns about climate change and developments such as the pensions dashboards will also highlight the need for good scheme governance.

The landscape of pension saving has seen seismic changes over the past decade. The continuing shift from DB to DC accrual, the rise of master trusts, and success of automatic enrolment have each created new pressures on those governing pension schemes. The number of pension savers has increased massively, as have the standards expected of those running the schemes. Trustees and scheme managers need to have the right people, skills, structures and processes in place to facilitate scheme operations, enable effective and timely decisions, and to manage risks appropriately. Our COPs and guidance provide the support needed to be able to achieve this.

### The purpose of codes of practice

Our COPs are not statements of the law, except in certain circumstances set out in legislation. Instead, our COPs set out our expectations for the conduct and practice of those who must meet the requirements set in pensions legislation.

In most cases there is no specific penalty for failing to follow a COP, or to meet the expectations set out in it. However, we may rely on COPs in legal proceedings as evidence that a requirement has not been met. In those situations, a court must take a COP into account when considering their verdict. Similarly, if we find grounds to issue an improvement or a compliance notice, they may be worded in relation to a COP issued by us.

### 3. The new code of practice

When assessing our COPs for changes needed to implement the governance regulations it became clear that they did not meet the current needs of schemes.

Several COPs are now out of date and there is duplication of content between COPs and guidance. Furthermore, the 15 COPs are not always easy to navigate, and the interactions between them and related guidance are not always apparent.

There is a clear need for our COPs to support modern scheme governance. To meet the needs of schemes and their advisers, our COPs must be easier to access, understand, and act upon. To address these issues, we have taken the decision to combine our existing COPs into the new code.

We have broken down the themes from our existing COPs to form shorter, topic-focused modules. Each module sets out our expectations in relation to a topic. Modules also link to related topics within the new code and, in time, to guidance and external sources.

Moving our existing COPs to the new code is a significant undertaking in terms of time and resource. We have therefore chosen to phase the transition. This phasing will allow a full reconsideration of our COPs and associated guidance. A project to review our guidance in line with the new code will start later in 2021. Phasing also allows additional time for the substantial work needed to redesign our website. We do not currently have an end-date for this work, instead we see the code as being a living product that will go through an ongoing process of review and amendment to reflect legislative and policy change.

This first phase of the new code comprises 51 modules. These represent the content of 10 of our existing COPs. By removing duplicated and unnecessary text, the new code is considerably shorter than the original content.

Our approach to the new code reflects the changes we have made as an organisation. It also recognises feedback from the pensions industry about the need for us to be clearer in setting our expectations.

## Codes transposed

The table below sets out our existing COPs and shows which of them are being replaced by the new code.

Code of practice	Code in force	Part of new code
01: Reporting breaches of the law	April 2005	✓
02: Notifiable events	April 2005	✗
03: Funding defined benefits	July 2014 (GB) July 2015 (NI)	✗
04: Early leavers	May 2006	✓
05: Reporting of late payment of contributions to occupational pension schemes	September 2013	✓
06: Reporting of late payment of contributions to personal pension schemes	September 2013	✓
07: Trustee knowledge and understanding (TKU)	November 2009	✓
08: Member-nominated trustees/member-nominated directors – putting arrangements in place	November 2006	✓
09: Internal controls	November 2006	✓
10: Modification of subsisting rights	January 2007	✗
11: Dispute resolution – reasonable periods	July 2008	✓
12: Circumstances in relation to the material detriment test	June 2009	✗
13: Governance and administration of the occupational trust-based schemes providing money purchase benefits	July 2016	✓
14: Governance and administration of public service pension schemes	April 2015	✓
15: Authorisation and supervision of master trusts	October 2018	✗

Once the new code comes into force, the COPs that are being replaced will be revoked in their entirety. Our expectation is that the remaining COPs will be brought into the new code in due course. We also intend to include planned revisions to existing COPs (such as the DB funding code) within the framework of the new code.

We have provided a reference table showing the transposition of existing COPs to the new code at: [www.tpr.gov.uk/en/document-library/consultations/new-code-of-practice/annex-2-where-the-new-code-of-practice-modules-come-from](http://www.tpr.gov.uk/en/document-library/consultations/new-code-of-practice/annex-2-where-the-new-code-of-practice-modules-come-from)

## Regular updates

The regulations that will arise from the Pensions Schemes Act 2021 are a clear indication that the legislative landscape for pensions changes frequently. Natural changes to schemes as some reach maturity, and as provision shifts to new types of scheme, will also mean that our expectations will need to change and adapt. This means that the new code will also need to change and adapt to reflect the changing landscape. We believe the new code will be easier for us to maintain and update as required and we intend for the new code to have a predictable update cycle. This will provide governing bodies and advisers with a degree of predictability about future code revisions.

Although the new code may be simpler to update than older COPs, we will not deliver updates without warning. All changes to our COPs require consultation and Parliamentary approval before they come into force. These requirements will not change with the new code. Schemes and advisers will still have time to comment on, and adapt to, new expectations.

The Pensions Schemes Act 2021 has introduced new powers for us, a new scheme type, and will deliver regulations affecting transfers, and the way in which governing bodies consider climate change. Each of these is likely to introduce measures that will lead to new or updated code elements. We also have five existing COPs to transpose to the new code. We expect the first updates to the new code to include modules relating to DB scheme funding, arising from the recently closed consultation. There are no modules in the material in this consultation that draw from provisions in the Pension Schemes Act 2021. Necessary changes arising from the Act will arrive in later phases of the new code.

### Questions about updates

1. We welcome any observations about a possible regular process for issuing updates to the new code. For example, should updates be annual, or at longer intervals? Please advise any concerns about regular updates.
2. We would also be interested to hear about any topics, besides those described above, that we should prioritise for inclusion in the new code.

## Presentation of expectations

Our COPs set out the way we expect schemes to comply with the law in certain areas. This will continue to be the case in the new code.

We know from discussions with stakeholders that finding specific expectations in any of our current COPs is often difficult. Similarity, repetition and separation of COPs can potentially introduce conflicting expectations. All these factors can make it difficult for governing bodies to meet our expectations.

The new code takes a fresh approach to setting out our expectations and adopts a simpler method where most expectations now appear in lists. These lists separate legal duties and our expectations of how governing bodies should meet them. It is important to note that none of our codes cover all aspects of pensions legislation. Therefore, governing bodies should look beyond our codes, and seek the help of advisers, to help them understand all their legal obligations.

We have adopted government communication principles in our use of language to help users distinguish between legal duties and our expectations. In the new code, legal duties are shown by using the word ‘must’, whilst our expectations use ‘should’. We use ‘need’ where there is no expectation or legal requirement in place, but that process is necessary to allow a scheme to operate. In some modules, we highlight expectations as a matter of best practice for certain schemes. We have also extensively rewritten the new code to make our expectations clearer.

Setting expectations in lists may tempt some to consider them to be tick-box governance requirements. This is not our intention, and we do not believe that governance should ever be tick-box. We believe that by clearly presenting our expectations we make it simpler for governing bodies to consider whether and how they are meeting them. The lists should prompt discussion and consideration of the processes and policies, and the assessment of whether they exist and are functioning as intended. The expectations in each list are typically set out sequentially. This allows users to progress through stages of a process in an ordered way. Governing bodies still have the freedom to choose to prioritise specific measures above others. This may be because some are more urgent or important. For example, prompt and accurate processing of contributions will probably have a higher priority in a large DC scheme than a small closed DB scheme. Whatever the focus of improvement work, governing bodies should always ensure that they comply with legislative requirements.

The format of the new code will also help us in any future regulatory interactions. We will remain a pragmatic regulator and the new code will help us to work with schemes where we identify matters that fall short of our expectations.

The new code will still provide flexibility for those running a scheme to operate in a way that is appropriate for the circumstances of their scheme. Certain scheme-specific circumstances may lead schemes to meet our expectations in a way not specified in the code.



## Guidance

In time, the new code has the potential to bring our codes, guidance and the Trustee Toolkit together. However, full integration will require an audit and review of around 200 pieces of existing guidance, across various phases of new code development. This means there will be a period when the new code and guidance are not as closely related as will eventually be the case.

We have identified certain pieces of guidance that are immediately affected by the new code. This is particularly the case in respect of guidance that relates to specific paragraphs in a related COP. The redesign of these pieces of guidance is being prioritised to ensure they fit alongside the new code.

Our review of guidance will mean we will no longer have categories such as scope guidance or code-related guidance. All guidance will be readily distinguishable from the content of the new code. However, some guidance, such as that developed to assist employers with their automatic enrolment duties, will remain outside of the scope of this project.

### Question about guidance

Which pieces of guidance, or topic areas, should be prioritised for updates following the introduction of the new code?

## 4. New governance expectations

The new code is largely a consolidation and re-presentation of the existing codes it replaces. One of the principal aims of the new code is for all schemes to be held to comparable standards when allowing for differences in the underlying legislation. The governance regulations have given us a much greater scope to set expectations around behaviours of running pension schemes. The scope of the governance regulations is not universal however, and our expectations of our regulated community are not uniform.

### Governing bodies

Throughout the new code, we have used a new term to provide consistency when referring to the trustees or managers of occupational pension schemes, managers of personal pension schemes, and scheme managers and pension boards of public service schemes that we regulate.

The term we are using is 'the governing body'. The need for a single term was apparent from discussions with stakeholders. These revealed that using a single description, for example 'trustee', could disengage those who were not trustees. Similarly, using the full list of possible audiences, as above, is unwieldy when writing a concise code.

The roles and responsibilities of the various types of governing body should be understood by those performing them. Where there is any doubt in a scheme as to where a responsibility or accountability lies, the governing body should take steps to establish the position.

Within each module, we have attempted to ensure that any responsibility is clear to those on whom it falls. Governing bodies should then decide if they are within that audience. We particularly welcome comments to this consultation where applicability is not clear to the reader.

During the development of the new code we have received requests for a Local Government Pension Scheme (LGPS) specific version of the code. We have examined this request but, due to the various management structures that exist across the funds and their associated authorities it would be impractical to do so. Governing bodies of LGPS funds should consider their own governance arrangements and where responsibilities ultimately sit within them.

#### 4. New governance expectations

Governing bodies continued...

In schemes in the private sector, the same principles of delegation apply. Trustees or managers may delegate certain activities or functions to others, either employed by or providing services to the scheme. In each case, the accountability remains with the trustees or scheme manager.

Differences in legislation may lead to different expectations on certain schemes according to type or size. Some expectations, such as those associated with the DC chair's statement, are only applicable to specific audiences. Where there is only a single intended audience, we have used a specific term in the relevant module, for example 'the trustee', instead of 'the governing body'.

A table showing each module and those to whom it applies is in Appendix 1.

#### Question about governing bodies

Do you understand the term "governing body"? Would another term work better?

## Effective systems of governance

One of our primary aims as a regulator has been to improve the governance of pension schemes. The governance regulations have introduced a new requirement for most occupational schemes to have and operate an effective system of governance. Without the code being in place, it is difficult for schemes to understand what our expectations might be.

In our efforts to establish what an effective system of governance might be, we reviewed a great deal of existing material that covered relevant topics. The scope of governance and the related regulations is broad. To provide governing bodies with a clear indication of our expectations in this area, we have created a module that provides links to sections of the new code that describe a minimum effective system of governance.

Schemes that do not need to operate an effective system of governance may still find they are subject to comparable legislation that requires them to follow expectations set out in certain various modules. Governing bodies of other schemes may wish to follow the principles of an effective system of governance as an example of best practice. The Systems of governance module provides a useful starting point for a thorough review of the processes and procedures of any scheme.

### Question about effective systems of governance:

Is it clear where all the features of an effective system of governance are covered in code from the content of this module? If not, what needs to be clearer?

## Internal controls

Perhaps the single most important aspect of establishing effective systems of governance is the fact that they hinge on internal controls. Most governing bodies are not directly involved in every aspect of the day-to-day operation of their scheme. They instead delegate operational tasks to an internal administration team or outsource to professional service providers. However, regardless of delegation, the governing body retains accountability for those functions. All governing bodies should have procedures for the operation of their scheme. Similarly, all governing bodies need policies and processes that give them assurance that all the functions of the scheme are operating correctly.

Internal controls are the policies, processes and procedures carried out in running the scheme. They are also the checks and balances that ensure those processes are operating correctly. Governing bodies can assure themselves that their scheme is operating correctly by having robust and measurable internal controls. Internal controls apply equally to services provided in-house and externally. Internal controls are also an important part of assessing and managing the risks that face a scheme.

It would be highly inadvisable, and almost impossible, to operate any scheme without internal controls. We believe almost all schemes will have some controls in place, even if they do not recognise them as such. However, it is likely that many schemes will not have the full suite of internal controls that we consider they should have.

To help governing bodies establish relevant internal controls, we have created several modules within the new code focusing on risk management and specific controls that should be in place. We do not go into the details of how any control should operate. It is for the governing body, and their advisers, to determine the most appropriate controls for their scheme and the adequacy and effectiveness of any control they implement.

### Question about internal controls:

The expectations set out apply differently to different schemes. Is this clear from the module, and are governing bodies provided with enough leeway to address the expectations in the most appropriate way for their scheme?

### Own risk assessment

The governance regulations introduce another new requirement for private sector schemes with 100 or more members. This is the introduction of the Own Risk Assessment (ORA). When transposing this requirement from IORP II, the UK chose to stop short of requiring the Solvency II type assessment of the scheme's finances originally proposed. Our interpretation of an ORA recognises that pension schemes face a wide range of risks, not just those related to investments.

The ORA we propose builds on the principles set out for the effective system of governance. The ORA is then a regular process that requires the governing body to assess the effectiveness and risks of the effective system of governance. This is distinct from the normal risk management processes for the scheme. The ORA is therefore a process for assessing the management of risks.

The ORA should not be perceived as an item of tick-box compliance, or an unnecessary burden. We propose the ORA as a way for governing bodies to demonstrate that they have fully considered the various risk management processes – external, financial and operational – that their scheme faces. The ORA is a tool to focus governing bodies on their policies, processes and procedures in a way they may not have done before.

The governance regulations do not require publication of the ORA, or for it to be sent to us. We do expect schemes to record their ORA, and the first such exercise may be a significant piece of work. Many schemes will already have broadly comparable review processes in place already, while others will have to expand their processes considerably. However, we accept that the circumstances of each scheme will affect the risks it faces. It is therefore possible for governing bodies to tailor their ORA according to the size, scale and complexity of their scheme.

Those schemes required to produce an ORA will have 12 months from the date the new code comes into force to document their first assessment. The ORA then becomes an annual process, or whenever there is a material change in the risks facing the scheme or its governance processes.

As with effective systems of governance, we have created a module that acts as an index for the elements we expect the ORA to consider.

#### Questions about own risk assessments:

1. Are there any improvements we could make to our suggested ORA that would make it more valuable for governing bodies?
2. Is the cycle suggested for the review and update of the ORA appropriate given the subjects that it covers?

## 5. Explanatory notes for other content

In this section we provide a rationale for new or amended expectations. As noted above, a key aim for the new code was to create a consistency in expectations between different schemes types. This is subject to the different legislative requirements placed on different schemes according to their type, nature or size.

We are responsible for the regulation of a wide range of different scheme types within the private and public sectors. Many schemes resist simple classification as they incorporate different benefit types. Several of our existing COPs focus on a specific scheme type. This meant it was easy to overlook expectations set in other COPs. For example, we are aware that some schemes with a ‘dedicated’ code were unaware that they should be following the provisions in the codes dealing with maintaining contributions. For all the differences between schemes, many expectations set across our COPs are very similar. This duplication of content created longer codes, reduced readability and risked creating inconsistency of expectation.

Although many of the expectations in the new code have come directly from the existing codes, we have taken the opportunity to ensure they are up-to-date and consistent. In some areas, this has meant we have needed to create new content and expectations, or we have broadened the scope of existing content to cover a larger number of schemes. Some wording may be recognisable as originating from a particular COP. This does not imply that it only applies to one type of scheme. It is simply us choosing the best existing form of words for that expectation.

Throughout the new code, we have sought to improve consistency and clarity where the same or comparable legal requirements exist. Acting in this way simplifies knowledge required for those working with more than one scheme. It also enables us, where necessary, to use our powers in an appropriate and timely fashion. The work to create the new code has not moved expectations away from their legal underpins. Nor are we expanding the scope of our regulatory remit. Some scheme types will still face different expectations because the law applies differently to those schemes. In time, it may be possible to filter modules so that only content directly applicable to the user’s scheme is displayed.

There are some expectations that apply to only a subset of schemes. Where these might be useful for other schemes, we have suggested that they are adopted as best practice.

The table shown in Appendix 1 illustrates each module and its current audience. It also shows whether content is new to that audience or taken from an existing code.

Our expectations are set at a level we consider to be appropriate for any well-run scheme. They do not represent a gold standard or are not intentionally difficult to meet. It is important to repeat that most expectations set out in the new code already exist in our COPs. Unless an expectation is new, such as the ORA, schemes should already be meeting the provisions set out in the new code.

## Public service schemes

COP 14 (Public service pensions) was published in April 2015 when we took on the responsibility of regulating public service schemes. Since then, these schemes have developed their practices significantly. They have made huge strides towards consistently delivering the governance we expect of them. Our understanding of public service schemes has also grown, and the creation of the new code provides us with an opportunity to update some of our expectations.

The new code seeks, wherever possible, to set comparable standards for schemes of all types. This is equally true of public service schemes. However, public service schemes do not have identical legislation to schemes in the private sector. Consequently, there is some divergence in the exact expectation we have placed on public service schemes. This is particularly true in the case of the modules dealing with internal controls, where the legislative standard is different. In practice, while this means that our expectations of the presence of controls is the same as for private sector schemes, their operation may be different.

As with other codes that dealt with a specific audience, the expectations we had for public service schemes in COP 14 are comparable to other types of schemes. Therefore, while the new code sets out expectations in a different way, we believe those expectations will be familiar to public service users.

## Master trusts

Master trusts are directly authorised by us and need to keep us satisfied that they meet the criteria to be authorised. The framework for that authorisation is the relevant legislation, COP15 and associated guidance. The review of the authorisation process identified areas within COP15 that could have been clearer and therefore require some modification. We intend to transpose and update COP15 to the new code, but this is not happening in the current phase. Elements of the new code are relevant for master trusts and they should also continue to refer to COP15 until we transpose it to the new code.

## Cyber security

One subset of internal controls receiving greater detail in the new code is that of cyber security. With most scheme records held digitally, the security and maintenance of scheme data has become a significant issue. Cyber security is a topic that we have already addressed in guidance. However, survey data indicates that cyber security processes are still rare. To ensure that more schemes address this pressing issue we have taken the opportunity to reinforce our guidance and place direct expectations on schemes. The expectations apply only to certain schemes, but we strongly encourage all schemes to adopt as many of the expectations as possible.



## Environmental, social and governance (ESG)

Another area introduced to the new code is the stewardship of the scheme's investments. Attention has, in recent years, increasingly turned to the way schemes manage their money. It is no longer possible for schemes to seek returns from their investments without considering the social or environmental costs that they may facilitate. Pension schemes should seek to exercise the significant rights they have as shareholders and bondholders of their investee companies. Governance of investments, and an awareness of the activities of investee companies, will influence the financial returns of the scheme. Pension schemes have longer-term investment horizons than many other investors. As concerns about matters such as climate change and social responsibility grow, the long-term interests of scheme members will be served by governing bodies who are active stewards of their investments.

The new code introduces two modules that address matters in these areas. Stewardship focuses on the governance responsibilities that come with financial investments. The second module relates to climate change and the risks and opportunities it presents.

## Financial transactions

As noted elsewhere, legislation sets different requirements for different scheme types. However, most of our expectations in a given area, such as financial transactions, are common to all. Regardless of whether they are DB, DC, or hybrid, all schemes need processes for handling financial transactions.

DC schemes are required by law to maintain processes around core financial transactions. We believe the principles that apply to DC schemes are equally valuable to all schemes and we have examined our ability to set comparable expectations on other schemes. Having satisfied ourselves that this is possible, the module on financial transactions contains expectations that apply to many more schemes.

## Timescales

One of the functions of any of our COPs is to provide our interpretation of certain timescales set in legislation.

For example, various pieces of legislation require governing bodies to do things ‘regularly’. Some regular events follow payrolls or investment cycles, others by valuations, annual accounts or external events. Where there is an obvious link of this sort, our intention has been to align our expectation of regularity with those cycles. Where there is no obvious operational link, we have typically set our expectation of a regular event to be annually.

Wherever possible, we have maintained the timescales set in existing COPs. This is so schemes that may be considering more pressing matters do not need to adjust established procedures. However, when developing the modules we have noted that certain timescales set out in in COPs 5 and 6 (maintaining contributions) were potentially harder to meet than had been intended when viewed as part of a procedure. We have therefore taken steps to amend them for consistency and to match current our operational expectations.

## Northern Ireland

Pensions legislation in Northern Ireland (NI) is separate, but comparable, to that in Great Britain. The new code contains various references and links to legislation in Great Britain and legal references to NI legislation in the same footnotes as for the rest of the UK.

## 6. Equalities

As part of our regulatory work and business functions, TPR is subject to the Public Sector Equality Duty (PSED). The PSED ensures that public bodies have due regard to the needs of all individuals in their day-to-day work – in shaping policy, in delivering services, and in relation to their own employees.

The legislation relates to specific “protected characteristics” set out in the Equality Act 2010: disability, gender re-assignment, pregnancy and maternity, age, race, religion or belief, sex, and sexual orientation matters.

### Question about equalities

We would be interested to understand if there are any aspects of our expectations that users think would discriminate against, disadvantage or present an additional or exceptional challenge to anyone with a protected characteristic.

## 7. Status of other consultations

The new code will continue to grow and adapt over time. Modules representing the content of the remaining five existing COPs will be added in future phases. The current DB funding code is already being revised and the modules that relate to that topic are expected to be ready for consultation at the end of 2021.

It is important to note that at this stage we are not adopting into the new code any of the findings from our recent consultation on the future of trusteeship. Events over the past year have delayed this work and it will be recommenced in due course.

We will also be adding content relating to the Pensions Schemes Act 2021, and other forthcoming legislation as it becomes ready. Future revisions may take the form of additional or updated modules, or a mixture of both. We will be consulting on future updates to the new code at the appropriate times.

## 8. Consultation questions

We are consulting on a significant revision to our existing COPs. We therefore want to give respondents every opportunity to comment on as much or as little of the code content as they wish to.

As well as the questions presented in this paper, we are also asking questions, listed below, which apply to every module. We do not expect respondents to answer each question for every module. We do not require any respondent to specify “no comment” to a question where they have no comment to make. Respondents can make comments about as many or as few modules as they wish.

The consultation covers only the content of the new code as presented online at: [www.tpr.gov.uk/en/document-library/consultations/new-code-of-practice](http://www.tpr.gov.uk/en/document-library/consultations/new-code-of-practice). We welcome general comments about the principles on which the new code is based. Space for general comments is provided at the end of **Response form 1: General questions about the new code of practice**.

The following questions are raised in relation to each module and are replicated in the relevant response forms.

### Universal questions for each module

1. Is the title a fair reflection of the content provided within the module and, if not, what would be a clearer description of this content?
2. Is it clear from the module what our expectations are, and does this content provide governing bodies with a clear sense of how expectations may be applied to their scheme’s own circumstances?
3. Has the subject matter of the module been covered in sufficient detail and is there any further information or guidance that would assist governing bodies in meeting our expectations?
4. Are there any expectations that may be considered a disproportionate and/or unreasonable burden for a well-run scheme, or for certain types of scheme or governing body?
5. Do you have any further comments on the module that have not been covered by the questions above?

There are specific questions in relation to the matters discussed in this consultation paper, which are restated below.

### General questions

#### Updates

We welcome any observations about a possible regular process for issuing updates to the new code. For example, should updates be annual, or at longer intervals? Please advise us of any concerns about regular updates.

We would also be interested to hear about any topics, besides those described above, that we should prioritise for inclusion in the new code.

#### Guidance

Which pieces of guidance, or topic areas, should be prioritised for updates following the introduction of the new code?

#### Governing bodies

Do users understand the term “governing body”? Would another term work better?

#### Public Sector Equality Duty (PSED)

We would be interested to understand if there are any aspects of our expectations users think would discriminate against, disadvantage or present an additional or exceptional challenge to anyone with a protected characteristic.

If you need extra space when responding to these questions, or have any general comments to make, please use the space provided at the end of [Response form 1: General questions about the new code of practice](#).

## Module-specific questions

The following questions are in relation to specific modules in the code. Space to respond to these questions is provided at the appropriate point in the relevant response form.

### Maintaining contributions (ADM008)

Are the timescales set out in this module appropriate with regards monitoring the payment of contributions?

### Refunds (CAD016)

This module refers to the underlying legislation extensively. Does it provide enough information on the legislative requirements and our expectations?

### Knowledge and understanding (TGB017 and TGB005)

The expectations in these modules are based on long-standing existing guidance. Do the expectations provide a new member of a governing body with sufficient knowledge and understanding to enable them to fulfil their role?

### Effective systems of governance (TGB046)

Is it clear where all the features of an effective system of governance are covered in the code from the content of this module? If not, what needs to be clearer?

### Internal controls (TGB032)

The expectations set out apply differently to different schemes. Is this clear from the module, and are governing bodies provided with enough leeway to address the expectations in the most appropriate way for their scheme?

### Own risk assessment (TGB045)

Are there any improvements that we could make to our suggested ORA that would make it more valuable for governing bodies?

Is the cycle suggested for the review and update of the ORA appropriate given the subjects that it covers?

## 9. Impact assessment

The DWP<sup>1</sup> has estimated costs of complying with the changes to our codes of practice to align this with the requirements of IORP II. They considered the range of potentially acceptable methods of compliance that would apply to schemes of different size and complexity, as well as the extent to which relevant legislation or COPs already apply to different types of schemes.

They concluded that the UK was already largely compliant with IORP II and that transposition would not cause much additional burden on industry. They estimated costs were:

- £5.1 million in year 1
- £2.7 million every subsequent third year (years 4, 7, 10)

The estimated annual net direct cost to business over a policy period of 10 years is £1.3 million and so will qualify for self-certification.

In harmonising expectations between schemes, the new code goes further than the DWP had envisaged in its impact assessment. This may lead to higher than anticipated costs in year one as governing bodies become used to the expectations in the new code. However, we expect that these costs will be substantially mitigated in subsequent years by the new format of the code and its ease of use.

We will be liaising with the DWP following this consultation and may seek further external evidence to support our assessment of regulatory burden and Business Impact Target obligations under the Small Business, Enterprise and Employment Act 2015 in relation to the new code.

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1 The DWP's impact assessment of the Occupational Pension Scheme (Governance) (Amendment) Regulations 2018 can be found at: [http://www.legislation.gov.uk/uksi/2018/1103/pdfs/uksiod\\_20181103\\_en\\_001.pdf](http://www.legislation.gov.uk/uksi/2018/1103/pdfs/uksiod_20181103_en_001.pdf)

## Appendix 1

The table below provides an indication of the modules where users may find new content that relates to them. We have categorised this in terms of the main scheme types; defined benefit, defined contribution and public service. The legislative basis for each module may mean that it does not apply to certain schemes within that group.

Where a module is shown to contain “Existing” content, updates may still mean that new expectations are presented within the module, or that they are presented in a different way. Such changes are unlikely to be significant and will have been introduced for consistency. Similarly, some content marked as “New” will be existing content that is new to that audience. This is most obvious where it is shown to be existing content for other scheme types.

Modules marked with “DNA” do not apply to that audience. Modules showing “Best Practice” also do not apply to that audience, but consideration should be given to following them for best practice purposes.



The governing body					
		In relation to:			
Module number	Module title	DB	DC	PS	Comment
TGB001	Role of the governing body	New	Existing	Existing	
TGB014	Recruiting to the governing body	New	Existing	Existing	
TGB044	Member-nominated trustee appointments	Existing	Existing	DNA	
TGB015	Role of the chair	Existing	Existing	Existing	
TGB006	Meetings and decision-making	New	New	New	
TGB016	Remuneration policy	New	New	Best Practice	
TGB017	Working knowledge of pensions	Existing	Existing	Existing	
TGB005	Governance of knowledge and understanding	New	New	DNA	
TGB003	Building and maintaining knowledge	New	New	Existing	
TGB009	Value for members	DNA	Existing	DNA	
TGB010	Managing advisers and service providers	New	Existing	New	
TGB031	Identifying and assessing risks	Existing	Existing	Existing	

The governing body continued...					
		In relation to:			
Module number	Module title	DB	DC	PS	Comment
TGB032	Managing risk using internal controls	Existing	Existing	Existing	
TGB033	Assurance of governance and internal controls	Existing	Existing	Existing	New material on assurance
TGB022	Continuity planning	New	New	Best Practice	
TGB039	Conflicts of interest	Existing	Existing	Existing	
TGB045	Own risk assessment	New	New	DNA	
TGB046	Scheme governance	New	New	Existing	
Funding and investment					
FAI001	Investment governance	Existing	Existing	Best Practice	
FAI003	Investment decision-making	New	New	DNA	Based on current guidance
FAI004	Implementation report	New	New	DNA	

Funding and investment continued...					
		In relation to:			
Module number	Module title	DB	DC	PS	Comment
FAI005	Investment monitoring	New	New	Best Practice	
FAI006	Stewardship	New	New	DNA	
FAI011	Climate change	New	New	DNA	
FAI008	Statement of investment principles	New	New	DNA	
FAI010	Default arrangements and charge restrictions	DNA	Existing	DNA	
Administration					
ADM001	Administration	New	New	New	
ADM002	Financial transactions	New	New	New	
ADM014	Transfers	New	New	New	Based on current guidance
ADM003	Scheme records	New	New	New	
ADM006	Data monitoring	New	New	New	
ADM015	Maintenance of IT systems	New	New	New	

Administration continued...					
		In relation to:			
Module number	Module title	DB	DC	PS	Comment
ADM016	Cyber controls	New	New	New	Based on current guidance
ADM007	Receiving contributions	Existing	Existing	Existing	
ADM008	Monitoring contributions	Existing	Existing	Existing	
ADM011	Resolving overdue contributions	Existing	Existing	Existing	
Communications and disclosure					
CAD001	General principles for member communications	New	Existing	New	
CAD003	Statutory financial statements (DC)	DNA	Existing	DNA	
CAD011	Statutory financial statements (DB)	Existing	DNA	DNA	
CAD012	Statutory financial statements (PSPS)	DNA	DNA	Existing	
CAD004	Retirement risk warnings and guidance	DNA	Existing	DNA	
CAD016	Short service refunds/refunds of contributions	Existing	Existing	Existing	
CAD008	Chair's statement	DNA	Existing	DNA	

Communications and disclosure continued...					
		In relation to:			
Module number	Module title	DB	DC	PS	Comment
CAD005	Scams	New	Existing	New	
CAD010	Publishing information about public service pension schemes	DNA	DNA	Existing	
CAD014	Audit requirements	New	New	DNA	
CAD015	Dispute resolution procedures	Existing	Existing	Existing	
Reporting to TPR					
RTT001	Registrable information and scheme returns	New	Existing	New	
RTT003	Who must report	Existing	Existing	Existing	
RTT004	Decision to report	Existing	Existing	Existing	
RTT005	How to report	Existing	Existing	Existing	

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Consultation document: **The new code of practice**

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**Westminster Pension Fund**  
**Response to TPR New Code of Practice Consultation**

**Response Form 1:**

**Q1: We welcome any observations about a possible regular process for issuing updates to the new Code. For example, should updates be annual, or at longer intervals? Please advise us of any concerns about regular updates. We would also be interested to hear about any topics that we should prioritise for inclusion in the new Code.**

Ideally, reviews and updates should be carried out “as and when” in order to reflect substantial legislative changes or guidance updates, i.e., an ad hoc basis.

Moreover, previous versions of the Code should still be made available for reference.

**Q2: Which pieces of guidance, or topic areas, should be prioritised for updates following the introduction of the new Code?**

Trustee training is vital and the Trustee Toolkit should be prioritised for producing guidance following the update to a Single Code of Practice. For the LGPS, training requirements are being considered by the LGPS Scheme Advisory Board (SAB) under the Good Governance project and TPR should seek to align with this.

**Q3: Do users understand the term “governing body”? Would another term work better?**

If TPR wish to group entities under the Governing Body, the Code needs to be very explicit which Governing Body it relates to in each section of the Code. Is it the Pension Fund Committee or the Local Pensions Board? This distinction needs to be made.

**Q4: We would be interested to understand if there are any aspects of our expectations users think would discriminate against, disadvantage or present an additional or exceptional challenge to anyone with a protected characteristic.**

Is consideration being given to publication of the Code in other languages?

**Q5: Please use this page for any further comments you have.**

Some concern exists as to where the Code has introduced new requirements or where changes have been made to existing requirements, or where no changes have been made at all. No comparison is provided as to the current state of play.

The “Mays”, “Shoulds” and “Musts” are not indicated, making it challenging for Funds to make a judgement on governance priorities.

It is not always clear where the Code applies to the LGPS, with a filter as to relevance to LGPS a good idea.

The lengthy Code could be seen as overwhelming to committee and board members.

It is not clear how LGPS Funds will be monitored for compliance. Clarity on how compliance with the Code will be monitored is desirable.

The Code could identify specific areas where LGPS funds have dependencies on employers for information and highlight the statutory requirement to provide the information to enable LGPS Funds to fulfil their statutory obligations.

## **Response Form 2:**

### **Recruiting to the governing body (TGB014)**

**REQ1: Is the title of the module a fair reflection of the content provided within it? If not, what would be a clearer description of this content?**

It is a fair reflection.

**REQ2: Is it clear from the module what our expectations are, and does this content provide governing bodies with a clear sense of how expectations may be applied to their scheme's own circumstances?**

LGPS administering authorities are bound by the Local Government Act 1972 for committee membership and delegation to other individuals/entities. The Local Government Pension Scheme Regulations 2013 set out the requirements for local pension boards. Each LGPS authority will operate its own processes within these statutory frameworks. Therefore, LGPS authorities will look to statutory provision and not to the TRP single Code.

**REQ3: Has the subject matter of the module been covered in sufficient detail and is there any further information or guidance that would assist governing bodies in meeting our expectations?**

Where new requirements are set out, examples of required policies would be useful.

**REQ4: Are there any expectations that may be considered a disproportionate and/or unreasonable burden for a well-run scheme, or for certain types of scheme or governing body?**

None.

**REQ5: Do you have any further comments on the module that have not been covered by the previous questions?**

LGPS Funds are not in control of the appointment of members to its pension committees: these are elected local councillor roles. There are currently no statutory obligations for members of pension fund committees to attend any training or to meet any standardised levels of skills or knowledge in order to participate in the committees, although such provision exists for local pension board members. Notwithstanding this, committee and board members undertake extensive training. Administering authorities can delegate decision making responsibilities to the S151 officer, under advice from the pension fund committees, including investment decisions.



## **Remuneration policy (TGB016)**

**RMQ1: Is the title of the module a fair reflection of the content provided within it? If not, what would be a clearer description of this content?**

It is a fair reflection.

**RMQ2: Is it clear from the module what our expectations are, and does this content provide governing bodies with a clear sense of how expectations may be applied to their scheme's own circumstances?**

It is clearly laid out.

**RMQ3: Has the subject matter of the module been covered in sufficient detail and is there any further information or guidance that would assist governing bodies in meeting our expectations?**

Where new requirements are set out, examples of required policies would be useful.

**RMQ4: Are there any expectations that may be considered a disproportionate and/or unreasonable burden for a well-run scheme, or for certain types of scheme or governing body?**

LGPS schemes may wish to adopt this as best practice, with each LGPS authority determining if and how they may wish to use it.

**RMQ5: Do you have any further comments on the module that have not been covered by the previous questions?**

No comment.

## **Own risk assessment (TGB045)**

**OWQ1: Is the title of the module a fair reflection of the content provided within it? If not, what would be a clearer description of this content?**

It is a fair reflection.

**OWQ2: Is it clear from the module what our expectations are, and does this content provide governing bodies with a clear sense of how expectations may be applied to their scheme's own circumstances?**

It is unclear as to whether references should be made to the existing risk register. Guidance on the differentiation from the risk register is needed.

**OWQ3: Has the subject matter of the module been covered in sufficient detail and is there any further information or guidance that would assist governing bodies in meeting our expectations?**

An ORA template would be required reference the structure of the ORA. Guidance and examples would be useful too.

**OWQ4: Are there any expectations that may be considered a disproportionate and/or unreasonable burden for a well-run scheme, or for certain types of scheme or governing body?**

This is a substantial piece of work and it could distract resources from the essential governance of running the scheme. It could be regarded as an unnecessary duplication to the existing risk register.

**OWQ5: Do you have any further comments on the module that have not been covered by the previous questions?**

None.

**OWQ6: Are there any improvements that we could make to our suggested ORA that would make it more valuable for governing bodies? Is the cycle suggested for the review and update of the ORA appropriate given the subjects that it covers?**

Possibly a three-year review period to align with the LGPS triennial valuation period.

### **Response Form 3**

#### **Investment decision-making (FAI003)**

**IVQ1: Is the title of the module a fair reflection of the content provided within it? If not, what would be a clearer description of this content?**

It is a fair reflection.

**IVQ2: Is it clear from the module what our expectations are, and does this content provide governing bodies with a clear sense of how expectations may be applied to their scheme's own circumstances?**

The legislation quoted in this part does not apply to LGPS authorities. The equivalent LGPS legislation is Regulation 7 of the 2016 Investment Regulations. These regulations are clear in what is expected and are backed up by Statutory Guidance, 'Preparing and maintaining an investment strategy statement'. The expectations as set out in this section do not apply to LGPS authorities who should instead follow the applicable regulations and guidance and this should be made clear.

**IVQ3: Has the subject matter of the module been covered in sufficient detail and is there any further information or guidance that would assist governing bodies in meeting our expectations?**

The current intense desire for pension funds to invest in "greener and cleaner" and support investment in UK renewable energy infrastructure projects should be covered as guidance within the Code.

**IVQ4: Are there any expectations that may be considered a disproportionate and/or unreasonable burden for a well-run scheme, or for certain types of scheme or governing body?**

The requirement to ensure that 'no more than a fifth of scheme investments are held in assets not traded on regulated markets' is clearly an arbitrary figure. There does not appear to be a clear rationale for this

statement especially given that large open DB schemes are increasingly looking to private markets to deliver the growth/income required to meet their liabilities within their appropriate risk appetite. Many schemes go easily beyond 20% in holdings of many types of illiquid assets such as infrastructure: 50% would be a more reasonable limit, given the long-term nature of the LGPS. Ideally, TPR should remove the reference to 'no more than a fifth of scheme investments' to be held in non-regulated markets, given its arbitrary nature.

**IVQ5: Do you have any further comments on the module that have not been covered by the previous questions?**

None.

#### **Questions for: Climate change (FAI011)**

**CLQ1: Is the title of the module a fair reflection of the content provided within it? If not, what would be a clearer description of this content?**

It is a fair reflection.

**CLQ2: Is it clear from the module what our expectations are, and does this content provide governing bodies with a clear sense of how expectations may be applied to their scheme's own circumstances?**

The legislation quoted does not apply to LGPS authorities. The equivalent legislation is Regulation 7 of the 2016 Investment Regulations. These regulations are clear in what is expected and are backed up by Statutory Guidance 'Preparing and maintaining an investment strategy statement'. New regulations in this area are expected from MHCLG later this year following disclosure requirements set out by the DWP for private sector schemes. Until this is published, LGPS authorities will not know what their obligations are with regard to climate change disclosure. LGPS authorities will continue to follow the applicable regulations and this should be made clear.

**CLQ3: Has the subject matter of the module been covered in sufficient detail and is there any further information or guidance that would assist governing bodies in meeting our expectations?**

n/a

**CLQ4: Are there any expectations that may be considered a disproportionate and/or unreasonable burden for a well-run scheme, or for certain types of scheme or governing body?**

n/a

**CLQ5: Do you have any further comments on the module that have not been covered by the previous questions?**

None.

Phil Triggs  
Tri-Borough Director of Treasury and Pensions

26 May 2021

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of the Local Government Act 1972.

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