Public Document Pack

City of Westminster

Committee Agenda

Title:	**Pension Board**
Meeting Date:	**Thursday 3rd November, 2022**
Time:	**6.30 pm**
Venue:	**This will be a virtual TEAMS meeting.**
Members:	**Councillors:** Barbara Arzymanow Matt Noble **(Chair)** **Employer Representative:** Marie Holmes **Scheme Member Representatives:** Terry Neville OBE Christopher Smith **(Vice-Chair)**

If you require any further information, please contact the Committee Officer, Sarah Craddock, Committee and Councillor Co-ordinator.

Email: scraddock@westminster.gov.uk
Corporate Website: www.westminster.gov.uk

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

AGENDA

PART 1 (IN PUBLIC)

Stuart Love
Chief Executive
24 October 2022

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CITY OF WESTMINSTER

MINUTES

Pension Board

MINUTES OF PROCEEDINGS

Minutes of a meeting of the **Pension Board** held on **Thursday 28 July at 6.30pm,** Room 18.07, 18th Floor, 64 Victoria Street, London, SW1E 6QP.

Members Present: Councillor Matt Noble (Chair and Employer Representative), Terry Neville OBE (Scheme Member Representative), Councillor Barbara Arzymanow (Employer Representative), Marie Holmes (Employer Representative) and Christopher Smith (Vice-Chair and Scheme Member Representative).

Officers Present: Phil Triggs (Tri-Borough Director of Treasury and Pensions), Claire Weeks (Head of People Operations), Mathew Dawson (Senior Finance Manager, Tri-Borough Treasury and Pensions), Sarah Hay (Senior Pensions and Payroll Officer), Diana McDonnell-Pascoe (Project Manager), Billie Emery (FM Pensions) and Sarah Craddock (Committee and Councillor Co-ordinator).

1. ELECTION OF CHAIR AND VICE-CHAIR/MEMBERSHIP

1.1 There were no changes to the Membership.

1.2 **Resolved:** That Councillor Matt Noble and Christopher Smith be appointed as Chair and Vice-Chair respectively for the 2022-2023 municipal year.

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest, other than the standing declarations already made by Members.

3. MINUTES

3.1 **RESOLVED:** That the minutes of the meeting held on 30 March 2022 be approved as an accurate record of proceedings.

4. PENSION ADMINISTRATION UPDATE (Agenda Item 4 on the Agenda Pack)

4.1 The Board received an update on the Key Performance Indicator (KPI) data from Hampshire Pension Services (HPS) from March 2022 to June 2022.

4.2 The Board considered the KPI data provided to Westminster in the March, April and June period and noted that the partnership reports by HPS showed a 100% KPI completion record. It was expected that overall cases processed by HPS would continue to be approximately 100 per month which would maintain a healthy position with no backlogs. Details of two complaints submitted in May and June by members were provided in addition to the compliments received.

4.3 An update was provided on the additional resource provided by HPS to complete approximately 446 cases of unprocessed leavers and the new tracing project with Target which would improve data quality and the data scores that the Fund must report annually to the pension regulator. Members noted that 23.66% of the membership had already registered for the new member portal which was a steady increase from 19.43% at the last Pension Board and that all Funds' employers had submitted their annual returns to Hampshire Pension Services (HPS) on time.

4.4 Members discussed how the auto enrolment date on the 1 August would affect numbers of the Pension Fund, the administration of leavers data and the successful recovery of satisfactory costs from Survey. The Board were pleased that the relationship with HPS remained positive.

4.5 **RESOLVED:** That the Board noted the report.

5. COWPF LGPS PROJECTS AND GOVERNANCE UPDATE Projects (Agenda Item 5 on the Agenda Pack)

5.1 The Board received an update on the various projects and governance activities being undertaken by the Pension and Payroll Team to improve the administration of the COWPF LGPS.

5.2 The Board were informed that further evaluation work on the viability of the website would continue and that opportunities to promote the good things that the Pension Fund did such as green investment would be explored. Members were pleased to note that the rectification phase of the Guaranteed Minimum Pension (GMP) project had been reached and the deadline for completion of this work would be by the end of February 2023.

5.3 In response to questions from the Board regarding the McCloud Project, it was recognised that the data request was complex as many employers had a range of systems dating back to 2012 and therefore the retrieval of data was being problematic. The Board noted that the data would need to be future

proofed. Members requested that the Board be provided with details of the external costs of all the different payroll systems.

5.4 **ACTION:** That details of the external costs of all the different payroll systems be submitted to the next meeting.

5.5 **RESOLVED:** That the report be noted.

6. FUND FINANCIAL MANAGEMENT (Agenda Item 6 on the Agenda Pack)

6.1 The Board discussed the report which outlined the top five risks for the governance and pension administration fund which were set out in the report.

6.2 The Board had detailed discussions over the identified risks, the significant global economic uncertainty following Russia invading Ukraine, gas/fuel prices, the UK price inflation now being significantly more than anticipated in the current actuarial assumptions, the possibility of global recession next year and the underperforming of the Baillie Gifford global equities mandate. The Board noted the increased scrutiny on environmental, social and governance issues and recognised that going forward there would be much further work required.

6.3 The Board was interested to note the anticipated future cash flow. Further detailed discussions followed on the three-year cashflow forecast and the impact of inflation rate rises on the pension fund.

6.4 **ACTION:** That the Pension Fund Committee Agenda Pack be sent to the members of the Pension Board.

6.5 **RESOLVED:**

1) That the top five risks for the Pension Fund be noted.

2) That the cashflow position for the pension fund bank account and cash held at custody, the rolling twelve-month forecast and the three-year forecast be noted.

7. PERFORMANCE OF THE COUNCIL'S PENSION FUND (Agenda Item 7 on the Agenda Pack)

7.1 The Board received a report setting out the performance of the Pension Fund's investments to 31 May 2022, together with an update of the funding position at 31 March 2022. The Board discussed and noted that the Fund had underperformed the benchmark net of fees by -1.71% over the quarter to 31 March 2022 and that the estimated funding level was 103.0% as of 31 March 2022.

7.2 It was noted that there was currently a high level of volatility and uncertainty in markets following events in Ukraine. The Board discussed the performance of the Baillie Gifford Global Alpha (BG) mandate and were pleased to note that BG had been invited to attend the recent Pension Fund Committee meeting to discuss their recent performance.

7.3 The Board were pleased to note that the Pension Fund target asset allocation was diversified with 60% of assets within equities, 19% in fixed income, 6% in renewable energy infrastructure, 5% within infrastructure, 5% within property and 5% to affordable and social supported housing.

7.4 **RESOLVED:** That the performance of the investments and the funding position be noted.

8. TERMINATION OF MEETING

8.1 The meeting ended at 8.15pm.

Chairman _____Date_____

City of Westminster

Pension Fund Board

Date: **3rd November 2022**

Classification: **General Release**

Title: **Pension Administration Update**

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

Wards Involved: **All**

Policy Context: **Service Delivery**

Financial Summary: **Limited**

1. Executive Summary

1.1. This report gives an update on the KPI data from Hampshire Pension Services (HPS) from July 2022 to September 2022 and compliments and complaints received by HPS. In section 3, I cover data updates on the backlog, annual return exercise and address tracing. In section 4 I cover a cyber security incident. In section 5 a brief update on NFI.

2. KPI Performance

2.1 I am pleased to advise the Board that the KPI data provided to Westminster for the period July 22 through to Sept 22 shows 100% compliance with the agreed KPI standards. The table below provides the categories measured, the target days and the number of cases processed in each reporting month.

KPI	Target Days	Jul-22	Aug-22	Sep-22
Active Retirement	15 days	7	3	11
Deferred Retirement	15 days	19	25	17
Estimates	15 days	51	60	41

Deferred Benefits	30 days	32	58	39
Transfers In & Out	15 days	1	6	0
Divorce	15 days	2	2	0
Refunds	15 days	10	15	9
Rejoiners	20 days	0	2	5
Interfunds	15 days	21	31	13
Death Benefits	15 days	18	12	8
Grand Total		161	214	143

2.2 It is important to monitor the overall case volumes to help ensure that no work backlogs are building up. The Board will want to note the increased workload being processed in July and August. This is mainly because the fund chased employers to respond to queries as a result of the annual returns submitted for the year 21/22. The response from employers overall was positive although we still have some responses outstanding. The case work did reduce in September as employer responses reduced. The work on hold in September is 279 cases. These are cases where HPS need a response from the member or employer to process. We need to make sure the cases on hold are reduced in the next few months to ensure we don't build up another backlog.

2.3 The fund strategy working with HPS is to increase the interaction the fund has with members via the member portal. In the last Board report I updated that at the end of June we had 23.66% of members signed up to the member portal. This has now increased to 27.63% as at the end of September as broken down below. I am pleased that the portal is being accessed more. There is also an employer's portal which we ask employers to use to send HPS member

Portal	Opted IN
Active	35.09%
Deferred	20.60%
Pensioner	29.15%
TOTAL	27.63%

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2.4 In July through to September there were three compliments received by HPS made by members and outlined below. There were also two complaints outlined below in 2.5 to 2.6 with the detail of each issue.

September Compliments were *"quick reply"* and *"Simply clarified the situation and saved me money. Happy Days."* In July the compliment received was *"prompt, efficient and friendly service".*

2.5 Complaint responded to in September received in August concerned a member complaining about the delays in dealing with her transfer out request. The member left one on the Academy Schools on the 31st of December 2021 and immediately asked about a transfer, but the school did not supply her leaving details to the fund until the 18th of May 2022. Even then the leaving form was not completed correctly and HPS had to query the data with the nominated payroll provider. The member was sent the transfer calculation and discharge forms on the 27th of June 2022. The member completed the transfer forms and returned with payment forms and a document from Scottish Widows as the potential receiving scheme with relevant questions on the 27th of July 2022. On the 9th of July however HPS received a new joiner form from the employer from the same individual. You can't transfer out of the LGPS whilst you contribute to it, Scottish Widows were advised when they chased the transfer that this was the situation. The member complained and confirmed that they were not active with the employer and the employer confirmed their error in sending a starter form through for her. HPS updated Scottish Widows on the 5th of September 2022 that the member had long term benefits in the LGPS and was not entitled to a refund. Scottish Widows currently will not accept the transfer until the member receives independent financial advice. Although the main issues here were caused by the employer and their contractors HPS acknowledge that if the documents sent back 27th of July 2022 had been checked more quickly and that the new joiner received on the 9th of July had been flagged at this point it may have resolved the issue more quickly for the member. It's vital though that transfers are not rushed and correct that Scottish Widows ask the member to seek Independent Financial Advice before the transfer completes.

2.6 In August there was a complaint from a headteacher of a school where they had agreed to pay for an express estimate for a 65-year-old member of staff being made redundant. The estimate came back, and I reviewed it and picked up that it did not contain costs which was flagged to the employer and HPS. The team dealing with the case at HPS initially advised costs did not apply, costs always apply where someone is being made redundant before their state pension age although they reduce the closer the member gets to state pension age. There is a known issue with UPM in that it was not calculating costs correctly members after their 65th birthday. HPS admitted the case should have been dealt with more quickly and the charge for the estimate was voided. UPM has just been updated on the 13th of October to amend this calculation issue so it should not be happen going forward.

3. Data Scores and Data Work

3.1 Each year we have to report our data scores to the Pension Regulator. The first data we measure is "common data" This will include standard information that all funds hold for members, including address details, date of birth, NI number. The second is "scheme specific" and will include items that only defined benefit schemes have including service lines, Career

Revalued Earnings (CARE) pay, whole time pay etc. Our last data scores are set out below.

Common Data	72%
Scheme Specific	87%

3.2 The next data scores will be provided to us by HPS on the 11th of November 2022 and we are expecting to see an improvement on those scores as validation of the work fund has been doing in the last 12 months.

3.3 The backlog project of 446 unprocessed leavers was temporarily put on hold until the start of October as employers had not returned leaver forms to the fund to complete the cases. The internal team focussed initially on chasing missing data as a result of this year's annual return exercise and then the leaver forms for the backlog cases. I am pleased to say that the response in general has been very good, the workload increases that HPS had in July and August was due to responses the fund had to chasers. The employers with backlog cases were asked to provide responses by the 30th of September or the fund would consider charges under our Pension Administration Strategy (PAS). The employers with the most cases have either now sent in all or most of their leaver forms. However, there are a couple of schools who have not responded at all yet or are not providing promised data.

3.4 The backlog work originally 446 cases have increased as at the 30th of September to 536 cases. This is because, pre-April 2021 leavers were uncovered following the annual returns and the employers have now sent in those leaver forms. HPS are assimilating post April 21 leavers into their BAU work. The original costs for the backlog work agreed with HPS were £23,800 based on 446 cases. I have not had revised costing from HPS yet and the backlog will probably increase further because as above not all employers have returned their data so that cases can be identified. Based on the above rate per case though overall I would estimate costs could increase to £28,603 if backlog numbers remain at 536. I have asked the Pension Committee to approve the additional £4803.00 if HPS request this to clear the backlog.

3.5 The backlog work was resumed at the start of October with forms now sent back from employers. 94 of the original backlog cases had already been completed before the project was paused in the summer.

3.6 The tables below show the original number and breakdown of queries identified following the end of year returns and the position as of the 14th of October 2022. The internal team working with the HPS employer team has been constantly chasing employers to submit their missing data in the summer months. Many employers have completely cleared their queries and their has been good engagement from the biggest schools payroll providers

as well clearing their outstanding data. The remaining queries are primarily with a few employers, St Marylebone School has 18 missing new starter forms and 5 leavers. St Marylebone has been chased more than six times and is not engaging with the pension team. The Head Teacher has been notified that the fund has raised an initial PAS charge of £100 which is effectively the charge for one missing new starter and one missing leaver form and asked to please respond. If there is still no response, we will be raising a second PAS invoice that covers all the outstanding data. We have also raised a PAS charge for Queen Elizabeth the Second and College Park schools also initially for £100 although they have a number of responses outstanding.

Total Queries identified						
Starters	**Leavers**	**Missing Data**	**Add Conts**	**Pay ***	**Other**	**Total ***
300	205	215	0	143	55	775

Outstanding Queries at 14/10/2022						
Starters	**Leavers**	**Missing Data**	**Add Conts**	**Pay ***	**Other**	**Total ***
34	5	33	0	6	0	78

3.7 The internal team are likely to continue to escalate PAS charges in certain circumstances now to support our requests for statutory data. The 78 cases that remain above are proving difficult to reduce just by requesting employers respond. The internal team has started proactive work with HPS and employers as well on current year data. We have compared the number of new starter and leaver records for the whole of 21/22 and compared to the data that HPS has up to the end of September 2022, in many cases there was a clear indication that the expected numbers of starters and leavers received thus far does not look reasonable when compared to last years data. Employers have been contacted and reminded that the KPI deadline for such data is 25 working days and that they need to review and take action if there is an issue. The current plan which we hope the board support would be to remind employers one more time in February 23 to ensure their data is up to date ahead of the annual returns at the end of April, then we charge for all late new starter and leaver cases.

3.8 The Pension Committee had previously agreed we could spend up to £6000 on address tracing with Target that HPS would manage for us. The £6000 was money effectively we had not used on a prior project we ran with Target and closed down when we moved the service last year to Hampshire Pension Services (HPS). HPS commenced tracing on two specific groups of

people that had not been traced previously. The First group is 1025 preserved refund records, the second is 1026 preserved benefit records where we have lost contact with the member.

3.9 In the initial trace identified 13 of the preserved refund members had died and 5 of the deferred had also died. HPS are now contacting the next of kin to settle any sums due and bring any dependent pensions into payment if applicable. Target identified 341 records as living as stated in their last known address and these records have been updated accordingly.

3.10 The initial tracing exercise has cost £2,379.16 within the £6000 already agreed. Target identified for both groups combined 941 records would require an IDV trace as outlined below with a cost of £4657.95 and that a further 751 records will require a full trace the cost for these would be £15020.00.

3.11 I have paused further tracing pending agreement with the Pension Committee. The combined cost of the IDV traces and the full traces is £19,677.95. The balance left over from the £6000 is £3620.84. A decision needs to be made on further tracing. Potentially there are three options, close the exercise now without further work but we will have 1692 records with no valid contact address on the record. Option two, we could potentially ask HPS to ask Target to complete the IDV traces which are cheaper to complete per member and the fund will potentially then spend £7037.11 in total on tracing or option three agree to the relevant tracing required for all 1692 records and the fund would have paid up to £22,057.11 to complete the exercise.

3.12 The Board should note that address data impacts our common data score outlined above in 3.1. In the September partnership report our fund membership including the preserved refunds is 19,709 so approximately 8.58% of the membership we don’t have a valid address for currently in these groups. If we want to continue to improve the data common data score significantly.

3.13 Below is a brief explanation of what each trace entails:

IDV1 - For those addresses found with a high grade match to the original address and lots of recent activity there, Target will send a letter letting them know that we have found their new address and will be updating their records in the next 7 days. They have the opportunity to contact Target if they haven’t found the correct address but the rate of this is very low.

IDV2 - Lower grade match where name and date of birth match records but less activity. These cases will have letters sent to the new address, inviting the member to call in where they will be taken through a level of security before confirming the address details.

Full Trace - Any records that were negative after the Auto Trace or the IDV process would be recommended for a Full Trace. This is a manual investigation to find and verify a new address for your members.

4 Cyber Security

4.1 On Saturday 24th September, Hampshire County Council (HCC) IT received a warning of suspicious activity on the UPM Member Portal, from the security alerting platform.

4.2 The connection attempt was blocked by one of the security layers in place at Hampshire, and immediate pro-active action was instigated to prevent risk of ongoing unauthorised access and potential data loss.

4.3 Following consultation with the Hampshire Director of Corporate Operations, both the Member Portal and the Employer Hub were blocked from access from the internet, as a preventative measure until the vulnerability could be fully investigated with the application provider (Civica). HPS advised Westminster on Monday the 26th of September of the issue. Both the Member Portal and the Employer Hub subsequently remained 'unavailable' to service users for 9 days.

4.4 Hampshire IT department and Civica have worked together since this time and kept Westminster informed, to determine whether the malicious third party had accessed any data from the UPM system itself. They have concluded this review and have found no evidence, in any log, that any data was accessed. This workstream is now complete.

4.5 Hampshire IT and Civica agreed several fixes and additional preventative measures to remove the exploited vulnerability and safeguard the Member and Employer Portals, and these were implemented on 27th September; they were then subjected to a rigorous testing regime to ensure that the vulnerability could no longer be exploited, as set out below.

4.6 On Thursday 27th October, Civica ran a series of internal tests whilst on site at HCC, from which they concluded with a high degree of confidence, that the measures implemented were effective and operating as anticipated.

4.7 On Friday 28th October, the Member Portal was brought back online for a period of circa 20 minutes; during this time an employee within Hampshire's IT department, who is trained as an Ethical hacker, worked remotely outside of the corporate network and attempted to exploit the vulnerability as an 'unauthenticated user', using the same 'access route' that the criminal 3rd party had used. He failed in his attempt to exploit the vulnerability, which gave a level of assurance that the vulnerability had been nullified.

4.8 On Monday 3rd October, a specialist external security testing company (2-Sec) were appointed/deployed (the same company who had identified the vulnerability in their original penetration testing), with the sole purpose of

testing the vulnerability and seeking to exploit it as an unauthenticated user (and with considerable prior knowledge of what they were seeking to exploit). 2-Sec have since confirmed that they were unable to exploit the vulnerability. The Member Portal was live during the duration of the penetration test but was again taken down on completion of the testing, to enable a formal decision to be made on whether HPS could now make both the Employer Hub and Member Portal available again over the internet.

4.9 On Tuesday the 4th of October, the Hampshire Director of Corporate Operations, based on the advice of the Head of IT Delivery, the IT Infrastructure Operations Manager and the Head of Pensions, took the decision to make both the Member Portal and Employer Hub available again over the internet (i.e. make them 'live' for Member and Employer access). As part of this decision, it was also agreed to turn 'geo-blocking' back on for the Member Portal (it was already in use for the Employer Hub). The funds employers were advised that the Employer Hub was available.

4.10 Geo-blocking effectively prevents access from certain geographical areas of the world. Initially the Geo-blocking would only allow access the Member Portal from the UK and the European Economic Area (EEA). However, this has now been extended to include America, Canada, Australia and New Zealand. Any of our members that reside outside of this zone will not be able to access the Member Portal going forward and HPS are going to contact anyone this impacts and ask them to make contact via phone or e-mail. HPS have advised that across all their various funds only 100 members currently are registered living in an area that will now be blocked. The Geo-blocking is necessary for our cyber security as most hacking attempts originate outside of the areas that HPS have cleared for access. The attempt that caused the above security issue was identified as originating in Singapore.

4.11 HPS have now included a regular slot on cyber security in the partnership report. HPS has regular penetration testing as part of Hampshire's annual testing each December, but they are looking to have a separate testing set up each summer which we support. We will be working with HPS to make sure that any identified cyber risks identified through regular testing are mitigated quickly. The risk register has been updated to highlight the ongoing risk of attempted hacking. It's important that the Member Portal and the Employer Hub are used.

5 Employer Updates / Other Admin Issues

5.1 The Funds data has been uploaded for the Biannual National Fraud Initiative (NFI). This is an exercise that will match our pension fund data with other public and private data sources to identify potential fraud. The last NFI exercise identified some deceased fund members we were unaware of including one pensioner where a significant overpayment was identified. I will update the Pension Board as we have any updates but it may be some time before anything comes back to the fund.

6. Summary

6.1 In Section 2, I covered the KPI data for the period July through September 2022 is 100% within the agreed target. The workload did increase in July and August and there is an increased number of cases on hold. This is due to increased workloads following chasing of missing data identified in the annual return exercise.

6.2 In section 3, I advise the Pension Board of the increase in the backlog cases as additional Pre-April 2021 leavers were identified following the annual return exercise. The backlog in total is now 536. I also update the Board on the data queries still outstanding from the annual return exercise and that we have started to issue PAS charges for late data. I advise the Board of work we are doing to remind employers in year to send in their data in and update on our approach going forward to help reduce the risk of further backlogs.

6.3 Additionally in section 3, I update the Pension Board on the address Tracing work, there is a potential maximum spend £22057.11.

6.4 In section 4, I covered a cyber security issue that closed the Member Portal and the Employer Hub for 9 days.

6.5 Finally I advised the committee that the funds data has just been submitted for the biannual NFI check.

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City of Westminster

Pension Fund Board

Date:	**3rd November 2022**
Classification:	**General**
Title:	**LGPS Projects & Governance Update**
Report of:	**Diana McDonnell-Pascoe** Pension Project and Governance Lead, People Services
Wards Involved:	**All**
Policy Context:	**Service Delivery**
Financial Summary:	**£5,000**

1. Introduction

The purpose of this paper is to update the Pension Board on the various projects and governance activities being undertaken by the Pensions and Payroll Team to improve the administration of the City of Westminster Pension Fund (COWPF) Local Government Pension Scheme (LGPS).

2. Current Projects

This section has been segregated into Statutory Projects and Non-Statutory Projects in order to underline our priorities. Current statutory projects are the Guaranteed Minimum Pension project and the McCloud project. Both projects are data driven and require a high degree of focus, scrutiny, and accuracy as they, at their conclusion, will affect pension benefits and pensions in payment. These projects are progressing well, and the highest priority project is the GMP project because we require all calculations to be completed by February 2023 so we can make the required benefits changes in advance of Pensions Increases in the next financial year. The McCloud project is progressing at a steady yet more cautious pace because there is a high degree of

manual review of the legacy data prior to providing the data to HPS in the format required.

2.1. Statutory Projects

2.1.1. Guaranteed Minimum Pension (GMP)

There are three stages to this project. Data Reconciliation, Data Analysis, and Data Rectification. Mercer completed the Data Reconciliation exercise with HMRC when our administration contract was with Surrey County Council. In August 2022, after receiving further data from our new administration providers, Hampshire Pension Services, Mercer commenced the data analysis portion of this project. We are expecting this phase to be completed mid-November and the rectification piece to start immediately afterwards. Our overall objective is to have the Data Rectification phase completed by February 2023 so that we can ensure our pensioners have any changes to their benefits calculated and put into payment, along with Pensions Increases, in April 2023. We are planning our communications strategy now so that we have all letters / communications ready to send to our pensioners once the calculations have been completed. We are working closely with HPS to ensure the communications are accurate and timely.

2.1.2. McCloud

As the Board is aware, the McCloud judgement was aimed at preventing age discrimination in the LGPS. This means that COWPF LGPS needs to recalculate the benefits for eligible members for the remedy period of 1st April 2014 to 31st March 2022.

The benefits recalculation is in two phases. Phase 1 requires the collection of data on eligible members and Phase 2 is the recalculation of benefits of eligible members. Once the benefits have been recalculated, the members

will be contacted and informed as to the changes, if applicable, to their benefits.

2.1.2.1. Workstream 1 – COWPF Employer Data Collection – led by Zuzana Fernandes, COWPF Pension Team

Zuzana has a monthly meeting with relevant HPS colleagues to monitor the employers and progress on the project on the Pension Fund's behalf. All employers are working with current and legacy payroll systems and providers to obtain the data required and there is slower progress with some employers due to the complexity of obtaining the data required.

HPS have received 20 of 37 completed service/break data sets from Westminster employers and initial data checks have been completed on all the data sets received. This represents 17.36% of the membership populate who are likely to require McCloud remedy. There are 17 employers yet to provide data. The HPS team are working with Westminster to encourage these employers to provide this as soon as possible. HPS have received 21 of 39 completed service/data sets from Westminster employers: for the period 1st April 2021 - 31st March 2022. This represents 15.32% of the membership who are likely to require McCloud remedy.

2.1.2.2. Workstream 2 – WCC Data Collection – led by Diana McDonnell-Pascoe, WCC Payroll Team

In this workstream we are collecting the McCloud data for Westminster City Council as an employer. We have three legacy payroll systems (Oracle, Agresso and CIPHR) and the current payroll system, IBC, to obtain the data from.

Current progress is as follows:

- Our IBC data has been collated and shared with HPS.
- Sarah Hay (BT Agresso) and Tracey Fuller (CIPHR) are manually reviewing the data already collated from the BT and CIPHR legacy systems. This is a highly intensive and manual process and is taking time to complete.

- We have completed the necessary Data Protection Impact Assessment and the CIPHR SQL database is being imported into the corporate data warehouse in preparation for the development of the PowerBI Interface. This work-strand is progressing in parallel with the manual review by TF.
- We have decided to pause on retrieving the Oracle data as the priority is to work through the data sets that we have got and get a working prototype of the PowerBI Interface before deciding our approach with Oracle. We expect to review this again in Q4 of this financial year and have a clearer approach on how to expedite this data retrieval.
- We have been updating HPS at a monthly meeting on McCloud so that they are apprised of our progress.

2.1.2.3. Workstream 3 – LGPS Benefits Recalculation Exercise – led by Hayley Read, HPS Pension Team

There is no update under this workstream yet because Phase 2 has not launched.

2.2. Non-Statutory Projects

2.2.1. Pension Website Review

There has been significant progress on the review since the last Board with the following outcomes achieved.

1. I held two user-centred focus groups in September facilitated by Neil Samson, an experienced user researcher with WCC's Customer Experience team and Marta Costa, an intelligence analyst with the Strategy and Intelligence team. Both focus groups were attended by various members of staff, staff network leads from the Women's Network, Able Network, Rainbow Network, and Multi-Faith Network as well as representatives from the Unison and GMB unions. We also had a communications representative, Mandy Judd, from our partners, Hampshire Pension Services at both sessions.

2. I had a technical review with Jessica Jones, Department Lead Digital - Creative Services and two officers in her team, Kieren Mollison, and Roger Patel, regarding the feasibility of the website content moving to and being maintained on the council website as well has discussing content creation and how best to use web traffic analytics to support our development.

3. I had a meeting with and received a quote from Jonathan Hassell of Hassell Inclusion with respect to auditing our Accessibility provision and providing training in digital content creation. Hassell Inclusion were retained by www.autism.org.uk to audit and develop their digital inclusion for their website which has specific functionality targeted towards the neurodiverse.

4. Additionally, I contacted and had various replies from the Alzheimers Society, Age UK and Dementia UK offering assistance or directing me to people who could assist me with my enquiries.

A full report and recommendation for direction of travel in strategy for our digital offering is being prepared and will be presented at the December 2022 Pension Board Meeting.

However, and in summary, the Value for Money review has understood and recognised the following points for consideration.

Firstly, the Fund has three main sources of information for members, pensioners, employers and interested parties i.e., a single webpage on the Council website dedicated to the Pension Fund and two external websites that are dedicated to the LGPS i.e. COWPF LGPS and HCC LGPS. These websites and their content are maintained and updated by different officers in different teams (and different organisations) and serve distinct but conceivably overlapping audiences. I feel at this stage in the review and post the user feedback we have received that, with due consideration, we can reduce these sources of information from three to two and achieve this by moving relevant COWPF LGPS information from the current COWPF LGPS website to a new and dedicated section of the Westminster

Council website. I have worked with Kieren Mollison, Senior Multimedia Content Officer to mock up a near replica of the existing website on the Council site and although it needs developing, I believe it to be broadly equivalent to the existing COWPF LGPS site. This similarity is important because user feedback on the accessibility and ease of use of the current website praised the clean graphics, abundance of white space and clearly delineated menus.

Secondly, any digital offering we provide will need to be supported and resourced appropriately because in order to ensure value to our core audiences, we will need to be able to maintain and monitor content creation and provision, ensure appropriate technical support to the Pensions Team, satisfy evolving accessibility requirements as well as ensuring innovation, development and future-proofing in a world where most transactions and information is increasingly accessed and retrieved from online and digital sources. Cyber-Security is also a major factor in our decision making. Therefore, all research into changing from our specialist hosting service, Hymans Robertson, to a generic hosting service, e.g., Go Daddy, to save money has been discarded because we need specialist support and so would need to buy it in thus negating any cost saving. However, by moving to the Council website, we expect to have the cost saving we were targeting and the support of trained officers in the content and technical ability that we need. The only caveat to this is that Hymans Robertson provides updates to certain information on the website by default and we will need to ensure that these updates are supported in some way should we move from them.

Thirdly, and most importantly, we have recognised the need to have a proper digital communications strategy that services our users and provides information and resources in the best possible way to our members, pensioners, employers, and other interested parties including the media. Therefore, we will continue our user research (and expand it to include employers and pensioners) and develop a distinct digital comms strategy in partnership with Hampshire Pension Services, the relevant Comms and Intelligence teams at the Council and any suitable external subject matter experts. This is important because without evidence-based research and a comprehensive strategy, we will not be certain to continue

to provide good service to our users and, we could miss opportunities to showcase the Fund's Environment, Social and Governance work and updates or refinements to the Scheme's news, legislation changes, guidance, and resources.

In conclusion, I feel that we can certainly provide better value for money by decommissioning the current website and moving the relevant content to a curated part of the Council's website. I feel we will benefit greatly from partnering with the council's user research, strategy and intelligence and digital services teams. However, as this move will take significant co-ordination with our council colleagues and include careful project and communications planning, further user research etc, we will be unable to decommission the website before the annual renewal fee is due at the beginning of November 2022.

Therefore, I have asked the Committee's approval to extend our licence period for an additional year so that we can plan accordingly. At the time of writing this paper, we have not received the additional year's prices, but I expect it to fall in the range of minimum £4,000 - £5,000 maximum. I will present further on this project at the next Board meeting.

3. Upcoming Projects

3.1. Pensions Dashboards

As presented in my last paper, the Pensions Dashboard as per the programme initiated by The Money and Pensions Service (MaPS), will become a priority project in the next financial year when we go to stage between April 2023 and September 2024. We are reviewing progress on this with HPS at each monthly partnership meeting and they are currently in the tender process to appoint a digital partner. There is no further update on this currently and I will update the Board on this in due course.

4. Summary

4.1. The Guaranteed Minimum Pension project data analysis phase is underway, and rectification calculations are due to start mid-November and conclude in February ahead of Pensions Increases.

4.2. The McCloud project is continuing with Zuzana Fernandes working with Employers, particularly schools, to submit their data to Hampshire Pensions Services as quickly as possible. The internal “WCC as an employer” work is continuing with the current IBC payroll data already submitted and efforts continuing in extracting and verifying the data from the legacy systems. We also have begun work to import the CIPHR data sets into the corporate data warehouse and development work on the PowerBI interface will commence shortly. I expect to have a more detailed update at the next meeting.

4.3. The Pensions Website review is past its first stage and initial conclusions are that it would be best to decommission the existing website and move relevant content to www.westminster.gov.uk. However, as this will need to be a defined project with significant internal stakeholders, I am asking the Committee’s approval to renew the licence with Hymans Robertson so that the move and decommission can be planned. The cost is expected to be between £4k and £5k.

4.4. The Pensions Dashboard, as per the programme initiated by The Money and Pensions Service (MaPS), will be a priority project in the next financial year. COWPF LGPS will need to supply data to the dashboard, and we will work with HPS and Civica to connect to the dashboard when it is time for us to be staged. The staging period will be between April 2023 and September 2024; however, we will need to work on preparing the connections between now and then.

City of Westminster

Pension Board

Date:	**3 November 2022**
Classification:	**Public**
Title:	**Fund Financial Management**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Phil Triggs** **Tri-Borough Director of Treasury and Pensions** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. Executive Summary

1.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The top five risks are highlighted in the report below.

1.2 The cashflow forecast for the next three years has been updated, with actuals to 30 September 2022 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 Board is asked to note the top five risks for the Pension Fund.

2.2 The Board is asked to note the cashflow position for the Pension Fund bank account and cash held at custody, the rolling twelve-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, as updated in September 2022, are highlighted in the table below:

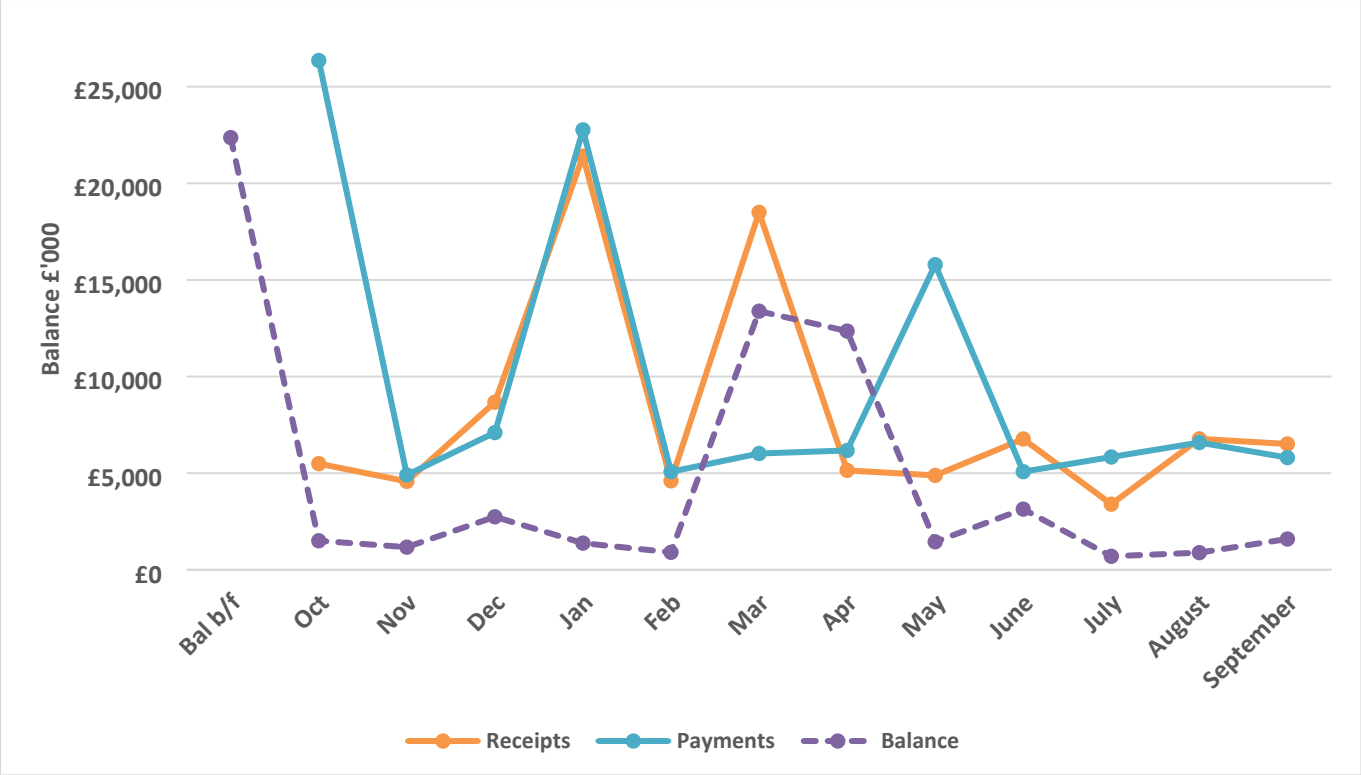
CIPFA Risk Group	Risk Rank	Risk Description	Trending
Liability Risk	1st/40	Price inflation is significantly more than anticipated in the actuarial assumptions. Inflation continues to rise in the UK and globally due to labour shortages, supply chain issues, and high energy prices. CPI was 9.9% in the year to August 2022. The government's energy relief package for domestic households is expected to have a significant downward pressure on CPI.	
Asset and Investment Risk	2nd/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 £1.86m. The Fund returned -4.83% net of fees in the year to 31 August 2022, slightly outperforming the benchmark by 0.33% net of fees. Much of this underperformance can be attributed to the equity and fixed income mandates.	
Asset and Investment Risk	3rd/40	Increased risk to global economic stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with volatility in oil and commodity prices, as well as the weakening of the pound. Leading to tightened financial conditions, reduced risk appetite and raised credit risks. Geo-political risk as a result of events and political uncertainty.	
Asset and Investment Risk	4th/40	Increased scrutiny on environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in September 2019, how this will affect the Pension Fund going forward is currently unknown. TCFD regulations impact on LGPS schemes currently unknown but expected to come into force during 2023.	
Administrative and Communicative Risk	1st/16	The increase in online hacking poses a continual risk to members personal data, as well as potential disruption issues for members accessing the online pension portal. In these instances, Hampshire Pension Services would need to take the portal offline to ensure the system and data is secure.	**NEW**

4. Cashflow Monitoring and Forecasted Cashflows

4.1 The balance on the Pension Fund's Lloyds bank account at 30 September 2022 was £1.6m. 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 an annual basis. During the year, withdrawals from cash at custody are expected to take place to maintain a positive cash balance.

Changes in the bank balance from 1 October 2021 to 30 September 2022

4.2 Payments and receipts have remained stable over the last twelve



months. Officers will continue to keep the cash balance under review and take appropriate action where necessary to maintain necessary liquidity. During the year, the Fund has received deficit recovery receipts from the Council, which have subsequently been paid over to the custodian for safeguarding. The Council made a final deficit recovery payment to the Pension Fund during March 2022. During the quarter, the Fund withdrew £6m from cash at custody to maintain a positive cash balance.

4.3 The Pension Fund held £4.1m in cash with the global custodian, Northern Trust, as at 30 September 2022. 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 following table shows the cash inflows and outflows within cash at custody for the three-month period from 1 July 2022 to 30 September 2022.

Cash at Custody	July	Aug	Sep
	£000	£000	£000
	Actual	Actual	Actual
Balance b/f	**16,351**	**4,295**	**7,598**
Distributions	881	142	2,734
Deficit Recovery	0	0	0
Sale of assets	0	35,000	0
Interest	209	7	10
Cash withdraw	(2,000)	(2,000)	(2,000)
Foreign Exchange Gains/Losses	177	14	96
Purchase of Assets	(11,156)	(29,860)	(4,330)
Miscellaneous	11	(0)	0
Management fees	(178)	0	23
Balance c/f	**4,295**	**7,598**	**4,131**

4.4 Over the quarter, capital calls relating to the Pantheon Global Infrastructure fund, Quinbrook Renewables Impact mandate, Macquarie Renewable Infrastructure fund, Man Group Community Housing Fund and CVC Credit Private Debt fund took place. During August 2022, sales of £25m and £10m took place within the Insight Buy and Maintain Bond fund and NT Ultra Short Bond fund respectively, to fund these capital calls.

4.5 Following the expected increase in the cashflow deficit, Officers have switched the majority of funds from accumulating to distributing share classes. Therefore, going forward, we can expect the level of distributions to increase.

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 July 2022 to 30 September 2022. The total cash balance as at 30 September 2022 was £5.7m.

Cash at custody & Bank account	Jul	Aug	Sep
	£000	£000	£000
	Actual	Actual	Actual
Balance b/f	**19,491**	**4,994**	**8,486**
Cash outflows	(16,983)	(36,433)	(10,113)
Cash inflows	2,486	39,925	7,352
(Withdraw)/Deposit from custody to bank account	(2,000)	(2,000)	(2,000)
Withdraw/(Deposit) from bank account to custody	2,000	2,000	2,000
Balance c/f	**4,994**	**8,486**	**5,725**

4.7 The following table illustrates the expected cashflow for the 12-month period from 1 April 2022 to 31 March 2023 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%. Pension payments are linked to CPI-inflation.

Current Account Cashflows Actuals and Forecast for period April 2022 - March 2023:

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	*Oct-22*	*Nov-22*	*Dec-22*	*Jan-23*	*Feb-23*	*Mar-23*	*Total*
	£000	£000	£000	£000	£000	£000	*£000*	*£000*	*£000*	*£000*	*£000*	*£000*	
	Actual	Actual	Actual	Actual	Actual	Actual	*F'cast*	*F'cast*	*F'cast*	*F'cast*	*F'cast*	*F'cast*	
Balance b/f	**13,383**	**12,353**	**1,448**	**3,140**	**699**	**888**	***1,594***	***854***	***1,115***	***1,375***	***1,636***	***1,396***	***£000s***
Contributions	4,647	3,285	5,755	840	3,318	3,735	*3,274*	*3,274*	*3,274*	*3,274*	*3,274*	*3,274*	*41,226*
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	497	1,600	1,015	556	1,458	777	*520*	*520*	*520*	*520*	*520*	*520*	*9,020*
Pensions	(3,587)	(3,641)	(3,613)	(3,647)	(3,627)	(3,656)	*(3,637)*	*(3,637)*	*(3,637)*	*(3,637)*	*(3,637)*	*(3,637)*	*(43,592)*
HMRC Tax Payments	(615)	(675)	(666)	(653)	(672)	(674)	*(634)*	*(634)*	*(634)*	*(634)*	*(634)*	*(634)*	*(7,761)*
Transfers out, lump sums, death grants, refunds & misc. payments	(1,966)	(1,337)	(647)	(1,484)	(2,138)	(1,453)	*(1,095)*	*(1,095)*	*(1,095)*	*(1,095)*	*(1,095)*	*(1,095)*	*(15,594)*
Expenses	(6)	(137)	(152)	(52)	(150)	(23)	*(167)*	*(167)*	*(167)*	*(167)*	*(167)*	*(167)*	*(1,525)*
Net cash in/(out) in month	**(1,030)**	**(905)**	**1,692**	**(4,441)**	**(1,811)**	**(1,294)**	***(1,739)***	***(1,739)***	***(1,739)***	***(1,739)***	***(1,739)***	***(1,739)***	***(18,226)***
Withdrawal/(deposit) from custody cash	0	(10,000)	0	2,000	2,000	2,000	*1,000*	*2,000*	*2,000*	*2,000*	*1,500*	*2,000*	*6,500*
Deficit Recovery Contributions	0	0	0	0	0	0	*0*	*0*	*0*	*0*	*0*	*0*	*0*
Balance c/f	**12,353**	**1,448**	**3,140**	**699**	**888**	**1,594**	***854***	***1,115***	***1,375***	***1,636***	***1,396***	***1,657***	

4.8 The three-year cashflow forecast for 2022/23 to 2024/25 for the Pension Fund's Lloyds bank account is shown below. Forecast cashflows are calculated using the previous year's cashflows which are then inflated by 2%, with pensions payable linked to CPI-inflation.

Three Year Cashflow Forecast for 2022/23 to 2024/25:

	2022/23	2023/24	2024/25
	£000	£000	£000
	F'cast	F'cast	F'cast
Balance b/f	**13,383**	**542**	**761**
Contributions	39,291	40,077	40,878
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	6,236	6,361	6,488
Pensions	(43,642)	(48,006)	(50,406)
HMRC Tax	(7,614)	(7,766)	(7,921)
Transfers out, lump sums, death grants, refunds & misc. payments	(13,136)	(13,399)	(13,667)
Expenses	(2,008)	(2,048)	(2,089)
Net cash in/(out) in year	**(20,873)**	**(24,781)**	**(26,717)**
Withdrawal/(deposit) from custody cash	8,000	25,000	27,000
Deficit Recovery Contributions	32	0	0
Balance c/f	**542**	**761**	**1,044**

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

BACKGROUND PAPERS: None

APPENDICES: None

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City of Westminster

Pension Board

Date:	**3 November 2022**
Classification:	**General Release**
Title:	**Performance of the Council's Pension Fund**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.**
Report of:	**Phil Triggs** **Tri-Borough Director of Treasury and Pensions** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 This report presents the performance of the Pension Fund's investments to 30 September 2022.

1.2 The Fund returned -1.76% net of fees over the quarter to 30 September 2022, slightly underperforming the benchmark by -0.39%.

2. RECOMMENDATION

2.1 The Board is asked to:

- Note the performance of the investments.

3. BACKGROUND

3.1 This report presents a summary of the Pension Fund's performance to 30 September 2022.

3.2 The market value of investments decreased by £36m to £1.691bn over the quarter to 30 September 2022, with the Fund returning -1.76% net of fees. The Fund slightly underperformed the benchmark by -0.39%, with the equity mandates and fixed income portfolios being the main detractors to performance.

3.3 Much of this underperformance can be attributed to continued heightened inflationary concerns alongside the supply chain disruption caused by the ongoing conflict in Ukraine and strict lockdown measures in China. There was also heightened market volatility following the unveiling of the Chancellor's mini budget on 23 September and Bank of England interventions in the UK Gilts market.

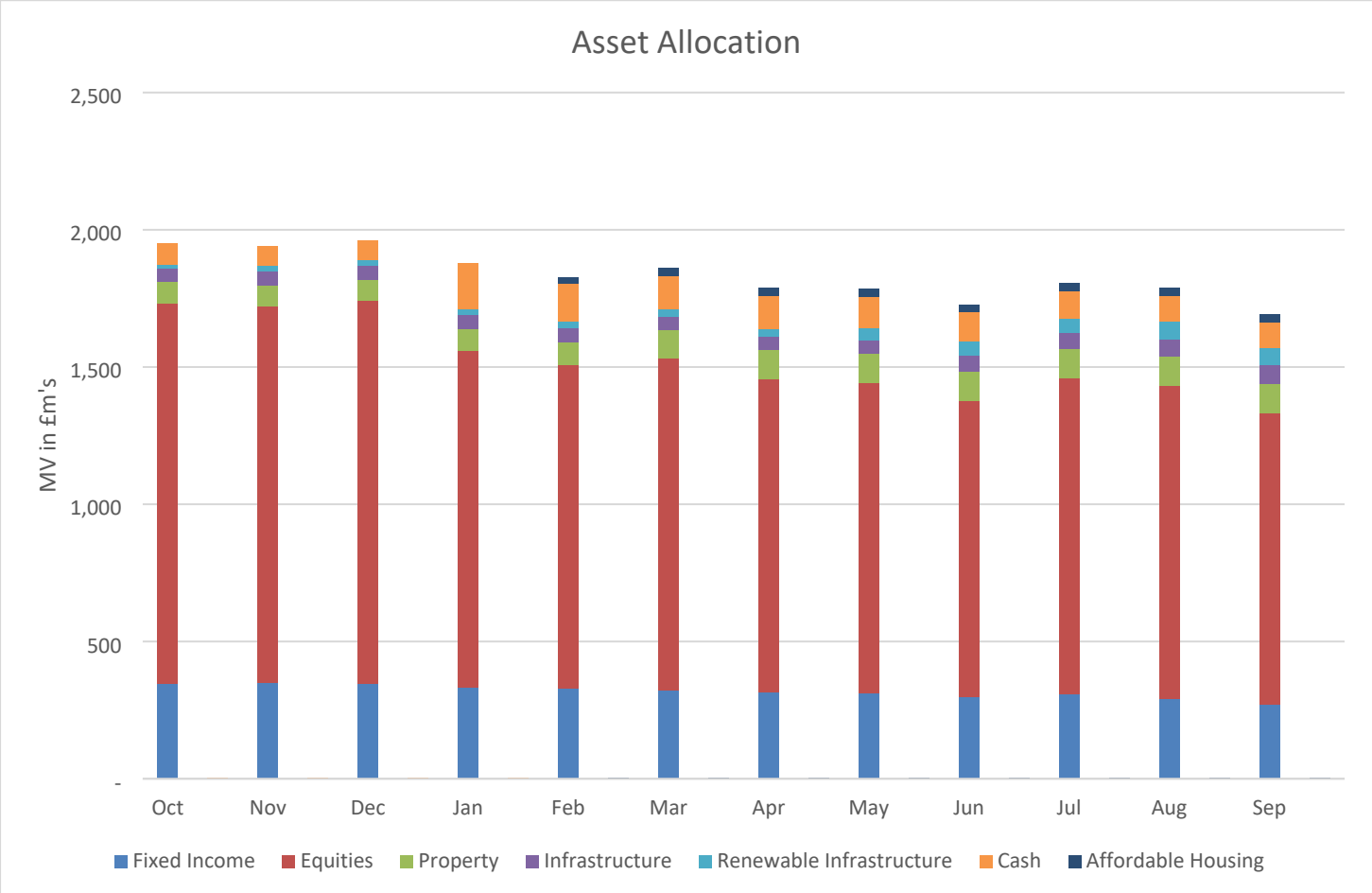
3.4 The Fund's underperformance was partially offset by strong outperformance of benchmarks within the Abrdn Long Lease Property fund and Quinbrook Renewable Infrastructure, which outperformed by 9.72% and 13.59% net of fees respectively.

3.5 Over the 12-month period to 30 September 2022, the Fund underperformed its benchmark net of fees by -3.79% returning -11.54%. This underperformance can be largely attributed to the Baillie Gifford (LCIV) Global Alpha Growth mandate, with the strategy's large-cap growth stock bias proving detrimental as investors sought safety in value-oriented parts of the market. Alongside this, there has been poor performance within the fixed income mandates, largely due to the base rate increases over the last 12 months.

3.6 The Abrdn long lease property fund has again performed strongly over the one-year period, outperforming its benchmark by 28.20% net of fees, owing to a rise in gilt yields over the year with the fund benchmarked against Gilts +2%. Alongside this, the Pantheon Infrastructure fund, Quinbrook Renewables and Macquarie Renewable Infrastructure mandate have returned 37.34%, 23.70% and 23.66% net of fees, respectively. Over the longer three-year period to 30 September 2022, the Fund slightly underperformed the benchmark net of fees by -0.39%.

4. ASSET ALLOCATION AND SUMMARY OF CHANGES

4.1 The chart shows the changes in asset allocation of the Fund from 1 October 2021 to 30 September 2022. Please note asset allocations may vary due to changes in market value.



*Fixed Income includes bonds, multi asset credit (MAC) and private debt
**Cash includes the NT ESG Ultra Short Bond Fund and Ruffer (LCIV) Absolute Return Fund

4.2 The current Westminster Pension Fund target asset allocation is 60% of assets within equities, 19% in fixed income, 6% in renewable infrastructure, 5% within infrastructure, 5% within property and 5% to affordable and socially supported housing.

4.3 During the quarter to 30 September 2022, capital calls for the Pantheon Global Infrastructure fund, Quinbrook Renewable Infrastructure fund and CVC Credit Private Debt mandate took place. Sales within the Insight Buy and Maintain Bond fund and Northern Trust ESG Short Duration Bond fund took place to fund these calls.

5. LONDON CIV UPDATE

5.1 The value of City of Westminster Pension Fund investments directly managed by the London CIV as at 30 September 2022 was £840m, representing 50% of Westminster's investment assets. A further £358m continues to benefit from reduced management fees, through Legal and General having reduced its fees to match those available through the LCIV.

5.2 During April 2022, Mike O'Donnell announced he would be stepping down from his role as CEO from March 2023. Following the quarter end, Dean Bowden was appointed as the successive London CIV CEO, with an anticipated start date of November 2022. Mike will support Dean in the period of transition before stepping back from the full time role. Dean joins the London CIV from Quilter Investors where he was most recently CEO and Director of Quilter Investors Portfolio Management and Managing Director and Director of Quilter Investors Limited.

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

Background Papers: None

Appendices: None

City of Westminster

Pension Board

Date:	**3 November 2022**
Classification:	**General Release**
Title:	**Actuarial Valuation: Initial Outcome**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.**
Report of:	**Phil Triggs** **Tri-Borough Director of Treasury and Pensions** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 This paper introduces the initial results of the 2022 triennial actuarial valuation process for the Westminster City Council Pension Fund, which are further discussed in Appendix 1, as set out by the Pension Fund actuary, Hymans Robertson (Hymans).

1.2 The key highlights are:

- The whole funding level has risen to 128% from the 99% level in 2019, which is broadly due to the excellent investment returns over the period, as well as the Council's additional deficit recovery payments.

- The major changes to the 2022 actuarial financial assumptions are an increase CPI inflation which is linked to pension payments and salary increases. The discount rate is expected to remain the same.

2. RECOMMENDATIONS

2.1 That the Pension Board note and comment on the initial actuarial results.

3. INITIAL ACTUARIAL RESULTS

3.1 In the period from 2019 to 2022, the Pension Fund has increased its overall funding level from 99% to 128%. The main drivers for this improvement are the excellent investment returns and significant, additional deficit recovery payments received from the Council.

3.2 The funding level for Westminster City Council (as a single employer) stands at 111%, improving from 86% previously. Specifically, the effect of strong asset returns and the significant secondary contributions have helped to improve the funding position.

4. CHANGES TO ACTUARIAL ASSUMPTIONS

4.1 A number of assumptions are made during the triennial actuarial valuation process, with the two most significant being longevity projections and the discount rate used to value liabilities.

4.2 The actuarial analysis suggests a long-term trend of 1.5% annual improvements in longevity. When adjusted for the LGPS, this leads to a reduction in liability values. Alongside this, the COVID-19 pandemic has resulted in reduced longevity since 2020, although the reduction in liabilities attributable to the pandemic is estimated to be only circa 0.1% to 0.2%.

4.3 The real discount rate, a proxy for the real investment return, has remained stable at 4.8%. The discount rate is set with reference to the likelihood of the Fund's investment return achieving a certain level of return over the next 20 years. Based on the Hymans analysis as at 31 March 2022, the Fund's assets have a 67% likelihood of returning 4.8% per annum over the next 20 years

5 NEXT STEPS

5.1 The next steps for the Pension Fund Committee will be to agree a Funding Strategy Statement at the next Pension Fund Committee meeting in 2023, in tandem with receipt of the final actuarial valuation report and new investment strategy statement in March 2023.

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

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Initial Actuarial Valuation Outcome 2022

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City of Westminster Pension Fund

Actuarial valuation at 31 March 2022

Initial results

Steven Scott FFA

Catherine McFadyen FFA

14 October 2022
For and on behalf of Hymans Robertson LLP

Use the menu bar above to navigate to each section.

Contents

In this report:

A glossary of technical terms used in this report can be found in Appendix 5

Executive summary

Funding position

The reported funding position has improved from 99% as at 31 March 2019 to 128% as at 31 March 2022.

The required investment return to be 100% funded is now 3.3% pa (4.9% pa at 2019).

The likelihood of the Fund's investment strategy achieving the required return is 82% (64% at 2019).

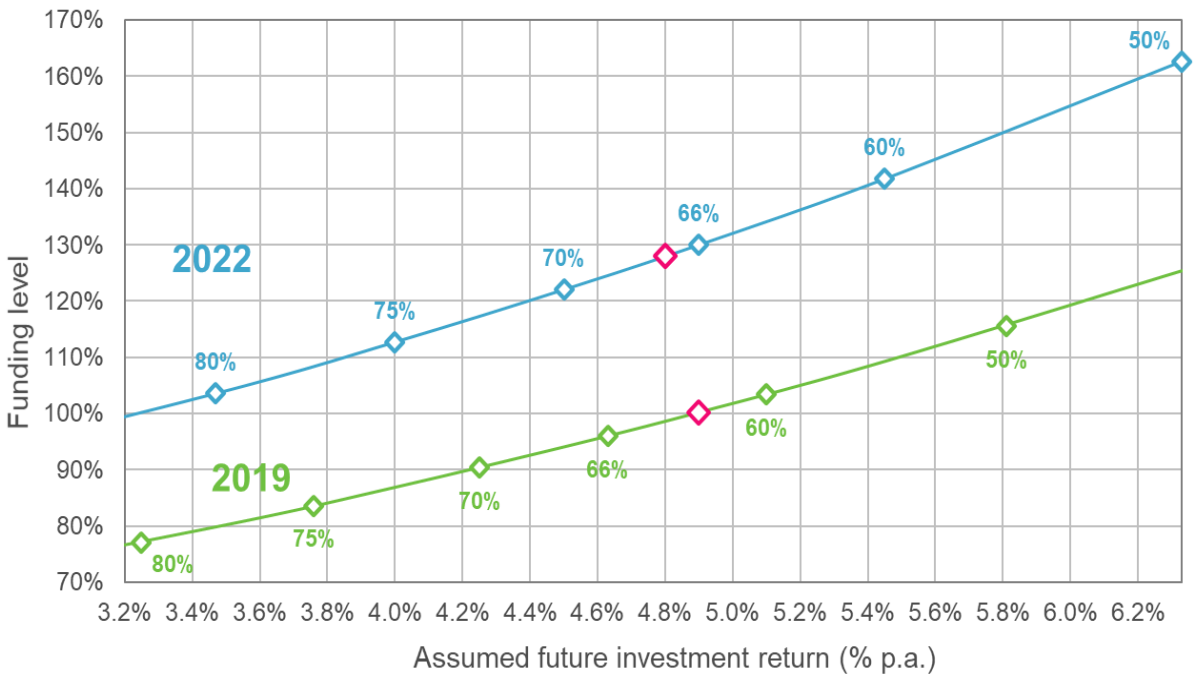
Changes since the last valuation

Factors driving funding position improvement are:

- stronger than expected investment returns
- significant additional contributions made following the 2019 valuation

These have more than offset the effect of the higher short to medium-term inflation expectations.

The Covid-19 pandemic has seen a higher level of mortality in the membership than expected. However, the funding impact on liabilities has not been significant.



The valuation process

The valuation process

1. Data cleansing — Spring 2022
2. Assumptions advice — Q2 2022
3. Data provision — Summer 2022
4. Funding Strategy Statement — Summer 2022
5. **Initial results** — **NOW**
6. Employer risk management — Q3/Q4 2022
7. Employer results — Q4 2022
8. Employer discussions — Q1 2023
9. Valuation sign off — March 2023

Initial results

This report:

- presents the funding position of the City of Westminster Pension Fund ("the Fund") on the valuation date of 31 March 2022
- explains why the funding position has changed since the last valuation in 2019
- shows the sensitivity of the funding position

There are two main actions:

1. Understand the fund-level funding position, noting this does not directly drive individual employer contribution rates.

2. Identify risks to explore and consider options for management.

Data and assumptions

Data

We have used the below data provided by the Administering Authority:

- Membership data uploaded to the DataPortal on 15 July 2022
- Cashflow data uploaded to the DataPortal on 27 July 2022
- Investment data, provided over the intervaluation period

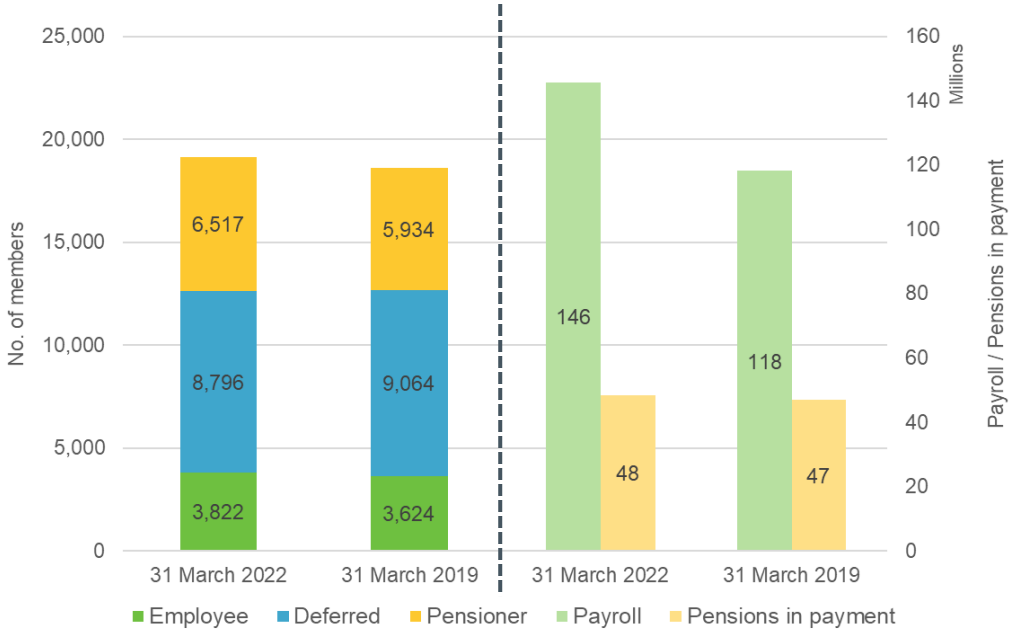
The data provided to us for the purpose of the 2022 valuation was incomplete and we have had to make various assumptions to supplement this to make it appropriate for use at the 2022 valuation. We can only estimate missing elements of membership data and these use of these estimates limits the reliability of the valuation results.

The adjustments we have made to the data are designed to ensure that the funding position meets the requirement for us to value these liabilities prudently.

For the avoidance of doubt, the resulting valuation positions are suitable on which to base calculations of contribution rates for all employers for the period from 1 April 2023 to 31 March 2026.

Future valuations carried out using more accurate data may lead to a difference in the past service funding position.

Membership summary



The figures in this report are based on our understanding of the benefit structure of the LGPS in England and Wales as at 31 March 2022. Details can be found at http://www.lgpsregs.org/.

Assumptions

To set and agree assumptions for the valuation, the Administering Authority commissioned an assumption setting paper – 'City of Westminster Pension Fund – Actuarial Valuation at 31 March 2022 – Advice on assumptions'. The assumptions represent the 'best estimate' of future expectations – that means we estimate there is a 50% chance that future events will be better or worse than the assumption. The discount rate is the exception, as it includes the margin of prudence required by the LGPS Regulations.

Financial assumptions

Summary of assumptions used for measuring the funding level, compared to last valuation on 31 March 2019

Assumption	31 March 2022	Required for	31 March 2019
Discount rate	4.8% pa	To place a present value on all the benefits promised to scheme members at the valuation date. The Fund's assets are estimated to have a 67% likelihood of returning above the discount rate over the next 20 years.	4.8% pa
Benefit increases/CARE revaluation	2.7% pa	To determine the size of future benefit payments.	2.6% pa
Salary increases	3.7% pa	To determine the size of future final-salary linked benefit payments.	3.6% pa

Assumptions

Demographic assumptions

Longevity

Whole fund average life expectancies from age 65, with 2019 comparison.

	31 March 2022	31 March 2019
Male pensioner	22.3 years	21.7 years
Male non-pensioner	23.6 years	23.1 years
Female pensioner	24.7 years	24.3 years
Female non-pensioner	26.2 years	25.8 years

Pensioners are assumed to be aged 65 at the respective valuation date and non-pensioners are assumed to be aged 45.

Other demographic assumptions

Death in service	See sample rates in Appendix 2
Retirements in ill health	See sample rates in Appendix 2
Withdrawals	See sample rates in Appendix 2
Promotional salary increases	See sample rates in Appendix 2
Commutation	50% of future retirements elect to exchange pension for additional tax free cash up to HMRC limits
50:50 option	0.0% of members (uniformly distributed across the age, service and salary range) will choose the 50:50 option
Retirement age	The earliest age at which a member can retire with their benefits unreduced
Family details	A varying proportion of members are assumed to have a dependant at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. The dependant of a male member is assumed to be 3 years younger than him and the dependent of a female member is assumed to be 3 years older than her.

Further information on these assumptions can be provided upon request.

Assumptions

Benefit structure

Results are based on our understanding of the benefit structure of the LGPS in England and Wales on 31 March 2022 – see www.lgpsregs.org. However, there are areas of uncertainty and potential change.

McCloud

Benefits accrued by certain members between 2014 and 2022 may increase following the McCloud case, which ruled that transitional protections introduced in 2014 for older members were discriminatory. We've made an allowance for the cost of these potential improvements, based on the guidance issued by Department of Levelling Up, Housing and Communities on 22 March 2022. We expect minimal impact for most employers.

Cost sharing mechanism

Benefits could change because of the 2020 cost cap valuation; the outcome is currently unknown. There is also an ongoing legal challenge to the 2016 cost cap valuation. We have assumed that there will be no changes required to the benefit structure due to cost cap.

Guaranteed Minimum Pension equalisation and revaluation

We have assumed the Fund will pay all increases on GMP for members with a State Pension retirement date after 5 April 2016, as we did in the 2019 valuation.

Other legal cases

Benefits could change as a result of other legal challenges (eg the Goodwin case affecting partner pensions). Given the lack of information about possible benefit changes and their relatively small impact, we have made no allowance for these changes.

Fund-level results

Projected future benefit payments

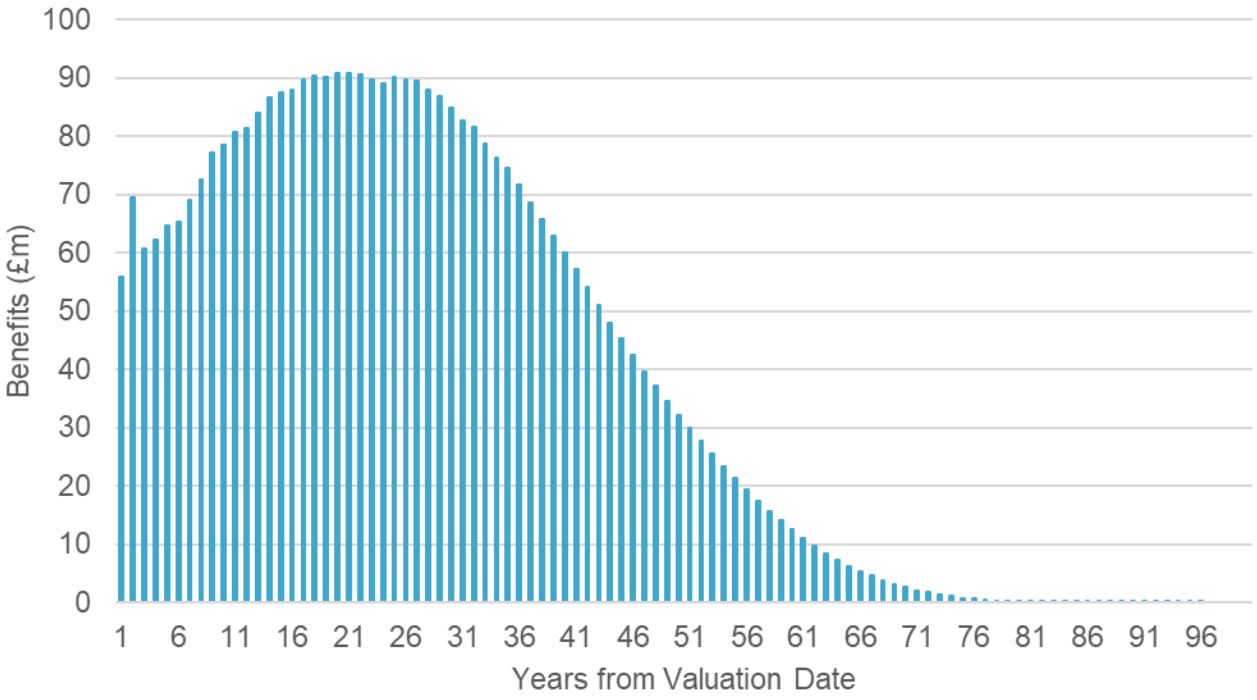
Combining membership data and the assumptions allows us to project future benefit payments for all benefits accrued up to 31 March 2022.

The projection will be different from the last valuation due to:

1. Events between 2019 and 2022 which were different from expectations – reflected in the updated membership data.
2. Estimates of the future which have changed – reflected in the updated assumptions.

Notes about the model:

The cashflow peak in Year 2 is a feature of the cashflow model, which assumes all active members older than their retirement age retire 1 year after the valuation date. The dips in cashflow in years 22 and 23 correspond with changes in state pension age.



Funding position as at 31 March 2022

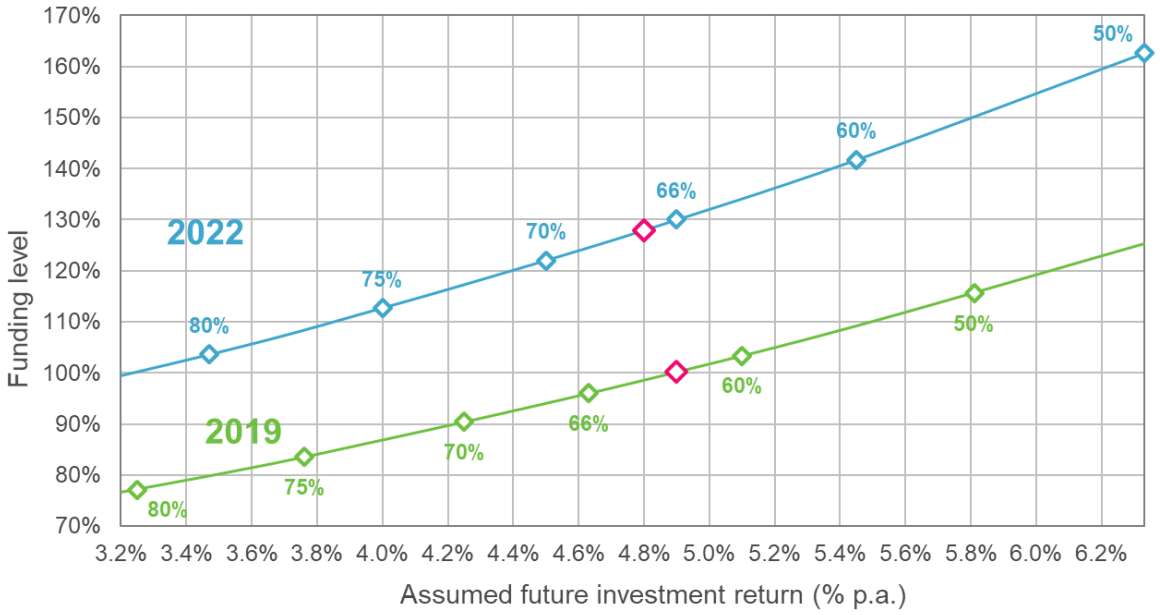
We can place a single value on all the future projected benefit payments for current members, called the liabilities. Comparing the liabilities to the market value of the Fund's assets at the valuation date provides the funding level (assets divided by liabilities).

To calculate the liabilities, we discount the benefit payments with an assumed future investment return (the 'discount rate'). Future investment returns are uncertain, so we calculate the liabilities and funding level across a range of future investment returns.

To help stakeholders better understand funding risk, we also calculate the likelihood of the Fund's investment strategy achieving certain levels of return.

- The reported funding position has improved from 99% as at 31 March 2019 to 128% as at 31 March 2022.
- The funding level is 100% if future investment returns are c.3.3% pa
- The likelihood of the Fund's assets yielding at least this return is around 82%.
- The comparator at 2019 was a return of 4.9% pa which had a likelihood of 64%.
- There is a 50% likelihood of an investment return of 6.3% pa. So the best-estimate funding level is 163% at 31 March 2022 (116% at 2019).

Funding level across a range of future investment returns



Figures on each line show the likelihood of the Fund's assets exceeding that return at the valuation date

Single funding position as at 31 March 2022

The chart on the previous page provides stakeholders with a better understanding of the funding position. However, we are still required to report a single funding position at 31 March 2022.

To report a single funding level and funding surplus/deficit for the 2022 valuation, a discount rate of 4.8% pa has been used. There is a 67% likelihood associated with a future investment return of 4.8% pa.

This table details the liabilities, split by member status and the market value of assets at the valuation date. The results at the 2019 formal valuation are shown for comparison.

The funding level and surplus/deficit figures provide a high-level snapshot of the funding position on 31 March 2022. There are limitations:

- The liabilities are calculated using a single set of assumptions about the future, so are very sensitive to the choice of assumptions.
- The market value of assets changes daily

Valuation Date	31 March 2022	31 March 2019
Past Service Liabilities	**(£m)**	**(£m)**
Employees	364	323
Deferred Pensioners	375	392
Pensioners	727	716
Total Liabilities	**1,466**	**1,431**
Assets	**1,876**	**1,411**
Surplus/(Deficit)	**410**	**(20)**
Funding Level	**128%**	**99%**

Important: *the reported funding level does not directly drive employers' contribution rates. Contribution rates consider how assets and liabilities will evolve over time in different economic scenarios and reflect each employer's funding profile and covenant.*

Changes since the last valuation

Events between 2019 and 2022

Financial

	Expected	Actual	Difference	Impact on funding position
Investment returns				
3 year period	15.1%	27.5%	12.4%	+£181m
Annual	4.8% pa	8.4% pa	3.6% pa	

The Fund's expenses (in relation to non-investment activities) over the last 3 years have totalled £4.6m. This figure is equivalent to 1.0% of the Fund's total pensionable pay. We will make allowance for the Fund's expenses by adding an allowance of 1.0% of pay to employer contribution rates from 1 April 2023.

Membership

	Expected	Actual	Difference	Impact on funding position
Pre-retirement				
Early leavers	491	1,683	1,192	+£9m
Ill-health retirements	12	8	-4	+£0m
Salary increases	3.6% pa	5.7% pa	2.1% pa	-£17m
Post-retirement				
Benefit increases	2.3% pa	1.8% pa	-0.6% pa	+£20m
Pension ceasing	£3.2m	£3.2m	£0.0m	+£1m

The most significant external event since the last valuation was the Covid-19 pandemic. The experience analysis shows that sadly, there were a higher than expected number of deaths. However, the impact on the funding position has been small, likely due to the age profile of the excess deaths and the level of pension.

Changes since the last valuation

Future expectations

Factor	What does it affect?	What's changed?	Impact on liabilities
Future investment returns	The rate at which future benefit payments are discounted back, ie the discount rate assumption	Future investment return expectations are broadly unchanged.	No impact
Inflation	The rate at which pensions in payment and deferment and CARE pots increase	Significant increase in short-term future inflation expectations.	Increase of £28m
Salary increases	The rate at which future salaries increase. This affects benefits that are still linked to final salary, ie accrued before 1 April 2014	No material change since last valuation given competing factors e.g. tighter budgetary conditions vs. strong job market and pressure from National Living Wage increases.	Decrease of £3m
Current life expectancy	How long we expect people to live for based on today's current observed mortality rates.	Slight reduction in life expectancy based on current observed data (not allowing for Covid-related excess deaths)	Decrease of £15m
Future improvements in life expectancy	How we expect life expectancies to change (increase) in the future.	Uncertainty about effectiveness of mitigations against life expectancy increases in the LGPS i.e. State Pension Age increases and Cost Cap. Need to better reflect wider pension and insurance industry long-term expectations.	Decrease of £1m

Reconciling the overall change in funding position

The tables below provide insight into the funding position changes between 31 March 2019 and 31 March 2022. Firstly, the changes we expect to happen, which relate mostly to items on the asset side. Then the impact of actual experience, which mainly affects the liabilities.

Expected development

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Last valuation at 31 March 2019	**1,411**	**1,431**	**(20)**
Cashflows			
Employer contributions paid in	207	0	207
Employee contributions paid in	33	0	33
Benefits paid out	(171)	(171)	0
Net transfers into / out of the Fund			
Other cashflows (e.g. Fund expenses)	(6)	0	(6)
Expected changes			
Expected investment returns	221	0	221
Interest on benefits already accrued	0	212	(212)
Accrual of new benefits	0	112	(112)
Expected position at 31 March 2022	**1,695**	**1,584**	**111**

* We have insufficient data to value the impact on the liabilities as a result of transfers in/out

Impact of actual events

Change in the surplus/deficit position	Assets	Liabilities	Surplus / Deficit
	£m	£m	£m
Expected position at 31 March 2022	**1,695**	**1,584**	**111**
Events between 2019 and 2022			
Salary increases greater than expected	0	17	(17)
Benefit increases greater than expected	0	(20)	20
Early leavers less than expected	0	(9)	9
McCloud remedy	0	1	(1)
Other membership experience, including mortality, commutation and ill health.	0	(74)	74
Higher than expected investment returns	181	0	181
Changes in future expectations			
Investment returns	0	0	0
Inflation	0	28	(28)
Salary increases	0	(3)	3
Longevity	0	(17)	17
Other demographic assumptions	0	(41)	41
Actual position at 31 March 2022	**1,876**	**1,466**	**410**

Numbers may not sum due to rounding

Sensitivity and risk analysis

Valuation results depend on actuarial assumptions made about the future. By their nature, these assumptions are uncertain which means it's important to understand their sensitivity and risk levels.

Financial assumptions

How results vary with the assumed future investment return is set out on page 14. Future inflation is currently very uncertain, the impact of varying levels is set out below. Note that these sensitivities show the impact of small long term changes to inflation. A

CPI Assumption	Surplus/ (Deficit)	Funding Level
% pa	(£m)	%
2.5%	452	132%
2.7%	410	128%
2.9%	367	124%

Regulatory, Administration and Governance risks

Potential risks include changes in central government legislation which may affect the future cost of the LGPS; failures in administration processes leading to incorrect data; and inaccuracies in actuarial calculations. These risks should be included in the Fund's risk register and monitored and managed as part of its ongoing risk management framework.

Demographic assumptions

The main demographic risk is that people live longer than expected. The table below shows the impact of longevity rates improving at a faster rate (1.75% pa vs 1.5% pa used in the results).

Long term rate of improvement	Surplus/ (Deficit)	Funding Level
% pa	(£m)	%
1.5%	410	128%
1.75%	400	127%

Climate change risk

Results may materially change due to the impact of climate change, because of transition and physical risks. We have not quantified the risk exposure here and will do so on the Fund's instruction.

Initial employer results

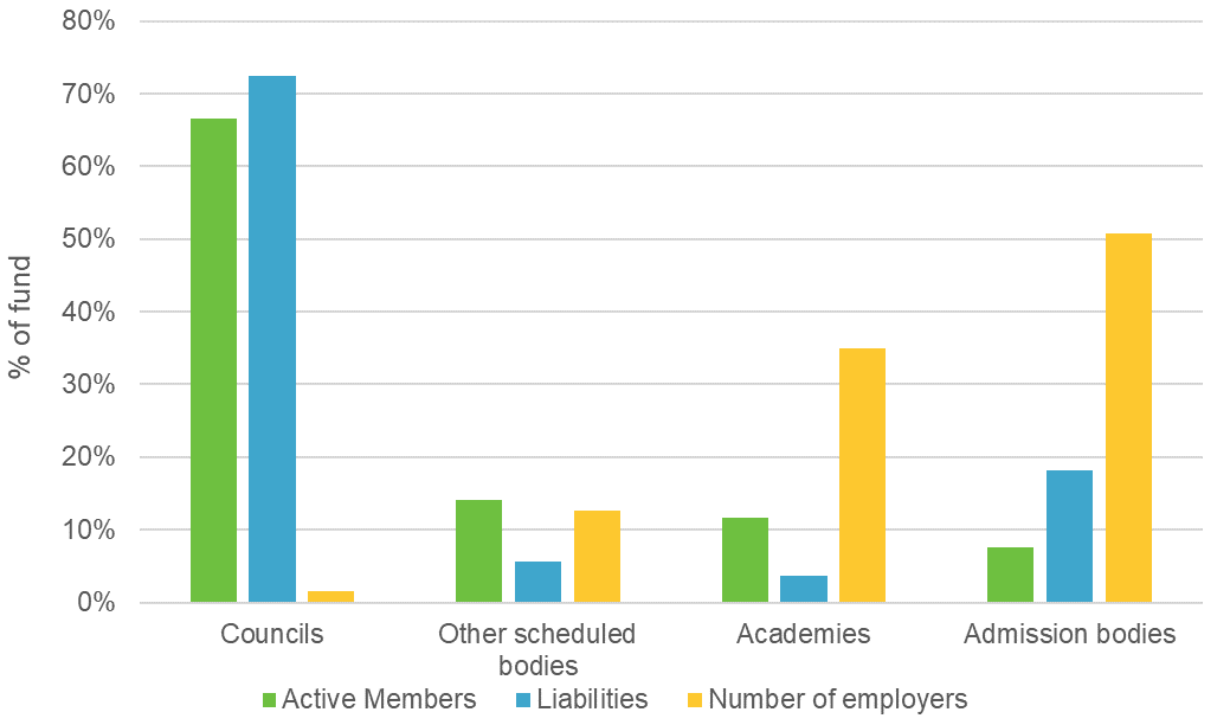
Focusing on employers

Whole-fund level results give a useful overview of the Fund's health but are not the valuation's most important output.

In reality, the Fund is funded at individual employer level. Each employer is responsible for funding the benefits earned by their current and ex-staff. As at 31 March 2022 there are around 60 individual employers in the Fund.

The next stage of the valuation is to prepare funding positions and review contribution rates for each individual employer in the Fund. There is a significant range and diversity of employers, so we will work with the Fund to make sure the funding strategy recognises this diversity and is flexible enough to cater for employers' differences.

Fund employers by type



Results are based on initial draft employer results. These may change during the employer results preparation stage of the valuation.

Individual employer funding levels

The Fund is composed of around 60 employers, each of which has its own funding position and contribution plan. The Fund's overall funding position is the combination of all these employers' results.

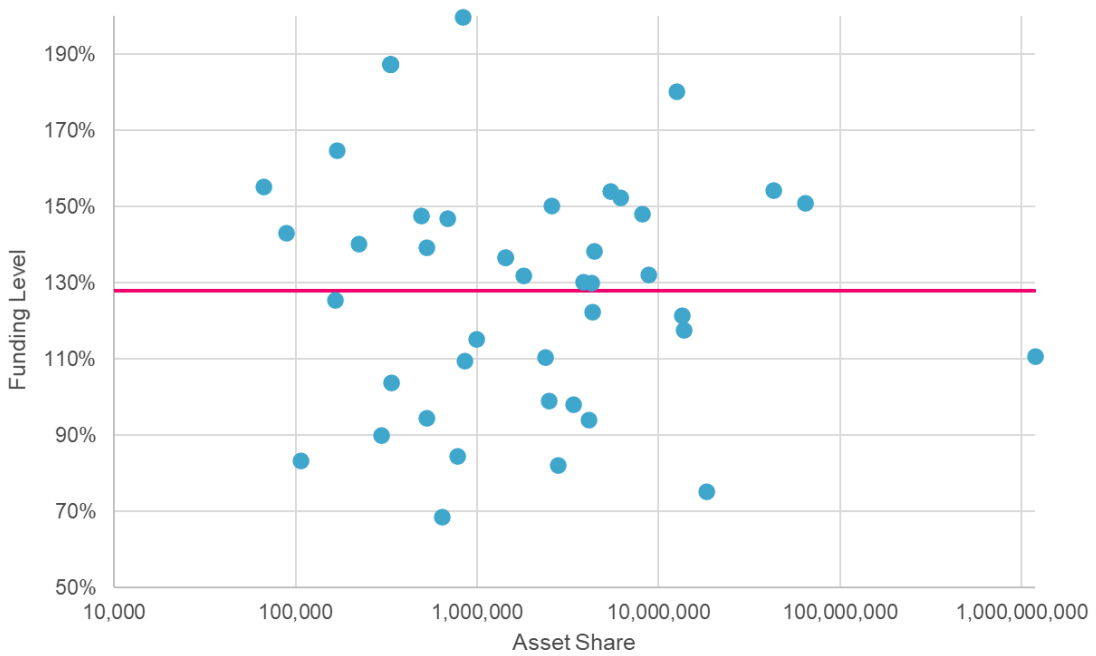
This chart shows the range of employer funding positions. Each dot represents an employer code and shows:

- The employer's share of the Fund assets, horizontal scale (NB this is a logarithmic scale, to accommodate the great range in size of employer from smallest to largest).
- The employer's funding level on 31 March 2022, vertical scale.

The red line is the Fund's overall funding level and shows that it does **not** relate to the average of the employer results. Instead, the whole Fund position is driven by the largest employers (right-hand side of the chart).

This shows the importance of considering individual employer results as well as the whole Fund position.

Employer funding level vs asset share



Results are based on initial draft employer results. These may change during the employer results preparation stage of the valuation.

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Decisions and next steps

Decisions and next steps

1. Discuss funding risks and agree any further exploration or consideration.

2. Confirm that no changes are needed to valuation data or assumptions.

3. Prepare individual employer valuation results for discussion with Officers.

Appendices

APPENDIX 1

Deriving future investment return likelihoods

To derive the distribution of future investment returns and obtain associated likelihoods, we use the Fund's long-term investment strategy and our Economic Scenario Service (ESS) model. The ESS uses statistical models to generate a future distribution of year-on-year returns for each asset class, eg UK equities. The ESS reflects correlations between asset classes and wider economic variables (eg inflation). In the short-term (first few years), the models are fitted with current financial market expectations. Over the longer-term, models are built around our views of fundamental economic parameters, for example equity risk premium, credit-spreads and long-term inflation.

Fund's long-term investment strategy

Asset class	Allocation
Equities	60%
Property	10%
Fixed Income	19%
Alternatives	11%
Total	**100.0%**

ESS individual asset class return distributions at 31 March 2022

		Annualised total returns													
		Cash	UK Equity	Developed World ex UK Equity	Private Equity	Property	UK Infrastructure Debt	Unlisted Infrastructure Equity	Developed World Equity	Multi Asset Credit (sub inv grade)	Absolute Return Bonds (inv grade)	Direct Lending (private debt) GBP Hedged	CorpMedium A	Inflation (CPI)	17 year yield
5 years	16th %'ile	0.7%	-2.7%	-3.2%	-5.0%	-2.5%	-1.7%	-1.1%	-3.1%	0.3%	0.5%	0.8%	-1.5%	2.3%	1.1%
	50th %'ile	1.5%	5.5%	5.3%	9.5%	4.0%	2.0%	5.7%	5.4%	3.1%	2.0%	5.8%	1.5%	3.9%	2.1%
	84th %'ile	2.3%	13.9%	14.0%	24.1%	11.0%	5.6%	12.9%	13.9%	5.7%	3.4%	10.7%	4.2%	5.5%	3.3%
10 years	16th %'ile	0.8%	-0.4%	-0.7%	-1.2%	-0.6%	-0.3%	0.7%	-0.6%	1.7%	0.9%	2.7%	-0.1%	1.6%	1.1%
	50th %'ile	1.8%	5.7%	5.6%	9.4%	4.4%	2.2%	5.9%	5.6%	3.5%	2.3%	6.0%	1.6%	3.3%	2.5%
	84th %'ile	2.9%	11.6%	11.7%	20.1%	9.5%	4.3%	11.2%	11.6%	5.2%	3.7%	9.2%	3.2%	4.9%	4.3%
20 years	16th %'ile	1.0%	1.7%	1.5%	2.4%	1.4%	1.2%	2.6%	1.6%	2.8%	1.4%	4.3%	1.1%	1.2%	1.3%
	50th %'ile	2.4%	6.2%	6.1%	10.0%	5.0%	2.7%	6.5%	6.1%	4.4%	2.9%	6.8%	2.1%	2.7%	3.2%
	84th %'ile	4.0%	10.6%	10.8%	17.6%	8.9%	4.2%	10.6%	10.8%	6.0%	4.6%	9.2%	3.2%	4.3%	5.7%
	Volatility (Disp) (1 yr)	0%	20%	20%	31%	15%	9%	15%	20%	7%	3%	12%	8%	1%	

APPENDIX 2

Sample rates for demographic assumptions

Males

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.17	404.31	813.01	0	0	0	0
25	117	0.17	267.06	537.03	0	0	0	0
30	131	0.2	189.49	380.97	0	0	0	0
35	144	0.24	148.05	297.63	0.1	0.07	0.02	0.01
40	150	0.41	119.2	239.55	0.16	0.12	0.03	0.02
45	157	0.68	111.96	224.96	0.35	0.27	0.07	0.05
50	162	1.09	92.29	185.23	0.9	0.68	0.23	0.17
55	162	1.7	72.68	145.94	3.54	2.65	0.51	0.38
60	162	3.06	64.78	130.02	6.23	4.67	0.44	0.33
65	162	5.1	0	0	11.83	8.87	0	0

Females

Age	Salary Scale	Death Before Retirement	Withdrawals		Ill Health Tier 1		Ill Health Tier 2	
		FT & PT	FT	PT	FT	PT	FT	PT
20	105	0.1	352.42	467.37	0	0	0	0
25	117	0.1	237.14	314.44	0.1	0.07	0.02	0.01
30	131	0.14	198.78	263.54	0.13	0.1	0.03	0.02
35	144	0.24	171.57	227.38	0.26	0.19	0.05	0.04
40	150	0.38	142.79	189.18	0.39	0.29	0.08	0.06
45	157	0.62	133.25	176.51	0.52	0.39	0.1	0.08
50	162	0.9	112.34	148.65	0.97	0.73	0.24	0.18
55	162	1.19	83.83	111.03	3.59	2.69	0.52	0.39
60	162	1.52	67.55	89.37	5.71	4.28	0.54	0.4
65	162	1.95	0	0	10.26	7.69	0	0

APPENDIX 3

Inflation expectations

Current inflation is significantly above the Bank of England target (2% pa) and recent norms. It is likely this will mean a high 2023 pension increase (based on September 2022 CPI inflation).

Current expectations are that inflation pressures will be short-term and move back to normal in the longer-term. The inflation assumption we have used reflects this pattern and allows for the short-term spike – see the blue line on the chart.

The assumption noted in this report is an average of the blue line over the approximate duration of the Fund's liabilities.

Increased uncertainty and risk

There is a lot of uncertainty around both the level of future short-term inflation and how long the period of higher inflation will last. We will continue to work with the Fund to monitor actual and future expected inflation as more information emerges.

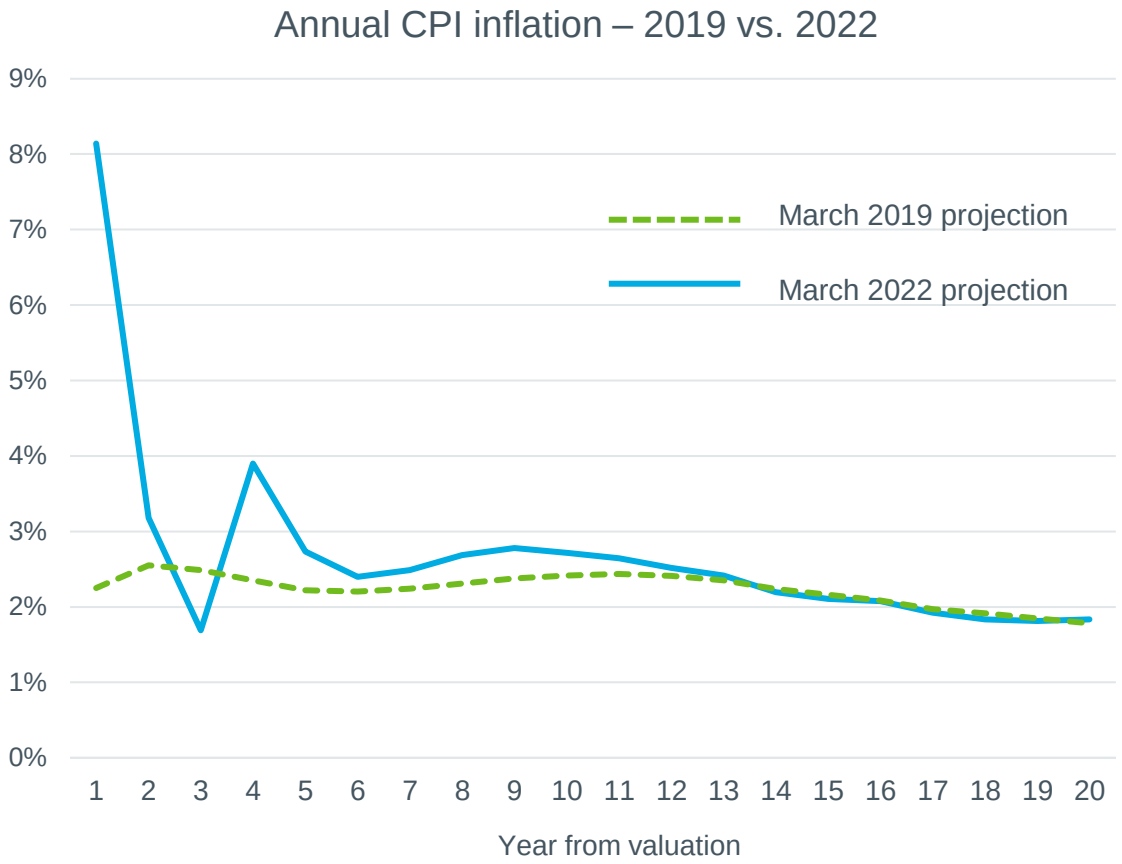

Chart shows median expected annual CPI inflation from ESS model.

APPENDIX 4

Reliances and limitations

We have been commissioned by City of Westminster ("the Administering Authority") to carry out a full actuarial valuation of the City of Westminster Pension Fund ("the Fund") as at 31 March 2022 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 ("the Regulations").

This paper is addressed to the Administering Authority. It has been prepared by us as actuaries to the Fund and is solely for the purpose of:

- presenting the current funding position using a range of actuarial assumptions
- explaining why the funding position has changed since the previous valuation in 2019
- showing the sensitivity of the funding position.

It has not been prepared for any other purpose and should not be used for any other purpose.

The Administering Authority is the only user of this advice. Neither we nor Hymans Robertson LLP accept any liability to any party other than the Administering Authority unless we have expressly accepted such liability in writing. The advice or any part of it must not be disclosed or released in any medium to any other third party without our prior written consent. In circumstances where disclosure is permitted, the advice may only be released or otherwise disclosed in its entirety fully disclosing the basis upon which it has been produced (including any and all limitations, caveats or qualifications).

This information can be used by the Administering Authority to support the development of the funding strategy and to identify and understand areas of potential risk that it may wish to explore or mitigate during the valuation process.

Technical Actuarial Standards apply to this advice, and have been complied with where material and to a proportionate degree. They are:

- TAS100; and
- TAS300.

Note that this report does not comply with paragraphs 12 (b) or (c) of TAS 300, regarding future projections of funding level and its volatility. The figures in this report provide a notification of the whole Fund funding position, rather than individual employer positions. Therefore, we do not believe the exclusion of the information under these paragraphs is material.

APPENDIX 5

Glossary

Term	Explanation
50:50 option	An option for LGPS members to pay half contributions and earn half the retirement benefit (pre-retirement protection benefits are unreduced).
Baseline longevity	The rates of death (by age and sex) in a given group of people based on current observed data.
Club Vita	A firm of longevity experts we partner with for longevity analysis. They combine data from thousands of pension schemes and use it to create detailed baseline longevity assumptions at member-level, as well as insight on general longevity trends and future improvements.
Commutation	The option for members to exchange part of their annual pension for a one-off lump sum at retirement. In the LGPS, every £1 of pension exchanged gives the member £12 of lump sum. The amounts that members commute is heavily influenced by tax rules which set an upper limit on how much lump sum can be taken tax-free.
CPI inflation	The annual rate of change of the Consumer Prices Index (CPI). The CPI is the UK government's preferred measure of inflation and is the measure used to increase LGPS (and all other public sector pension scheme) benefits each year.
Demographic assumptions	Assumptions concerned with member and employer choices rather than macroeconomic or financial factors. For example, retirement age or promotional salary scales. Demographic assumptions typically determine the timing of benefit payments.
Discount rate	A number used to place a single value on a stream of future payments, allowing for expected future investment returns.
ESS	Economic Scenario Service - Hymans Robertson's proprietary economic scenario generator used to create thousands of simulations of future inflation, asset class returns and interest rates.

APPENDIX 5

Glossary

Term	Explanation
Funding position	The extent to which the assets held by the fund at 31 March 2022 cover the accrued benefits ie the liabilities. The two measures of the funding position are: • the funding level - the ratio of assets to liabilities; and • the funding surplus/deficit - the difference between the asset and liabilities values.
Inflation	Prices tend to increase over time, which is called inflation. Inflation is measured in different ways, using a different 'basket' of goods and mathematical formulas.
Liabilities	An employer's liability value is the single value at a given point in time of all the benefit payments expected to be made in future to all members. Benefit payments are projected using demographic and financial assumptions and the liability is calculated using a discount rate.
Longevity improvements	An assumption about how rates of death will change in future. Typically we assume that death rates will fall and life expectancies will improve over time, continuing the long-running trend.
Prudence	To be prudent means to err on the side of caution in the overall set of assumptions. We build prudence into the choice of discount rate by choosing an assumption with a prudence Level of more than 50%. All other assumptions aim to be best estimate.
Prudence Level	A percentage indicating the likelihood that a discount rate assumption will be achieved in practice, based on the ESS model. The higher the prudence level, the more prudent the discount rate is.
Withdrawal	Refers to members leaving the scheme before retirement. These members retain an entitlement to an LGPS pension when they retire, but are no longer earning new benefits.

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