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City of Westminster

Committee Agenda

Title:	**Pension Fund Committee**
Meeting Date:	**Thursday 9th March, 2023**
Time:	**6.30 pm**
Venue:	**18.02, 18th Floor, 64 Victoria Street, London, SW1E 6QP**
Members:	**Councillors:** Patricia McAllister (Chair) Robert Eagleton Ryan Jude Ed Pitt Ford

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

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

An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee Officer, Jack Robinson-Young: Cabinet and Committee Coordinator.

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

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

AGENDA

PART 1 (IN PUBLIC)

Stuart Love
Chief Executive

CITY OF WESTMINSTER

MINUTES

Pension Fund Committee
MINUTES OF PROCEEDINGS

Minutes of a hybrid meeting of the **Pension Fund Committee** held on **Tuesday the 6th of December 2022**, Room 18.04 - 18.05, 18th Floor, 64 Victoria Street, London, SW1E 6QP and via Microsoft Teams.

Members Present: Councillors Patricia McAllister (Chair), Robert Eagleton, Ryan Jude, Ed Pitt Ford.

Also Present: Mathew Dawson (SFM Treasury & Pensions), Billie Emery (FM Pensions), Sarah Hay (Strategic Pensions Lead), Kevin Humpherson (Deloitte), Diana McDonnell-Pascoe (Pension Project and Governance Lead), Jonny Moore (Deloitte), Jack Robinson-Young (Cabinet and Councillor Coordinator), Phil Triggs (Tri-Borough Director of Treasury and Pensions), Claire Weeks (Head of Operational People Services)

1 MEMBERSHIP

1.1 There were no changes to the membership.

2 DECLARATIONS OF INTEREST

2.1 The Chair of the Committee, Councillor McAllister, made a declaration in respect of Item 9 – ADMITTED BODY REQUEST – DIOCESAN BOARD OF SCHOOLS and informed the Committee she was a Vice Chair of a Catholic Church.

3 MINUTES

RESOLVED:

3.1 That the minutes of the meeting held on Thursday 27th of October 2022 be signed by the Chair as a correct record of proceedings with the following insertion from Cllr McAllister:

"The Fund actuary, Hymans Robertson, presented to the Committee, outlining the broad results of the actuarial valuation process and the assumptions and data used therein. A further, final report and funding strategy statement will be presented to the next committee meeting."

3.2 Cllr Ryan Jude requested two amendments be made to the previous minutes of the meeting held on Thursday 27th of October 2022:

3.2.1 for paragraph 9.3 to become:

"The Committee asked for clarification on the difference between the global custody account and the current account. It was clarified that the custodian account is for large payments and investments, which is managed by Northern Trust, with the current account used for pension benefits payable and contributions receivable. The Committee also asked for an update on the Taskforce on Climate-Related Financial Disclosures reporting risk, and asked for this regulatory risk to be considered further."

3.2.2 for paragraph 13.4 to become:

"That the Committee noted the proposed introduction of the Taskforce on Climate-Related Financial Disclosures within the LGPS and the ongoing work being undertaken and expressed an urgency for this to be done, in advance of it becoming a mandatory requirement for the LGPS, if possible."

4 QUARTERLY PERFORMANCE REPORT

4.1 The Tri-Borough Director of Treasury and Pensions presented to the Committee with an update on the performance of the fund and that the market value of investments had decreased by £37m to £1.691bn over the quarter to 30 September 2022 with the Fund returning -1.8% net of fees. The Fund underperformed the benchmark by -0.4% net of fees, with the equity mandates and fixed income portfolios being the main detractors. This underperformance continues to be driven by the continued heightened inflationary concerns, alongside the supply chain disruption caused by the war in Ukraine and lockdown measures in China.

4.2 It was explained that this underperformance was partially offset by the outperformance of the benchmarks within the Abrdn Long Lease Property fund, Quinbrook Renewable Infrastructure fund and the Pantheon Global Infrastructure. These outperformed their individual benchmarks by 9.7%, 13.5% and 7.8% net of fees respectively.

4.3 Over the 12-month period to 30 September 2022, the Fund underperformed its benchmark net of fees by -3.8% returning -11.5%. This underperformance can be largely attributed to the Baillie Gifford (LCIV) Global Alpha Growth mandate, with the large-cap growth stock bias providing detrimental as investors sought safety in value-oriented parts of the market.

4.4 The Committee was informed that the Abrdn long lease property fund has again performed strongly over the one-year period, with an 28.2% outperformance of its benchmark net of fees. Pantheon Infrastructure fund, Quinbrook Renewables and Macquaire Renewables Infrastructure mandate have returned 37.3%, 23.7% and 23.7% net of fees, respectively.

4.5 The Tri-Borough Director of Treasury and Pensions noted that Deloitte continues to rate the fund managers favourably. However, a meeting was held between Deloitte and the senior management of Baillie Gifford to discuss the Baillie Gifford Global Alpha underperformance. Deloitte remains content that the manager continues to maintain its investment philosophy and Deloitte will continue to monitor the performance of the fund.

4.6 During August 2022, a decision was taken to note the investment policy of the London CIV Global Equity Quality fund. The revised policy states:
- Formalise the objective of achieving a lower greenhouse gas emissions intensity than the MSCI All Country World Index; and
- Extend fossil fuel and related omissions and introduce a GHG emissions intensity filter.

4.7 At the previous Committee meeting in October, the Committee elected to transition the Fund's holding within the London CIV (Baillie Gifford) Global Alpha Equity mandate into the BG Paris-Aligned version. The transition took place on 5 December 2022.

4.8 The Committee were further informed that the overall funding level has risen from 99% in 2019 to 128% in 2022, with the main drivers for this improvement being the significant investment returns and additional deficit recovery payments received from the Council.

4.9 The position of the asset allocation was explained to the Committee, with the situation as follows: 60% in 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.

4.10 The Committee was informed of the value of the Fund LCIV assets being £839m, which represents 50% of Westminster's investment assets. A further £358m continues to benefit from reduced management fees, through Legal and General having reduced its management fees to match those available through the LCIV.

4.11 The Committee noted that although recent performance represents an underperformance of the fund, many LGPS had suffered this, and Westminster Council is not an exception.

4.12 The Committee asked for confirmation from the Tri-Borough Director of Treasury and Pensions to confirm the Fund's holdings within BG Alpha Fund had been transitioned into the BG Paris-Aligned version, and this was confirmed as having taken place on the 5th of December 2022.

RESOLVED:

4.13 The Committee noted the performance of the investments.

4.14 The Committed approved that Appendices 2 and 3 to this report are not for publication on the basis that they contain information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

5 PANTHEON IV FUND

5.1 The Committee was informed that as at 30 September 2022, the PGIF III Fund was 80% drawn, with the remaining commitment expected to be called by early 2023. Based on the current market value of £68.9m, the portfolios allocation totals 4.0% of the Fund's strategic asset allocation. This Fund has aclose-ended structure with the investment period to finalise over the coming months.

5.2 The Committee was informed that the PGIF IV fund was launched in 2021 with broadly the same characteristics as PGIF III fund and a similar investment process. Pantheon embeds ESG factors into its investment process and several ESG KPIs are considered.

5.3 At the Pension Fund Committee's October 2022 meeting, Pantheon provided modelling to estimate the required commitment to PGIF IV in order to:

- Scenario 1: No Growth Assumption
- Scenario 2: 5% p.a. Investment Portfolio Growth

5.4 The Committee noted that the ESG factors being embedded was particularly helpful and useful.

RESOLVED:

5.5 That the Committee note the views outlined by Deloitte in Appendix 1 with an investment strategy review to take place for discussion at the Pension Fund Committee meeting scheduled for the 9th of March 2023.

5.6 The Committee approved Appendix 1 to this report was not for publication on the basis that it contains information relating to the financial or business affairs of any particular person, including the authority holding that information, as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended)

6 FUND FINANCIAL MANAGEMENT

6.1 The Tri-Borough Director of Treasury and Pensions, Phil Triggs, presented the report and outlined the top five risks to the Committee.

6.2 The Committee was informed of the balance on the Pension Fund's Lloyds bank account at £1.4m as of 31 October 2022. Payments from the account will continue to exceed receipts on an annual basis. On this, the Committee was informed that payments and receipts have remained stable over the last 12 months.

6.3 The Committee was informed that during the quarter ending March 2022, the Fund withdrew £6m in cash at custody to maintain a positive cash balance.

6.4 The Tri-Borough Director of Treasury and Pensions informed the Committee that the Fund held £9.2m in cash with Northern Trust as of 31 October 2022.

6.5 The Committee was informed that the total cash balance, including the Pension Fund Lloyds bank account and cash at custody, was £10.6m as of 31 October 2022.

6.6 The Committee asked what mitigations there were against the effects of CPI inflation on the Fund. The Tri-Borough Director of Treasury and Pensions explained that the Bank of England was using monetary policy levers of interest rate changes to counter the threat. For the Fund itself, the infrastructure and equities assets are a mitigator as to inflationary increases.

6.7 The Committee asked about the risk of the current weakness of Sterling the UK was experiencing and any effects this would have on the fund. In reply, the Tri-Borough Director explained that weak Sterling does assist overseas asset valuation. The threat of weak Sterling arises when purchasing new overseas assets.

6.8 The Tri-Borough Director of Treasury and Pensions added that, since the publication of the reports considered by the Committee, he had been in conversation with MAN group, who are offering a further sub-fund based on the current strategy but with increased ESG credentials. He informed the Committee that Deloitte would provide further information for the Committee on 9 March 2023.

RESOLVED:

6.9 That the top five risks for the Pension Fund be noted.

6.10 That the cashflow position for the Pension Fund bank account and cash held at custody and the following twelve-month forecast and the three-year forecast be noted.

7 STEWARDSHIP CODE

7.1 Phil Triggs the Tri-Borough Director of Treasury and Pensions explained the nature of the code and what it meant to the Committee. He explained that the principles surrounding the code were released in 2010, with an update in 2020. The standards are high, with the principal aim to make shareholders active and engage in stewardship and corporate governance issues for the interests of the Fund’s beneficiaries.

7.2 The Committee was further informed that, to become a signatory to the Code, it would be necessary to submit an annual Stewardship application to the FRC, demonstrating how the principles of the Code had been applied during the previous 12 months, which are then reviewed by the FRC.

7.3 The Committee asked about any potential staffing issues that may arise from the clear enhanced level of engagement needed to qualify. In reply, the Tri-Borough Director explained there had been conversations around this, with the potential for other governance areas to also be covered under an additional staff member.

7.4 The Committee asked how the Fund fell short of joining the Code previously, and it was explained by the Tri-Borough Director that the application had come close and there had been a detailed feedback/explanation given to officers of how the Fund had fallen short of the desired standard. This has allowed for a more detailed application going forward.

7.5 The Committee asked what other boroughs had achieved this status and were informed that Hillingdon and Lambeth within Greater London were signatories of the Code and Greater Manchester, Hampshire and Lincolnshire also signatories.

RESOLVED:

7.6 It was noted that the application to the FRC UK Stewardship Code 2020 (Appendix 1) was attached.

7.7 It was noted Appendix 1 was not for publication on the basis it contained information relating to the financial or business affairs of any particular person, including the authority holding that information, as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

8 PENSION ADMINISTRATION UPDATE

8.1 The Committee was made aware there was only one additional KPI reporting period since the last Pension Committee meeting by Sarah Hay, the Pensions Officer.

8.2 The Committee was informed there has been an increase from 27.63% to 28.65% of members signed up to the member portal.

8.3 The Committee was informed of the data scores and the backlog of data work taking place. Not all responses have been received by the Pensions Officer, but work is being done to try and complete this work. Further to this, the Pensions Officer informed the Committee that estimates will need to be made for 10 leaver forms as no data is available to complete the work.

8.4 The Committee was informed the number of outstanding queries has fallen from 78 to 63 and action is continuing to reduce this number through engagement with the employers and payroll providers.

8.5 The Pensions Officer informed the Committee that there was an update on the Compass Admission Agreement for ten staff that were transferred in 2018. The Pensions Officer expected this to be resolved shortly with all member records resolved.

RESOLVED:

8.6 That the Committee noted the report.

9 ADMITTED BODY REQUEST – LONDON DIOCESAN BOARD OF SCHOOLS

9.1 The Pensions Officer Sarah Hay addressed the Committee outlining that she had been approached by the Head of People and Culture at the London Diocesan Board of Schools asking if they could become an admitted body of in the City of Westminster Pension Fund.

9.2 The Pensions Officer was of the opinion that generally, they would not suggest admitting a new employer and has asked that guarantees and securities are outlined to ensure the Fund would be protected should they be admitted.

9.3 The Committee asked the Pensions Officer to continue in talks but agreed that more detail was needed on the application and on potential collateral to protect the Fund and the members of the Fund.

RESOLVED:

9.4 That the Pensions Officer Sarah Hay continue to engage in talks with the London Diocesan Board of Schools.

10 PROJECTS & GOVERNANCE UPDATE

10.1 The Pension Project and Governance Lead, introduced the report outlining the Statutory Projects =

10.1.1 The Committee were informed of the current position of the Guaranteed Minimum Pension and that there was a risk of not completing the project by April 2023, when there are the Pensions Increase. This risk has developed since the last Pension Fund Committee meeting and Mercers have informed the Pension Project and Governance Lead that they believe they are currently on track to meet their deadline. With respect to project costs, the Committee was asked to approve a purchase order of £30,000, with a £24,000 and a £6,000 split for Hampshire Pension Services to support the project. The £24,000 figure is based on a maximum of 20 days for Intellica / Civica to prepare and upload the rectified data and the £6,000 figure (based on three weeks of resource) would be used for Hampshire's team supporting adjustments and the upload. All costs will be carefully monitored.

10.1.2 The Committee was informed of the McCloud judgement and that COWPF LGPS will recalculate the benefits for eligible members for the remedy period of 1st April 2014 to 31st March 2022.

10.1.2.1 The Committee were informed of Workstream 1 – COWPF Employer Data Collection and that for the remedy period of 1stApril 2014 to 31st March 2021, the second round of chasing for outstanding returns had been completed. Hampshire Pension Services have received 23 of 37 completed service/break data sets from Westminster employers in October. This represents 19.79% of the membership populate who are likely to require McCloud remedy.
The Committee was also informed that for the period 1st April 2021 to 31st March 2022 there were no additional submissions of data in October which remains at 21 of 39 completed service/data sets from Westminster employers. This represents 15.33% of the membership who are likely to require McCloud remedy.

10.1.2.2 The Committee was informed of the WCC Data Collection, led by the Pensions Project & Governance lead with the WCC Payroll Team. The Pensions Project & Governance lead explained that in this workstream, they were looking at collecting McCloud data for the three legacy payroll systems and current progress was as follows:

- IBC Data has been collected, collated, and shared with Hampshire Pension Services as of June 2022.
- BT Agresso legacy data collection is expected to be completed by the Pensions Officer in December 2022
- CIPHR legacy data is a manual collection and progressing with purpose. Weekly updates on progress are taking place and a desired completion date is currently January 2023.

Further to this, the automated reporting on CIPHR data collection was explained to the Committee covering the first iteration of the new PowerBI interface and the Oracle Legacy Data Collection.

10.1.2.3 There was no update from the Pensions Project & Governance lead on Workstream 3, the LGPS Benefits Recalculation Exercise as Phase 2 has not yet launched.

10.1.3 The Committee was informed that 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. There was a report presented to officers and the key takeaways were:

- At present, only active and deferred member benefits were in scope

- The legislation sets out significant roles for The Pensions Regulator who will regulate the compliance of public-sector pension providers and schemes in providing data to individuals via their chosen dashboard
- Pension benefit information must be made available via the pension dashboard by 1st April 2025 and cover both benefit options, to reflect McCloud remedy.
- Hampshire Pension Services have chosen to use an integrated service provider, Civica, who will be responsible for connecting to the dashboard ecosystem, providing the 'view' and 'find' information, managing member matching and providing governance and monitoring tools. For this, a request of £710.95 was asked of the Committee to be agreed to for indicative costs.

10.1.4 The Committee were also informed that an indication of costs for engaging with the Pensions Dashboard programme, currently standing at £8,810.95 with three categories of cost, ISP implementation fee, ISP annual fee and the Hampshire Pension Services resourcing to support the implementation.

10.2 The Committee was then updated on the non-statutory project of the Pension Website Review. Progress on this is ongoing and has a dedicated Digital Lead with an initial timeline in place. The overall project aim is to create a digitally accessible website and to connect with the analytics available.

10.3 The Pension Project and Governance Lead then informed the Committee on Governance issues covering Business Continuity Planning, the External Audit and the Internal Audit.

10.4 The Committee asked for further explanation as to the delay in the GMP Project. The Pensions Project and Governance Lead explained there had been a lack of communication on the parts of others outside of Westminster Council and had led to the risk of a delay, which Mercers had now informed Officers was now no longer the case. This delay centred around missing data sets that Westminster Council officers were not made aware were mandatory. It was reiterated to the Committee that this project is now due to be delivered on time, according to Mercers.

RESOLVED:

10.5 That the Committee noted the report.

10.6 The Committee agreed a sum of £710.95 for the HPS resourcing.

10.7 The Committee agreed a sum of £30,000.00 for the Pensions Project and Governance Lead to use for the completion of the GMP Project.

The Meeting ended at 20:05.

CHAIR: ________________ **DATE** ________________

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**9 March 2023**
Classification:	**General Release (Appendix 1 is exempt)**
Title:	**Final Triennial Actuarial Valuation 2022**
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 final results of the 2022 triennial actuarial valuation for the Westminster City Council Pension Fund, which are further discussed in Appendix 1 by the Pension Fund's actuary, Hymans Robertson (Hymans). The Funding Strategy Statement is attached as Appendix 2.

1.2 The key highlights are:

- The Fund's funding level, as a whole, 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 increased CPI inflation factor which is linked to pension payments and salary increases. The discount rate has remained the same.

1.3 This paper builds on the initial draft valuation brought to the Pension Fund Committee on 27 October 2022.

2. RECOMMENDATIONS

2.1 That the Pension Fund Committee:

- approve the 2022 triennial actuarial valuation and the Funding Strategy Statement.
- approve that Appendix 1 to this report is not for publication on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

3. FINAL 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 strong 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.

4.4 As a result of the financial changes and demographic changes above, the net decrease to the Fund's overall contribution rate is 0.2%, falling from 17.9% to 17.7%.

4.5 Employers have been consulted on their employer contribution rates ahead of the new financial year and have been provisionally agreed.

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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: Triennial Actuarial Valuation (exempt)
Appendix 2: Funding Strategy Statement

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By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

City of Westminster Pension Fund
Funding Strategy Statement
March 2023

Contents

1 Welcome to City of Westminster Pension Fund's funding strategy statement

This document sets out the funding strategy statement (FSS) for the City of Westminster Pension Fund.

The City of Westminster Pension Fund is administered by Westminster City Council, known as the administering authority. Westminster City Council worked with the fund's actuary, Hymans Robertson, to prepare this FSS which is effective from April 2023.

There's a regulatory requirement for Westminster City Council to prepare an FSS. You can find out more about the regulatory framework in Appendix A. If you have any queries about the FSS, contact pensionfund@westminster.gov.uk.

1.1 What is the City of Westminster Pension Fund?

The City of Westminster Pension Fund is part of the Local Government Pension Scheme (LGPS). You can find more information about the LGPS at www.lgpsmember.org. The administering authority runs the fund on behalf of participating employers, their employees and current and future pensioners. You can find out more about roles and responsibilities in Appendix B.

1.2 What are the funding strategy objectives?

The funding strategy objectives are to:

- take a prudent long-term view to secure the regulatory requirement for long-term solvency, with sufficient funds to pay benefits to members and their dependants
- use a balanced investment strategy to minimise long-term cash contributions from employers and meet the regulatory requirement for long-term cost efficiency
- where appropriate, ensure stable employer contribution rates
- reflect different employers' characteristics to set their contribution rates, using a transparent funding strategy
- use reasonable measures to reduce the risk of an employer defaulting on its pension obligations.

1.3 Who is the FSS for?

The FSS is mainly for employers participating in the fund, because it sets out how money will be collected from them to meet the fund's obligations to pay members' benefits.

Different types of employers participate in the fund:

Scheduled bodies

Employers who are specified in a schedule to the LGPS regulations, including councils and employers like academies and further education establishments. Scheduled bodies must give employees access to the LGPS if they can't accrue benefits in another pension scheme, such as another public service pension scheme.

Designating employers

Employers like town and parish councils can join the LGPS through a resolution. If a resolution is passed, the fund can't refuse entry. The employer then decides which employees can join the scheme.

Admission bodies

Other employers can join through an admission agreement. The fund can set participation criteria for them and can refuse entry if the requirements aren't met. This type of employer includes contractors providing outsourced services like cleaning or catering to a scheduled body.

Some existing employers may be referred to as **community admission bodies** (CABs). CABs are employers with a community of interest with another scheme employer. Others may be called **transferee admission bodies** (TABs), that provide services for scheme employers. These terms aren't defined under current regulations but remain in common use from previous regulations.

1.4 How does the funding strategy link to the investment strategy?

The funding strategy sets out how money will be collected from employers to meet the fund's obligations. Contributions, assets and other income are then invested according to an investment strategy set by the administering authority. You can find the investment strategy at https://www.westminster.gov.uk/about-council/city-westminster-pension-fund.

The funding and investment strategies are closely linked. The fund must be able to pay benefits when they are due – those payments are met from a combination of contributions (through the funding strategy) and asset returns and income (through the investment strategy). If investment returns or income fall short the fund won't be able to pay benefits, so higher contributions would be required from employers.

1.5 Does the funding strategy reflect the investment strategy?

The funding policy is consistent with the investment strategy. Future investment return expectations are set with reference to the investment strategy, including a margin for prudence which is consistent with the regulatory requirement that funds take a 'prudent longer-term view' of funding liabilities (see Appendix A)

1.6 How is the funding strategy specific to the City of Westminster Pension Fund?

The funding strategy reflects the specific characteristics of the fund employers and its own investment strategy.

2 How does the fund calculate employer contributions?

2.1 Calculating contribution rates

Employee contribution rates are set by the LGPS regulations.

Employer contributions are made up of three elements:

- **the primary contribution rate** – contributions payable towards future benefits
- **the secondary contribution rate** – the difference between the primary rate and the total employer contribution
- The primary rate also includes an allowance for the **fund's expenses**.

The fund actuary uses a model to project each employer's asset share over a range of future economic scenarios. The contribution rate takes each employer's assets into account as well as the projected benefits due to their members. The value of the projected benefits is worked out using employer membership data and the assumptions in Appendix D.

The total contribution rate for each employer is then based on:

- **the funding target** – how much money the fund aims to hold for each employer
- **the time horizon** – the time over which the employer aims to achieve the funding target
- **the likelihood of success** – the proportion of modelled scenarios where the funding target is met.

This approach takes into account the maturing profile of the membership when setting employer contribution rates.

2.2 The contribution rate calculation

Table 2: contribution rate calculation for individual or pooled employers

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	**Local authority**	**Colleges & universities**	**Academies**	**Open to new entrants**	**Closed to new entrants**	**(all)**
Funding target*	Ongoing	Ongoing	Ongoing	Ongoing, but may move to lower-risk exit basis		Ongoing, assuming fixed-term contract in the fund
Minimum likelihood of success	70%	70%	70%	70%	70%	70%
Maximum time horizon	17 years	17 years	17 years	17 years	17 years	Same as the letting employer (17 years)
Primary rate approach	The contributions must be sufficient to meet the cost of benefits earned in the future with the required likelihood of success at the end of the time horizon					

Type of employer	Scheduled bodies			CABs and designating employers		TABs
Sub-type	Local authority	Colleges & universities	Academies	Open to new entrants	Closed to new entrants	(all)
Secondary rate	Secondary contributions are usually set as a monetary amount, otherwise adjustments are set as a % of payroll					
Treatment of surplus	Total contribution rate set to achieve funding objective with associated likelihood of success over the time horizon			Preferred approach: contributions kept at primary rate. Reductions may be permitted by the administering authority		
Phasing of contribution changes	Phasing of contribution increases may be permitted at the discretion of the administering authority.					

** Employers participating in the fund under a pass-through agreement will pay a contribution rate as agreed between the contractor and letting authority*

*** See Appendix D for further information on funding targets.*

2.3 Making contribution rates stable

Making employer contribution rates reasonably stable is an important funding objective. Where appropriate, contributions are set with this objective in mind. After taking advice from the fund actuary, the administering authority believes a stabilised approach is currently not appropriate for any employers.

2.4 Reviewing contributions between valuations

The fund may amend contribution rates between formal valuations. The purpose of any review is to establish the most appropriate contributions. A review may lead to an increase or decrease in contributions.

2.5 What is pooling?

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

2.6 Administering authority discretion

Individual employers may be affected by circumstances not easily managed within the FSS rules and policies. If this happens, the administering authority may adopt alternative funding approaches on a case-by-case basis.

Additionally, the administering authority may allow greater flexibility to the employer's contributions if added security is provided.

3 What additional contributions may be payable?

3.1 Pension costs – awarding additional pension and early retirement on non ill-health grounds

If an employer awards additional pension as an annual benefit amount, they pay an additional contribution to the fund as a single lump sum. The amount is set by guidance issued by the Government Actuary's Department and updated from time to time.

If an employee retires before their normal retirement age on unreduced benefits, employers may be asked to pay additional contributions called strain payments.

Employers typically make strain payments as a single lump sum.

3.2 Pension costs – early retirement on ill-health grounds

If a member retires early because of ill-health, their employer may be required to pay a funding strain, which may be a large sum.

Strains are currently met by a fund-operated ill-health risk management solution, whereby a portion of all employers' contributions into the Fund are allocated to a segregated ill-health section of the Fund. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain.

No additional contributions will be due immediately from the employer following an ill health retirement, although an adjustment to the portion of employers' contributions allocated to the segregated ill-health fund may emerge following the subsequent actuarial valuations, depending on the overall ill health experience.

The administering authority's approach to help manage ill-health early retirement costs was put in place during April 2019.

4 How does the fund calculate assets and liabilities?

4.1 How are employer asset shares calculated?

The fund adopts a cashflow approach to track individual employer assets.

Each fund employer has a notional share of the fund's assets, which is assessed yearly by the actuary. The actuary starts with assets from the previous year-end, adding cashflows paid in/out and investment returns to give a new year-end asset value. The fund actuary makes a simplifying assumption, that all cashflow and investment returns have been paid uniformly over the year. This assumption means that the sum of all employers' asset values is slightly different from the whole fund asset total over time. This minimal difference is split between employers in proportion to their asset shares at each valuation.

4.2 How are employer liabilities calculated?

The fund holds membership data for all active, deferred and pensioner members. Based on this data and the assumptions in Appendix D, the fund actuary projects the expected benefits for all members into the future. This is expressed as a single value – the liabilities – by allowing for expected future investment returns.

Benefits are valued in line with the regulations in force at the time of the valuation, with an exception relating to the McCloud ruling. The benefits of members likely to be affected by the McCloud ruling have instead been valued in line with the expected regulations, reflecting an underpin as directed by DLUHC.

Each employer's liabilities reflect the experience of their own employees and ex-employees.

4.3 What is a funding level?

An employer's funding level is the ratio of the market value of asset share against liabilities. If this is less than 100%, the employer has a shortfall: the employer's deficit. If it is more than 100%, the employer is in surplus. The amount of deficit or surplus is the difference between the asset value and the liabilities value.

Funding levels and deficit/surplus values measure a particular point in time, based on a particular set of future assumptions. While this measure is of interest, for most employers the main issue is the level of contributions payable. The funding level does not directly drive contribution rates. See section 2 for further information on rates.

5 What happens when an employer joins the fund?

5.1 When can an employer join the fund

Employers can join the fund if they are a new scheduled body or a new admission body. New designated employers may also join the fund if they pass a designation to do so.

On joining, the fund will determine the assets and liabilities for that employer within the Fund. The calculation will depend on the type of employer and the circumstances of joining.

A contribution rate will also be set. This will be set in accordance with the calculation set out in Section 2, unless alternative arrangements apply (for example, the employer has agreed a pass-through arrangement). More details on this are in Section 5.4 below.

5.2 New academies

New academies (including free schools) join the fund as separate scheduled employers. Only active members of former council schools transfer to new academies. Free schools do not transfer active members from a converting school but must allow new active members to transfer in any eligible service.

Liabilities for transferring active members will be calculated (on the ongoing basis) by the fund actuary on the day before conversion to an academy. Liabilities relating to the converting school's former employees (ie members with deferred or pensioner status) remain with the ceding council.

New academies will be allocated an asset share based on the estimated funding level of the ceding council's active members, having first allocated the council's assets to fully fund their deferred and pensioner members. This funding level will then be applied to the transferring liabilities to calculate the academy's initial asset share, capped at a maximum of 100%.

The council's estimated funding level will be based on market conditions on the day before conversion. The fund treats new academies as separate employers in their own right, who are responsible for their allocated assets and liabilities.

The new academies' contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership.

The fund's policies on academies may change based on updates to guidance from the Department for Levelling Up, Housing and Communities or the Department for Education. Any changes will be communicated and reflected in future funding strategy statements.

5.3 New admission bodies as a results of outsourcing services

New admission bodies usually join the fund because an existing employer (usually a scheduled body like a council or academy) outsources a service to another organisation (a contractor). This involves TUPE transfers of staff from the letting employer to the contractor. The contractor becomes a new participating fund employer for the duration of the contract and transferring employees remain eligible for LGPS membership. At the end of the contract, employees typically revert to the letting employer or a replacement contractor.

Liabilities for transferring active members will be calculated by the fund actuary on the day before the outsourcing occurs.

New contractors will be allocated an asset share equal to the value of the transferring liabilities. The admission agreement may set a different initial asset allocation, depending on contract-specific circumstances.

The new employer's contribution rate is based on the current funding strategy (set out in section 2) and the transferring membership.

5.4 Other new employers

There may be other circumstances that lead to a new admission body entering the fund, eg set up of a wholly owned subsidiary company by a Local Authority. Calculation of assets and liabilities on joining and a contribution rate will be carried out allowing for the circumstances of the new employer.

New designated employers may also join the fund. These are usually town and parish councils. Contribution rates will be set using the same approach as other designated employers in the fund.

5.5 Risk assessment for new admission bodies

Under the LGPS regulations, a new admission body must assess the risks it poses to the fund if the admission agreement ends early, for example if the admission body becomes insolvent or goes out of business. In practice, the fund actuary assesses this because the assessment must be carried out to the administering authority's satisfaction.

After considering the assessment, the administering authority may decide the admission body must provide security, such as a guarantee from the letting employer, an indemnity or a bond.

This must cover some or all of the:

- strain costs of any early retirements, if employees are made redundant when a contract ends prematurely
- allowance for the risk of assets performing less well than expected
- allowance for the risk of liabilities being greater than expected
- allowance for the possible non-payment of employer and member contributions
- admission body's existing deficit.

6 What happens if an employer has a bulk transfer of staff?

Bulk transfer cases will be looked at individually, but generally:

- the fund won't pay bulk transfers greater in value than either the asset share of the transferring employer in the fund, or the value of the liabilities of the transferring members, whichever is lower
- the fund won't grant added benefits to members bringing in entitlements from another fund, unless the asset transfer is enough to meet the added liabilities
- the fund may permit shortfalls on bulk transfers if the employer has a suitable covenant and commits to meeting the shortfall in an appropriate period, which may require increased contributions between valuations.

7 What happens when an employer leaves the fund?

7.1 What is a cessation event?

Triggers for considering cessation from the fund are:

- the last active member stops participation in the fund. The administering authority, at their discretion, can defer acting for up to three years by issuing a suspension notice. That means cessation won't be triggered if the employer takes on one or more active members during the agreed time
- insolvency, winding up or liquidation of the admission body
- a breach of the agreement obligations that isn't remedied to the fund's satisfaction
- failure to pay any sums due within the period required
- failure to renew or adjust the level of a bond or indemnity, or to confirm an appropriate alternative guarantor
- termination of a deferred debt arrangement (DDA).

If no DDA exists, the administering authority will instruct the fund actuary to carry out a cessation valuation to calculate if there is a surplus or a deficit when the fund leaves the scheme.

7.2 What happens on cessation?

The administering authority must protect the interests of the remaining fund employers when an employer leaves the scheme. The actuary aims to protect remaining employers from the risk of future loss. The funding target adopted for the cessation calculation is below. These are defined in Appendix D.

(a) Where there is no guarantor, cessation liabilities and a final surplus/deficit will usually be calculated using a low-risk basis, which is more prudent than the ongoing participation basis. The low-risk exit basis is defined in Appendix D.

(b) Where there is a guarantor, the guarantee will be considered before the cessation valuation. Where the guarantor is a guarantor of last resort, this will have no effect on the cessation valuation. If this isn't the case, cessation may be calculated using the same basis that was used to calculate liabilities (and the corresponding asset share) on joining the fund.

(c) Depending on the guarantee, it may be possible to transfer the employer's liabilities and assets to the guarantor without crystallising deficits or surplus. This may happen if an employer can't pay the contributions due and the approach is within guarantee terms.

If the fund can't recover the required payment in full, unpaid amounts will be paid by the related letting authority (in the case of a ceased admission body) or shared between the other fund employers. This may require an immediate revision to the rates and adjustments certificate or be reflected in the contribution rates set at the next formal valuation.

The fund actuary charges a fee for cessation valuations and there may be other cessation expenses. Fees and expenses are at the employer's expense and are deducted from the cessation surplus or added to the cessation deficit. This improves efficiency by reducing transactions between employer and fund.

7.3 What happens if there is a surplus?

If the cessation valuation shows the exiting employer has more assets than liabilities – an exit credit – the administering authority can decide how much will be paid back to the employer based on:

- the surplus amount

- the proportion of the surplus due to the employer’s contributions
- any representations (like risk sharing agreements or guarantees) made by the exiting employer and any employer providing a guarantee or some other form of employer assistance/support
- any other relevant factors.

7.4 How do employers repay cessation debts?

If there is a deficit, full payment will usually be expected in a single lump sum or:

- spread over an agreed period, if the employer enters into a deferred spreading agreement
- if an exiting employer enters into a deferred debt agreement, it stays in the fund and pays contributions until the cessation debt is repaid. Payments are reassessed at each formal valuation.

7.5 What if an employer has no active members?

When employers leave the fund because their last active member has left, they may pay a cessation debt, receive an exit credit or enter a DDA/DSA. Beyond this they have no further obligation to the fund and either:

a) their asset share runs out before all ex-employees’ benefits have been paid. The other fund employers will be required to contribute to the remaining benefits. The fund actuary will portion the liabilities on a pro-rata basis at the formal valuation

b) the last ex-employee or dependant dies before the employer’s asset share is fully run down. The fund actuary will apportion the remaining assets to the other fund employers.

8 What are the statutory reporting requirements?

8.1 Reporting regulations

The Public Service Pensions Act 2013 requires the Government Actuary's Department to report on LGPS funds in England and Wales after every three-year valuation, in what's usually called a section 13 report. The report should include confirmation that employer contributions are set at the right level to ensure the fund's solvency and long-term cost efficiency.

8.2 Solvency

Employer contributions are set at an appropriate solvency level if the rate of contribution targets a funding level of 100% over an appropriate time, using appropriate assumptions compared to other funds. Either:

(a) employers collectively can increase their contributions, or the fund can realise contingencies to target a 100% funding level

or

(b) there is an appropriate plan in place if there is, or is expected to be, a reduction in employers' ability to increase contributions as needed.

8.3 Long-term cost efficiency

Employer contributions are set at an appropriate long-term cost efficiency level if the contribution rate makes provision for the cost of current benefit accrual, with an appropriate adjustment for any surplus or deficit.

To assess this, the administering authority may consider absolute and relative factors.

Relative factors include:

1. comparing LGPS funds with each other
2. the implied deficit recovery period
3. the investment return required to achieve full funding after 20 years.

Absolute factors include:

1. comparing funds with an objective benchmark
2. the extent to which contributions will cover the cost of current benefit accrual and interest on any deficit
3. how the required investment return under relative considerations compares to the estimated future return targeted by the investment strategy
4. the extent to which contributions paid are in line with expected contributions, based on the rates and adjustment certificate
5. how any new deficit recovery plan reconciles with, and can be a continuation of, any previous deficit recovery plan, allowing for fund experience.

These metrics may be assessed by GAD on a standardised market-related basis where the fund's actuarial bases don't offer straightforward comparisons.

Appendices

Appendix A – The regulatory framework

A1 Why do funds need a funding strategy statement?

The Local Government Pension Scheme (LGPS) regulations require funds to maintain and publish a funding strategy statement (FSS). According to the Department for Levelling Up, Housing and Communities (DLUHC) the purpose of the FSS is to document the processes the administering authority uses to:

- *establish a **clear and transparent fund-specific strategy** identifying how employers' pension liabilities are best met going forward*
- *support the regulatory framework to maintain **as nearly constant employer contribution rates as possible***
- *ensure the fund meets its **solvency and long-term cost efficiency** objectives*
- *take a **prudent longer-term view** of funding those liabilities.*

To prepare this FSS, the administering authority has used guidance by the Chartered Institute of Public Finance and Accountancy (CIPFA).

A2 Consultation

Both the LGPS regulations and most recent CIPFA guidance state the FSS should be prepared in consultation with "*persons the authority considers appropriate*". This should include '*meaningful dialogue… with council tax raising authorities and representatives of other participating employers*'.

A3 How is the FSS published?

The FSS is emailed to participating employers and pensioner representatives. A full copy is included in the fund's annual report and accounts and published on the administering authority's website. Copies are also freely available on request and sent to investment managers and independent advisers.

The FSS is published at https://www.westminster.gov.uk/about-council/city-westminster-pension-fund.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the valuation. Amendments may be made before then if there are regulatory or operational changes. Any amendments will be consulted on, agreed by the Pensions Committee and included in the Committee meeting minutes.

A5 How does the FSS fit into the overall fund documentation?

The FSS is a summary of the fund's approach to funding liabilities. It isn't exhaustive – the fund publishes other statements like the statement of investment principles, investment strategy statement, governance strategy and communications strategy. The fund's annual report and accounts also includes up-to-date fund information.

You can see all fund documentation at https://www.westminster.gov.uk/about-council/city-westminster-pension-fund.

Appendix B – Roles and responsibilities

B1 The administering authority:

1 operates the fund and follows all Local Government Pension Scheme (LGPS) regulations

2 manages any conflicts of interest from its dual role as administering authority and a fund employer

3 collects employer and employee contributions, investment income and other amounts due

4 ensures cash is available to meet benefit payments when due

5 pays all benefits and entitlements

6 invests surplus money like contributions and income which isn't needed to pay immediate benefits, in line with regulation and the investment strategy

7 communicates with employers so they understand their obligations

8 safeguards the fund against employer default

9 works with the fund actuary to manage the valuation process

10 provides information to the Government Actuary's Department so they can carry out their statutory obligations

11 consults on, prepares and maintains the funding and investment strategy statements

12 tells the actuary about changes which could affect funding

13 monitors the fund's performance and funding, amending the strategy statements as necessary

14 enables the local pension board to review the valuation process.

B2 Individual employers:

1 deduct the correct contributions from employees' pay

2 pay all contributions by the due date

3 have appropriate policies in place to work within the regulatory framework

4 make additional contributions as agreed, for example to augment scheme benefits or early retirement strain

5 tell the administering authority promptly about any changes to circumstances, prospects or membership which could affect future funding.

6 make any required exit payments when leaving the fund.

B3 The fund actuary:

1 prepares valuations, including setting employers' contribution rates, agreeing assumptions, working within FSS and LGPS regulations and appropriately targeting fund solvency and long-term cost efficiency

2 provides information to the Government Actuary Department so they can carry out their statutory obligations

3 advises on fund employers, including giving advice about and monitoring bonds or other security

4 prepares advice and calculations around bulk transfers and individual benefits

5 assists the administering authority to consider changes to employer contributions between formal valuations

6 advises on terminating employers' participation in the fund

7 fully reflects actuarial professional guidance and requirements in all advice.

B4 Other parties:

1 internal and external investment advisers ensure the investment strategy statement (ISS) is consistent with the funding strategy statement

2 investment managers, custodians and bankers play their part in the effective investment and dis-investment of fund assets in line with the ISS

3 auditors comply with standards, ensure fund compliance with requirements, monitor and advise on fraud detection, and sign-off annual reports and financial statements

4 governance advisers may be asked to advise the administering authority on processes and working methods

5 internal and external legal advisers ensure the fund complies with all regulations and broader local government requirements, including the administering authority's own procedures

6 the Department for Levelling Up, Housing and Communities, assisted by the Government Actuary's Department and the Scheme Advisory Board, work with LGPS funds to meet Section 13 requirements.

Appendix C – Risks and controls

C1 Managing risks

The administering authority has a risk management programme to identify and control financial, demographic, regulatory and governance risks.

The role of the local pension board is set out in the board terms of reference available here.

Details of the key fund-specific risks and controls are set out in the risk register included in the Annual Report, using the following link.

C2 Financial risks

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

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.1% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by around 2%, and decrease/increase the required employer contribution by around 0.7% of payroll p.a.

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

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

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

C3 Demographic risks

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

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

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

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

C4 Regulatory risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

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

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

C5 Governance risks

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

C6 Employer covenant assessment and monitoring

Many of the employers participating in the fund, such as admitted bodies (including TABs and CABs), have no local tax-raising powers. The fund assesses and monitors the long-term financial health of these employers to assess an appropriate level of risk for each employer's funding strategy.

Type of employer	Assessment	Monitoring
Local Authority	Tax-raising or government-backed, no individual assessment required	n/a
Colleges & Universities	Currently no such employers in the fund	Review on application from a relevant body
Academies	Government-backed, covered by DfE guarantee in event of MAT failure	Check that DfE guarantee continues, after regular scheduled DfE review

Type of employer	Assessment	Monitoring
Admission bodies (including TABs & CABs)	In the case of TABs, the fund would put in place a guarantee or bond but each case is individual and the fund judges on merit. CABs are usually government-backed in the event of failure	Review on application from a relevant body

C7 Climate risk and TCFD reporting

DLUHC has issued a consultation on how LGPS in England and Wales should assess and manage climate risks and opportunities, proposing to disclose information in line with the Taskforce on Climate Related Financial Disclosures (TCFD). The 12-week consultation will end on 24 November 2022.

The government intends to make TCFD-aligned disclosures mandatory in the UK across the economy by 2025. Under the proposals, funds will have to report on this annually, with the reports also summarised in an LGPS-wide report, including the overall carbon emissions of the scheme. The first reporting year will be the financial year 2023/24, with the regulations expected to be in force by April 2023 and the first reports required by December 2024.

Appendix D – Actuarial assumptions

The fund's actuary uses a set of assumptions to determine the strategy, and so assumptions are a fundamental part of the funding strategy statement.

D1 What are assumptions?

Assumptions are used to estimate the benefits due to be paid to members. Financial assumptions determine the amount of benefit to be paid to each member, and the expected investment return on the assets held to meet those benefits. Demographic assumptions are used to work out when benefit payments are made and for how long.

The funding target is the money the fund aims to hold to meet the benefits earned to date.

Any change in the assumptions will affect the funding target and contribution rate, but different assumptions don't affect the actual benefits the fund will pay in future.

D2 What assumptions are used to set the contribution rate?

The fund doesn't rely on a single set of assumptions when setting contribution rates, instead using Hymans Robertson's Economic Scenario Service (ESS) to project each employer's assets, benefits and cashflows to the end of the funding time horizon.

ESS projects future benefit payments, contributions and investment returns under 5,000 possible economic scenarios, using variables for future inflation and investment returns for each asset class, rather than a single fixed value.

For any projection, the fund actuary can assess if the funding target is satisfied at the end of the time horizon.

Table: Summary of assumptions underlying the ESS, 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%	

D3 What financial assumptions were used?

Future investment returns and discount rate

The fund uses a risk-based approach to generate assumptions about future investment returns over the funding time horizon, based on the investment strategy.

The discount rate is the annual rate of future investment return assumed to be earned on assets after the end of the funding time horizon. The discount rate assumption is set as a margin above the risk-free rate.

Assumptions for future investment returns depend on the funding objective.

	Employer type	Margin above risk-free rate
Ongoing basis	All employers except transferee admission bodies and closed community admission bodies	2.5%
Low-risk exit basis	Community admission bodies closed to new entrants	0%
Contractor exit basis	Transferee admission bodies	Based on expected returns over 20 years with a 67% likelihood

Discount rate (for funding level calculation as at 31 March 2022 only)

For the purpose of calculating a funding level at the 2022 valuation, a discount rate of 4.8% applies. This is based on a prudent estimate of investment returns, specifically, that there is an 67% likelihood that the fund's assets will future investment returns of 4.8% over the 20 years following the 2022 valuation date.

Pension increases and CARE revaluation

Deferment and payment increases to pensions and revaluation of CARE benefits are in line with the Consumer Price Index (CPI) and determined by the regulations.

The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.

Salary growth

The salary increase assumption at the latest valuation has been set to 1% above CPI pa plus a promotional salary scale.

D4 What demographic assumptions were used?

Demographic assumptions are best estimates of future experience. The fund uses advice from Club Vita to set demographic assumptions, as well as analysis and judgement based on the fund's experience.

Demographic assumptions vary by type of member, so each employer's own membership profile is reflected in their results.

Life expectancy

The longevity assumptions are a bespoke set of VitaCurves produced by detailed analysis and tailored to fit the fund's membership profile.

Allowance has been made for future improvements to mortality, in line with the 2021 version of the continuous mortality investigation (CMI) published by the actuarial profession. The starting point has been adjusted by +0.25% to reflect the difference between the population-wide data used in the CMI and LGPS membership. A long-term rate of mortality improvements of 1.5% pa applies.

The smoothing parameter used in the CMI model is 7.0. There is little evidence currently available on the long-term effect of Covid-19 on life expectancies. To avoid an undue impact from recently mortality experience on long-term assumptions, no weighting has been placed on data from 2020 and 2021 in the CMI.

Other demographic assumptions

Retirement in normal health	Members are assumed to retire at the earliest age possible with no pension reduction.
Promotional salary increases	Sample increases below
Death in service	Sample rates below
Withdrawals	Sample rates below
Retirement in ill health	Sample rates below
Family details	A varying proportion of members are assumed to have a dependant partner at retirement or on earlier death. For example, at age 60 this is assumed to be 90% for males and 85% for females. Males are assumed to be 3 years older than females, and partner dependants are assumed to be opposite sex to members.
Commutation	50% of maximum tax-free cash
50:50 option	0% of members will choose the 50:50 option.

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

D5 What assumptions apply in a cessation valuation following an employer's exit from the fund?

Low-risk exit basis

Where there is no guarantor, the low-risk exit basis will apply.

The financial and demographic assumptions underlying the low-risk exit basis are explained below:

1. The discount rate is set equal to the annualised yield on long dated government bonds at the cessation date, with a 0% margin. This was 1.7% pa on 31 March 2022.
2. The CPI assumption is based on Hymans Robertson's ESS model. The median value of CPI inflation from the ESS was 2.7% pa on 31 March 2022.
3. Life expectancy assumptions are those used to set contribution rates, with one adjustment. A higher long-term rate of mortality improvements of 1.75% pa is assumed.

Contractor exit basis

Where there is a guarantor (eg in the case of contractors where the local authority guarantees the contractor's admission in the fund), the contractor exit basis will apply.

The financial and demographic assumptions underlying the contractor exit basis are equal to those set for calculating contributions rates. Specifically, the discount rate is set equal to the expected returns over the period of 20 years based on a 67% probability.

Appendix E – Policy on contribution reviews

1 Introduction

The purpose of this policy is to set out the administering authority's approach to reviewing contribution rates between triennial valuations.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate.

1.1 Aims and objectives

The administering authority's aims and objectives related to this policy are as follows:

- To provide employers with clarity around the circumstances where contribution rates may be reviewed between valuations.
- To outline specific circumstances where contribution rates will not be reviewed.

1.2 Background

The Fund may amend contribution rates between valuations for 'significant change' to the liabilities or covenant of an employer.

Such reviews may be instigated by the fund or at the request of a participating employer.

Any review may lead to a change in the required contributions from the employer.

1.3 Guidance and regulatory framework

Regulation 64 of the Local Government Pension Scheme Regulations 2013 (as amended) sets out the way in which LGPS funds should determine employer contributions, including the following;

- Regulation 64 (4) – allows the administering authority to review the contribution rate if it becomes likely that an employer will cease participation in the fund, with a view to ensuring that the employer is fully funded at the expected exit date.
- Regulation 64A - sets out specific circumstances where the administering authority may revise contributions between valuations (including where a review is requested by one or more employers).

This policy also reflects statutory guidance from the Department for Levelling Up, Housing and Communities on preparing and maintaining policies relating to the review of employer contributions. Interested parties may want to refer to an accompanying guide that has been produced by the Scheme Advisory Board.

2 Statement of principles

This statement of principles covers review of contributions between valuations. Each case will be treated on its own merits, but in general:

- The administering authority reserves the right to review contributions in line with the provisions set out in the LGPS Regulations.
- The decision to make a change to contribution rates rests with the administering authority, subject to consultation with employers during the review period.
- Full justification for any change in contribution rates will be provided to employers.
- Advice will be taken from the fund actuary in respect of any review of contribution rates.
- Any revision to contribution rates will be reflected in the Rates & Adjustment certificate.

3 Policy

3.1 Circumstances for review

The fund would consider the following circumstances as a potential trigger for review:

- in the opinion of an administering authority there are circumstances which make it likely that an employer (including an admission body) will become an exiting employer sooner than anticipated at the last valuation;
- an employer is approaching exit from the fund within the next two years and before completion of the next triennial valuation;
- there are changes to the benefit structure set out in the LGPS Regulations which have not been allowed for at the last valuation;
- it appears likely to the administering authority that the amount of the liabilities arising or likely to arise for an employer or employers has changed significantly since the last valuation;
- it appears likely to the administering authority that there has been a significant change in the ability of an employer or employers to meet their obligations (e.g. a material change in employer covenant, or provision of additional security);
- it appears to the administering authority that the membership of the employer has changed materially such as bulk transfers, significant reductions to payroll or large-scale restructuring; or
- where an employer has failed to pay contributions or has not arranged appropriate security as required by the administering authority.

3.2 Employer requests

The administering authority will also consider a request from any employer to review contributions where the employer has undertaken to meet the costs of that review and sets out the reasoning for the review (which would be expected to fall into one of the above categories, such as a belief that their covenant has changed materially, or they are going through a significant restructuring impacting their membership).

The administering authority will require additional information to support a contribution review made at the employer's request. The specific requirements will be confirmed following any request and this is likely to include the following:

- a copy of the latest accounts;
- details of any additional security being offered (which may include insurance certificates);
- budget forecasts; and/or
- information relating to sources of funding.

The costs incurred by the administering authority in carrying out a contribution review (at the employer's request) will be met by the employer. These will be confirmed upfront to the employer prior to the review taking place.

3.3 Other employers

When undertaking any review of contributions, the administering authority will also consider the impact of a change to contribution rates on other fund employers. This will include the following factors:

- The existence of a guarantor.
- The amount of any other security held.
- The size of the employer's liabilities relative to the whole fund.

The administering authority will consult with other fund employers as necessary.

3.4 Effect of market volatility

Except in circumstances such as an employer nearing cessation, the administering authority will not consider market volatility or changes to asset values as a basis for a change in contributions outside a formal valuation.

3.5 Documentation

Where revisions to contribution rates are necessary, the fund will provide the employer with a note of the information used to determine these, including:

- Explanation of the key factors leading to the need for a review of the contribution rates, including, if appropriate, the updated funding position.
- A note of the new contribution rates and effective date of these.
- Date of next review.
- Details of any processes in place to monitor any change in the employer's circumstances (if appropriate), including information required by the administering authority to carry out this monitoring.

The Rates & Adjustments certificate will be updated to reflect the revised contribution rates.

4 Related Policies

The fund's approach to setting employer contribution rates is set out in the Funding Strategy Statement, specifically "Section 2 – How does the fund calculate employer contributions?".

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**9 March 2023**
Classification:	**General Release (Appendix 1 is exempt)**
Title:	**Strategic Investment Strategy Review**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no direct financial implications arising from this report.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 This report details the investment strategy review undertaken by the Fund's investment advisor, Deloitte, shown as Appendix 1. A review of the current investment strategy has been undertaken, highlighting observations, the updated funding level and recommendations to contemplate when considering the new investment strategy.

2. RECOMMENDATIONS

2.1 The Committee is recommended to:

- discuss the proposals set out within Deloitte's investment strategy review and agree the most appropriate strategic asset allocation for the Fund going forward.

- approve that Appendix 1 to this report is not for publication on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

3. PROPOSALS AND ISSUES

Current Investment Strategy

3.1 The Fund's current strategic 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.

3.2 Since the 2019 valuation the funding position has significantly improved, rising to 128% in 2022. Given the stronger funding position there is an opportunity to reduce investment risk within the portfolio, taking into consideration wider investment market dynamics.

3.3 Based on the Fund's current strategic asset allocation, the expected annual return is 6.5% per annum, with a volatility of 12.0% per annum. Deloitte also estimates, by using its worst-case scenario modelling, the one-year 95% value at risk (VaR) to be £420m. VaR is a measure of how much the scheme's deficit could change in one year with a 1 in 20 probability.

3.4 Currently the largest contributor to funding risk is the Fund's large allocation to equities, with exposures to interest rate and inflation sensitivity also a significant contributor to risk. Therefore, there is an opportunity to reduce risk levels by reducing the Fund's exposure to more risky asset classes.

3.5 The Fund is expected to be cashflow positive until 2023/24 and neutral from 2024/25. However, Macquarie, Quinbrook and CVC Credit are expected to commence distribution income from 2025, this is forecast to produce an additional £15m of income per annum.

Issues to consider

3.6 The following observations have been highlighted for consideration when preparing the proposed new investment strategy:

- The Fund's equity allocation is overweight, with the Insight Buy and Maintain Bond portfolio also overweight. However, the Insight weighting will reduce as the CVC Credit Private Debt portfolio draws down.

- There is potential to reduce investment risk which will satisfy the Fund's lower return target, following the increase in funding level.

- The Fund is cashflow neutral and it is expected more income will be generated from illiquid asset cashflows over the next few years. Therefore, there is potential to switch off the income from other parts of the portfolio where no longer required.

- The 2.5% allocation to affordable and socially supported housing is yet to be allocated. The Deloitte report sets out opportunities within the London CIV UK Community Housing Fund and Man Group Community Housing Fund II. However, it is recommended that a full manager selection exercise is undertaken.

4. RECOMMENDATIONS AND NEXT STEPS

Strategy proposals

4.1 Deloitte has set out recommendations for the Fund's investment strategy, with the aim of reducing equity allocation risk and funding risk:

- **Rebalance:** rebalance the overweight and underweight allocations within the equity mandates, Multi Asset Credit fund and Insight Buy and Maintain Bond fund. Any excess cash to be held for the purpose of illiquid fund draw down requests.

- **De-Risk:** transition 5% from global equities into the Insight Buy and Maintain Bond fund. This has potential to reduce the VaR by £23m.

- **Cash management:** continue to use cash held within temporary investments (Northern Trust Short Duration Bonds and London CIV Absolute Return) to fund capital calls for illiquid mandates. Additionally, continue to fund the CVC Credit private debt drawdowns from the Insight Buy and Maintain Bond fund.

- **Affordable and socially supported housing:** undertake a manager selection exercise to identify a mandate for the 2.5% affordable and socially supported housing allocation.

4.2 The Committee should discuss and agree the most appropriate strategic asset allocation for the Fund going forward. Upon agreement of the above recommendations, a timeline for implementation, setting out a plan for 2023 in order of preference, will be established.

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: Investment Strategy Review (exempt)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

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Agenda Item 6

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**9 March 2023**
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 31 January 2023 for the Pension Fund bank account and cash held at custody (Northern Trust). The bank/cashflow position continues to be stable.

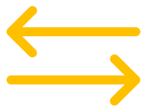
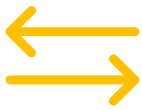
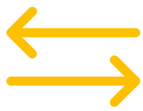
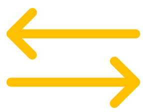
2. Recommendations

2.1 The Committee is asked to note the top five risks for the Pension Fund.

2.2 The Committee is asked to note the cashflow position for the Pension Fund bank account and cash held at custody, the rolling twelve-month forecast and the three-year forecast.

3. Risk Register Monitoring

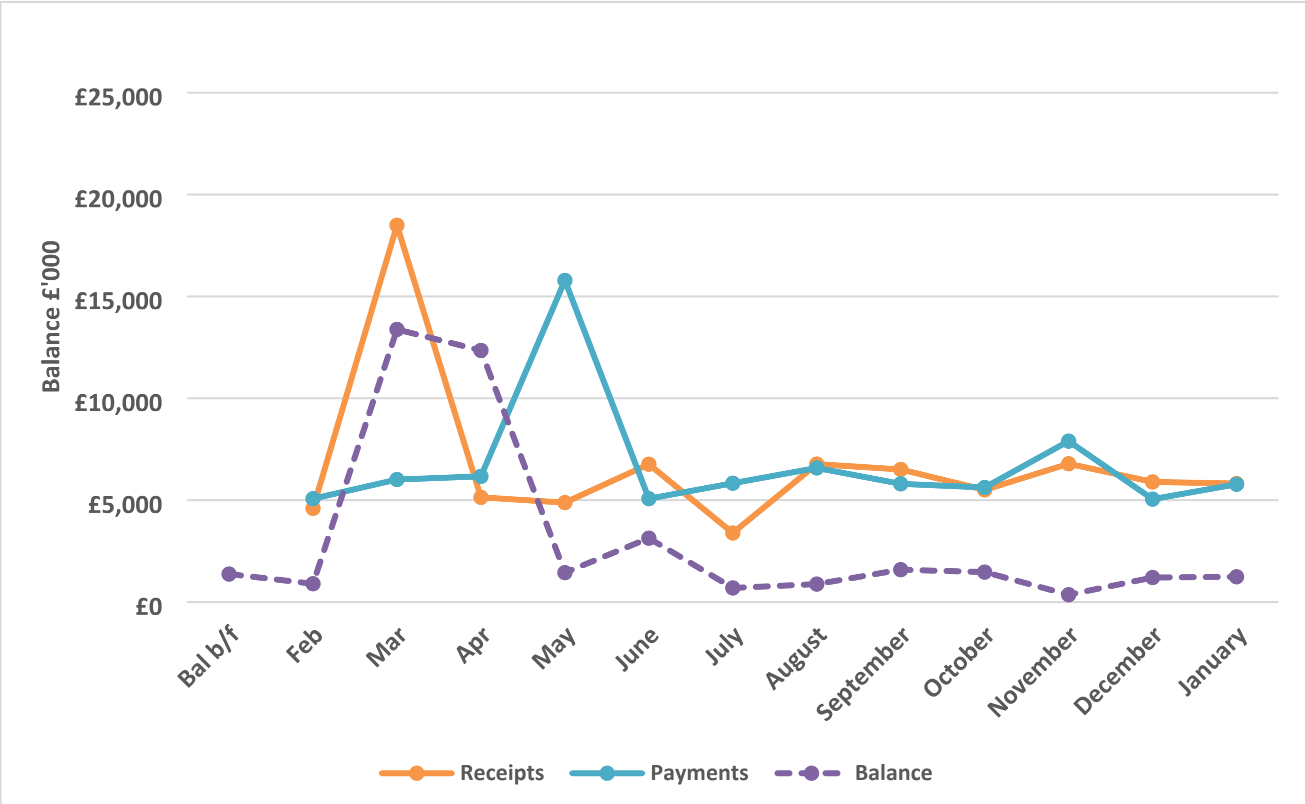
3.1 The risk register is divided into two sections: investment and pensions administration. The risk groups have been updated to reflect the CIPFA guidance on risk categories. The current top five risks to the Pension Fund, as updated in February 2023, are highlighted in the table below:

CIPFA Risk Group	Risk Rank	Risk Description	Trending
Liability Risk	1st/43	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 as a result of the Russia-Ukraine conflict. CPI inflation was 10.1% as at January 2023, down from the peak of 11.1% in October 2022. The government's energy relief package for domestic households is expected to have a downward pressure on CPI: however, this package will now only last to March 2023.	
Asset and Investment Risk	2nd/43	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 £1.8m. The Fund returned -4.44% net of fees in the year to 31 January 2023, underperforming the benchmark by -1.72% net of fees. Much of this underperformance can be attributed to the equity and fixed income mandates.	
Asset and Investment Risk	3rd/43	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.	
Regulatory and Compliance Risk	4th/43	The Department for Levelling Up, Housing and Communities (DLUHC) has proposed new regulations for Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate Related Financial Disclosures (TCFD). The first reporting year will be the financial year 2023/24, with the regulations expected to be in force by April 2023 and the first reports required by December 2024. Officers have commenced preparatory work.	
Liability Risk	5th/43	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others. Current economic conditions will cause strain on smaller employers.	

4. Cashflow Monitoring and Forecasted Cashflows

4.1 The balance on the Pension Fund's Lloyds bank account as at 31 January 2023 was £1.245m. This account is the Fund's main account for day-to-day transactions, including member contributions and pension payments. 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.

4.2 The graph shows changes in the bank balance from 1 February 2022 to 31 January 2023.



4.3 Payments and receipts have remained stable over the last 12 months. Officers continue to keep the cash balance under review and take action to maintain necessary liquidity. During the quarter, the Fund withdrew £4.5m from cash at custody to maintain a positive cash balance.

4.4 The Pension Fund held £10.8m in cash with Northern Trust as at 31 January 2023. Fund manager distributions, 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 November 2022 to 31 January 2023.

Cash at Custody	Nov	Dec	Jan
	£000	£000	£000
	Actual	Actual	Actual
Balance b/f	**9,153**	**5,550**	**8,393**
Distributions	0	2,136	1,576
Sale of assets	5,000	67,669	877
Interest	7	12	28
Cash withdraw	(3,000)	(1,500)	0
Foreign Exchange Gains/Losses	(16)	(23)	0
Purchase of Assets	(5,604)	(65,386)	0
Miscellaneous	0	0	0
Management fees	10	(65)	(116)
Balance c/f	**5,550**	**8,393**	**10,758**

4.5 Over the quarter, capital calls relating to the Pantheon Global Infrastructure fund, Quinbrook Renewables Impact mandate, Man Group Affordable Housing and CVC Credit Private Debt fund took place. Alongside this, the Baillie Gifford Paris Aligned transition took place during December 2022, with circa £42m of the Global Alpha Equity Fund being rebalanced.

4.6 During the quarter, sales of £30m took place within the Insight Buy and Maintain Bond fund, London CIV Absolute Return fund and NT Ultra Short Bond fund, to fund these capital calls.

4.7 The total cash balance, including the Pension Fund Lloyds bank account and cash at custody, is shown below for the period from 1 November 2022 to 31 January 2023. The total cash balance as at 31 January 2023 was £12m.

Cash at custody & Bank account	Nov	Dec	Jan
	£000	£000	£000
	Actual	Actual	Actual
Balance b/f	**10,628**	**5,914**	**9,601**
Cash outflows	(13,513)	(70,530)	(5,901)
Cash inflows	8,799	74,217	8,303
(Withdraw)/Deposit from custody to bank account	(3,000)	(1,500)	0
Withdraw/(Deposit) from bank account to custody	3,000	1,500	0
Balance c/f	**5,914**	**9,601**	**12,003**

4.8 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 estimated using an average of the previous quarters cashflows.

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	Actual	Actual	Actual	Actual	*F'cast*	*F'cast*	
Balance b/f	**13,383**	**12,353**	**1,448**	**3,140**	**699**	**888**	**1,594**	**1,475**	**365**	**1,209**	***1,245***	***947***	***£000s***
Contributions	4,647	3,285	5,739	840	3,318	3,735	3,181	3,542	3,751	4,549	*3,491*	*3,491*	*43,569*
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	497	1,596	1,013	556	1,458	777	320	250	649	1,272	*406*	*406*	*9,199*
Pensions	(3,587)	(3,641)	(3,613)	(3,647)	(3,627)	(3,656)	(3,663)	(3,649)	(3,649)	(3,658)	*(3,654)*	*(3,654)*	*(43,699)*
HMRC Tax Payments	(615)	(675)	(666)	(653)	(672)	(674)	(666)	(648)	(654)	(664)	*(656)*	*(656)*	*(7,899)*
Transfers out, lump sums, death grants, refunds & misc. payments	(1,966)	(1,337)	(647)	(1,484)	(2,138)	(1,453)	(854)	(3,396)	(702)	(1,321)	*(1,651)*	*(1,651)*	*(18,600)*
Expenses	(6)	(137)	(152)	(52)	(150)	(23)	(444)	(209)	(50)	(141)	*(235)*	*(235)*	*(1,835)*
Net cash in/(out) in month	**(1,030)**	**(909)**	**1,674**	**(4,441)**	**(1,811)**	**(1,294)**	**(2,128)**	**(4,110)**	**(656)**	**36**	***(2,298)***	***(2,298)***	***(19,265)***
Withdrawal/(deposit) from custody cash	0	(10,000)	0	2,000	2,000	2,000	2,000	3,000	1,500	0	*2,000*	*2,000*	*6,500*
Deficit Recovery Contributions	0	4	18	0	0	0	9	0	0	0	*0*	*0*	*31*
Balance c/f	**12,353**	**1,448**	**3,140**	**699**	**888**	**1,594**	**1,475**	**365**	**1,209**	**1,245**	***947***	***649***	

4.9 The three-year cashflow forecast for 2022/23 to 2024/25 for the Pension Fund's Lloyds bank account is shown below. The forecast cashflow for 2022/23 is linked to the rolling forecast in table 4.8, the following two years are calculated using the previous year's cashflows which are then inflated, 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**	**649**	**937**
Contributions	43,569	44,441	45,330
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	9,199	9,659	10,141
Pensions	(43,699)	(48,112)	(50,518)
HMRC Tax	(7,899)	(8,294)	(8,708)
Transfers out, lump sums, death grants, refunds & misc. payments	(18,600)	(20,479)	(21,503)
Expenses	(1,835)	(1,927)	(2,023)
Net cash in/(out) in year	**(19,265)**	**(24,712)**	**(27,281)**
Withdrawal/(deposit) from custody cash	6,500	25,000	27,000
Deficit Recovery Contributions	31	0	0
Balance c/f	**649**	**937**	**656**

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.

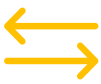
APPENDICES:

Appendix 1: Tri-Borough Risk Management Scoring Matrix
Appendix 2: Pension Fund Risk Register Review at February 2023

Appendix 1 - Tri Borough Risk Management Scoring Matrix		
Scoring (Impact)		
Impact Description	Category	Description
1 Very Low	Cost/Budgetary Impact	£0 to £25,000
	Impact on life	Temporary disability or slight injury or illness less than 4 weeks (internal) or affecting 0-10 people (external)
	Environment	Minor short term damage to local area of work.
	Reputation	Decrease in perception of service internally only – no local media attention
	Service Delivery	Failure to meet individual operational target – Integrity of data is corrupt no significant effect
2 Low	Cost/Budgetary Impact	£25,001 to £100,000
	Impact on life	Temporary disability or slight injury or illness greater than 4 weeks recovery (internal) or greater than 10 people (external)
	Environment	Damage contained to immediate area of operation, road, area of park single building, short term harm to the immediate ecology or community
	Reputation	Localised decrease in perception within service area – limited local media attention, short term recovery
	Service Delivery	Failure to meet a series of operational targets – adverse local appraisals – Integrity of data is corrupt, negligible effect on indicator
3 Medium	Cost/Budgetary Impact	£100,001 to £400,000
	Impact on life	Permanent disability or injury or illness
	Environment	Damage contained to Ward or area inside the borough with medium term effect to immediate ecology or community
	Reputation	Decrease in perception of public standing at Local Level – media attention highlights failure and is front page news, short to medium term recovery
	Service Delivery	Failure to meet a critical target – impact on an individual performance indicator – adverse internal audit report prompting timed improvement/action plan - Integrity of data is corrupt, data falsely inflates or reduces outturn of indicator
4 High	Cost/Budgetary Impact	£400,001 to £800,000
	Impact on life	Individual Fatality
	Environment	Borough wide damage with medium or long term effect to local ecology or community
	Reputation	Decrease in perception of public standing at Regional level – regional media coverage, medium term recovery
	Service Delivery	Failure to meet a series of critical targets – impact on a number of performance indicators – adverse external audit report prompting immediate action - Integrity of data is corrupt, data falsely inflates or reduces outturn on a range of indicators
5 Very High	Cost/Budgetary Impact	£800,001 and over
	Impact on life	Mass Fatalities
	Environment	Major harm with long term effect to regional ecology or community
	Reputation	Decrease in perception of public standing nationally and at Central Government – national media coverage, long term recovery
	Service Delivery	Failure to meet a majority of local and national performance indicators – possibility of intervention/special measures – Integrity of data is corrupt over a long period, data falsely inflates or reduces outturn on a range of indicators

Scoring (Likelihood)	
Descriptor	Likelihood Guide
1. Improbable, extremely unlikely.	Virtually impossible to occur 0 to 5% chance of occurrence.
2. Remote possibility	Very unlikely to occur 6 to 20% chance of occurrence
3. Occasional	Likely to occur 21 to 50% chance of occurrence
4. Probable	More likely to occur than not 51% to 80% chance of occurrence
5. Likely	Almost certain to occur 81% to 100% chance of occurrence

Control		Details required
Terminate	Stop what is being done.	A clear description of the specific actions to be taken to control the risk or opportunity
Treat	Reduce the likelihood of the risk occurring.	
Take	Circumstances that offer positive opportunities	
Transfer	Pass to another service best placed to deal with mitigations but ownership of the risk still lies with the original service.	The name of the service that the risk is being transferred to and the reasons for the transfer.
Tolerate	Do nothing because the cost outweighs the benefits and/or an element of the risk is outside our control.	A clear description of the specific reasons for tolerating the risk.

Symbol Key	
Trending upwards	 Risk is assessed to be generally trending upwards
Trending downwards	 Risk is assessed to be generally trending downwards
No change	 Risk is assessed to be generally staying the same

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Pension Fund Risk Register - Administration Risk

Risk Group	Risk Ref.	Trending	Risk Description	Impact: Fund	Impact: Employers	Impact: Reputation	Impact: Total	Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed
Administrative and Communicative Risk	1		Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement.	5	3	1	9	3	**27**	**TREAT:** 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers part of the actuarial valuation, next valuation to take place at 31 March 2022. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	2	**18**	20/02/2023
Administrative and Communicative Risk	2		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.	2	2	3	7	3	**21**	**TREAT:** 1) The Hampshire Pension Portal has several layers of security in place to ensure the security of member data and access to the portal. 2) HPS undertake penetration testing on a regular basis (at least twice a year), in conjunction with Civica to ensure any risks/weaknesses in the systems security is identified and rectified. 3) Civica undertake upgrades and maintenance to the pension portal on a continual basis.	2	**14**	20/02/2023
Resource and Skill Risk	3		Concentration of knowledge in a small number of officers and risk of departure of key staff.	2	2	3	7	3	**21**	**TREAT:** 1) Practice notes in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	**14**	20/02/2023
Administrative and Communicative Risk	4		Failure of securely sent sensitive data and any unidentified data flows being sent insecurely.	4	3	5	12	2	**24**	**TREAT:** 1) Active member data is sent on secure platforms between all parties 2) Including "Encrypted" in email subject allows schools and academies to send data to pension admin team securely. 3) Data sent to the actuary using secure portal. 4) The employer portal used by HPS should offer increased security for member data from all employers.	1	**12**	20/02/2023
Administrative and Communicative Risk	5		Failure of cyber security measures, including information technology systems and processes, leading to loss, disruption or damage to the scheme or its members.	4	2	5	11	2	**22**	**TREAT:** 1) Council has a data recovery plan in place, with files uploaded to the cloud every night. 2) . As a Council we are continuing to invest in technologies to block and filter phishing emails as well as ensuring our systems are up to date to protect us and our devices against these threats. 3) The IT team continuously review and update the cyber security policies, including the Information Security policy, Acceptable Use policy, Email and Internet policy, Social Media policy, Password Management policy and Data Disposal policy. All of which can be found on the Wire.	1	**11**	20/02/2023
Administrative and Communicative Risk	6		Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	4	4	3	11	2	**22**	**TREAT:** 1) Update and enforce pension admin strategy to assure employer reporting compliance.	1	**11**	20/02/2023
Administrative and Communicative Risk	7		Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	3	2	5	10	2	**20**	**TREAT:** 1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place. 2) Review of third party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams. 5) Internal Audits last undertaken during 2018/19 showed satisfactory assurance with recommendations implemented during the year.	1	**10**	20/02/2023
Administrative and Communicative Risk	8		Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	1	4	3	8	3	**24**	**TREAT:** 1) The pensions administration service transitioned from Surrey CC to Hampshire CC on 8th November 2021. 2) Officers will continue to support the admin team with regular meetings and conversation on cases. 3) Ongoing monitoring of contract and KPIs.	1	**8**	20/02/2023
Administrative and Communicative Risk	9		Failure of financial system leading to benefits to scheme members and supplier payments not being made and Fund accounting not being possible.	1	3	4	8	2	**16**	**TREAT:** 1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments. 2) Officers undertaking additional testing and reconciliation work to verify accounting transactions.	1	**8**	20/02/2023

Administrative and Communicative Risk	10		Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	1	2	5	8	2	**16**	**TREAT:** 1) Disaster recovery plan in place 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance.	1	**8**	20/02/2023
Administrative and Communicative Risk	11		Poor reconciliation process leads to incorrect contributions.	2	1	1	4	3	**12**	**TREAT:** 1) Ensure reconciliation process notes are understood by Pension Fund team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process.	2	**8**	20/02/2023
Administrative and Communicative Risk	12		Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	1	2	4	7	2	**14**	**TREAT:** 1) In the event of a pension payroll failure, we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers. HPS have their own COWPF Bank Account which is reconciled. COWPF transferred to HPS on the 8th of November 2021 there have never been any issues in running the pension payroll or paying the pensions on time.	1	**7**	20/02/2023
Administrative and Communicative Risk	13	**NEW**	Possibility of members opting out of the pension scheme, following concerns around inflation and the cost of living crisis.	2	3	1	6	2	**12**	TREAT: 1) Auto-enrolment of the pension scheme takes place every 3 years. 2) The Fund offers members the flexibility to pay half their normal contribution rate and build up half their normal pension. This is designed as a short term option and employees are automatically transferred back into the main scheme every 3 years. Members keep their full life and ill-health cover they join the 50/50 section.	1	**6**	20/02/2023
Administrative and Communicative Risk	14		Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	1	1	1	3	3	**9**	**TREAT:** 1) Pension administration records are stored on the Hampshire CC servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue. All files are backed up daily.	2	**6**	20/02/2023
Administrative and Communicative Risk	15		Lack of guidance and process notes leads to inefficiency and errors.	2	2	1	5	2	**10**	**TREAT:** 1) Ensure process notes are compiled and circulated in Pension Fund and Administration teams.	1	**5**	20/02/2023
Administrative and Communicative Risk	16		Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	2	2	1	5	2	**10**	**TREAT:** 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	**5**	20/02/2023
Administrative and Communicative Risk	17		Failure to identify GMP liability leads to ongoing costs for the pension fund.	1	2	1	4	1	**4**	**TREAT:** 1) GMP identified as a Project as part of the Service Specification between the Fund and Hampshire County Council, with minimal effect on the Fund.	1	**4**	20/02/2023

Pension Fund Risk Register - Investment Risk														
Risk Group	Risk Ref.	Trending	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed
				Fund	Employers	Reputation	Total						
Liability Risk	1		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 as a result of the Russia-Ukraine conflict. CPI inflation was 10.1% as at January 2023, down from the peak of 11.1% in October 2022.	5	3	2	10	5	**50**	**TREAT:** 1) The Fund holds investments in bonds, inflation linked long lease property, private debt and infrastructure to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection. 2) The Pension Fund has increased its holdings within infrastructure and intends to increase allocations to property into 2022. 3) Officers continue to monitor the increases in CPI inflation on an ongoing basis. 4) Short term inflation is expected due to a number of reasons on current course.	4	**40**	20/02/2023
Asset and Investment Risk	2		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 £1.8m. The Fund returned -4.44% net of fees in the year to 31 January 2023, underperforming the benchmark by -1.72% net of fees. Much of this underperformance can be attributed to the equity and fixed income mandates.	5	3	3	11	4	**44**	**TREAT:** 1) The Investment Management Agreements (IMAs) clearly state WCC's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be achieved. 4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures. 6) The Committee invited Baillie Gifford to attend the Committee meeting on 23 June 2022, the asset manager reaffirmed their commitment to growth-oriented investment. The London CIV continues to monitor the manager's below benchmark performance over the last 12 months and has observed that the performance gap is recoverable. London CIV remains confident in the investment process but acknowledges that there could have been better management of investment risk.	3	**33**	20/02/2023
Asset and Investment Risk	3		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.	3	4	3	10	4	**40**	**TREAT:** 1) Continued dialogue with investment managers re management of political risk in global developed markets. 2) Investment strategy involving portfolio diversification and risk control. 3) The Fund alongside its investment consultant continually reviews its investment strategy in different asset classes. 4) The City of Westminster Pension Fund can report that as at January 2023, the value of investments to Russia or Ukraine within the Pension Fund's asset classes is valued at zero. 5) Currency hedging takes place within the LGIM Future World Fund and LCIV Absolute Return Fund, this will offer some protection against the weakening of the pound.	3	**30**	20/02/2023

Regulatory and Compliance Risk	4		The Department for Levelling Up, Housing and Communities' (DLUHC's) has proposed new regulations for Local Government Pension Scheme (LGPS) administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-Related Financial Disclosures (TCFD). The first reporting year will be the financial year 2023/24, with the regulations expected to be in force by April 2023 and the first reports required by December 2024.	3	1	4	8	4	**32**	**TREAT:** 1) The Pension Fund's investment consultant has already started work on identifying the climate risks to the Fund, and how these can be assessed and reported on. 2) The Pension Fund already collects and reports on carbon emission data, which will form part of the TCFD metrics and targets. This data can currently be found in the Responsible Investment Statement. 3) Officers attend training sessions and conferences on TCFD reporting, including London Pension Fund Officers Forum, where there is an open arena for discussions. 4) The City of Westminster Pension Fund has submitted a response to the DLUHC consultation on the proposed climate reporting regulations to come into force by April 2023.	3	**24**	20/02/2023
Liability Risk	5		Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others. Current economic conditions will cause strain on smaller employers.	5	3	3	11	3	**33**	**TREAT:** 1) Transferee admission bodies required to have bonds or guarantees in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds.	2	**22**	20/02/2023
Liability Risk	6		Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	2	**22**	**TOLERATE:** 1) The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.	2	**22**	20/02/2023
Asset and Investment Risk	7		Increased scrutiny on environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in September 2019.	3	1	3	7	4	**28**	**TREAT:** 1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published ISS. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and Pensions and Lifetime Savings Association (PLSA), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors. 4) The Pension Fund has committed 6% towards renewables and 5% to affordable and social supported housing, alongside moving equities into ESG-tilted mandates. 5) An ESG and RI Policy was drafted for the Pension Fund as part of the ISS and a Responsible Investment Statement has been released for 2022. 6) Officers regularly attend training events on ESG and TCFD regulations to ensure stay up to date with latest guidance.	3	**21**	20/02/2023

Asset and Investment Risk	8		Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	5	3	2	10	3	**30**	**TREAT:** 1) Proportion of total asset allocation made up of equities, bonds, property funds, infrastructure and fixed income, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.	2	**20**	20/02/2023
Liability Risk	9		Employee pay increases are significantly more than anticipated for employers within the Fund. Persistently high inflation will potentially lead to unexpectedly high pay awards.	4	4	2	10	3	**30**	**TREAT** 1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer specific assumptions above the actuary's long term assumption would lead to further review. 3) Employers to made aware of generic impact that salary increases can have upon the final salary linked elements of LGPS benefits (accrued benefits before 1 April 2014). 4) Employee pay rises currently remain below inflation.	2	**20**	20/02/2023
Asset and Investment Risk	10		That the London Collective Investment Vehicle (LCIV) fails to produce proposals/solutions deemed sufficiently ambitious.	4	3	3	10	2	**20**	**TOLERATE:** 1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives. 2) Member presence on Shareholder Committee and officer groups. 3) The LCIV has recently bolstered its investment team with the successful recruitment of a permanent CIO, Head of Responsible Investment & Client Relations Director. 4)Fund representation on key officer groups. 5) Ongoing Shareholder Issue remains a threat.	2	**20**	20/02/2023
Resource and Skill Risk	11		Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	3	**27**	**TREAT:** 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval) 2) Comprehensive training packages will be offered to members.	2	**18**	20/02/2023

Regulatory and Compliance Risk	12		Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales. Still awaiting updated pooling guidance from DLUHC.	3	2	1	6	3	**18**	**TOLERATE:** 1) Officers consult and engage with the Department for Levelling Up, Housing and Communities (DLUHC), LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Uncertainty surrounding new DLUHC pooling guidance, expected sometime during 2022.	3	**18**	20/02/2023
Resource and Skill Risk	13	**NEW**	The Stewardship Code is a set of principles set out by the Financial Reporting Council. To become a signatory of the Code, applicants must submit a Stewardship Report to the FRC demonstrating how the principles of the Code have been applied during the previous 12 months. Once accepted onto the signatories list, organisations must reapply annually. Due to the significant work required in this area this may pose a challenge for submission annually, without any additional resource, and the risk of subsequent submissions being rejected.	3	1	4	8	3	**24**	**TREAT: 1)** Use of asset manager and pool company resources in the annual review and update of the stewardship submissions. **2)** Officers attending training events and conferences on ESG reporting. **3)** Consider applying to Code every 2 years rather than annually. **4)** Consider appointment of a Tri-Borough Responsible Investment (RI) officer to cover ESG and RI areas, including stewardship and TCFD reporting.	2	**16**	20/02/2023
Asset and Investment Risk	14		Volatility in investment markets caused by government decisions. There was 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.	4	2	2	8	3	**24**	**TREAT: 1**) The Fund's investment management structure is highly diversified, which lessens the impact of market risk compared with less diversified structures. 2) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 3) The City of Westminster Pension Fund's strategic asset allocation will be reviewed following the 2022 actuarial valuation.	2	**16**	20/02/2023
Asset and Investment Risk	15		The global outbreak of COVID-19 poses economic uncertainty across the global investment markets.	4	3	1	8	3	**24**	**TREAT:** 1) Officers will continue to monitor the impact lockdown measures have had on the fund's underlying investments and the wider economic environment. 2) The Fund holds a diversified portfolio, which should reduce the impact of stock market movements. 3) Asset allocation was reviewed during 2021, a new strategy was agreed to include private debt and affordable/social housing mandates. 4) Pension Fund Officers in frequent contact with Fund Managers and the Funds investment advisor.	2	**16**	20/02/2023

Asset and Investment Risk	16		Volatility caused by uncertainty regarding the withdrawal of the UK from the European Union. Supply chain shortages disrupting the economy. Uncertainty remains regarding the Northern Ireland Protocol.	4	3	1	8	3	**24**	**TREAT:** 1) Officers to consult and engage with advisors and investment managers. 2) Possibility of hedging currency and equity index movements. LGIM and LCIV Absolute Return mandates are currently GBP hedged. 3) The UK has exited the EU and the transition period has come to an end. There is still the potential for volatility implementing some of the post-Brexit agreements.	2	**16**	20/02/2023
Asset and Investment Risk	17		London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	3	3	2	8	3	**24**	**TREAT:** 1) Member presence on shareholder Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV. 2) Officers continue to monitor the ongoing staffing issues and the quality of the performance reporting provided by the London CIV.	2	**16**	20/02/2023
Liability Risk	18		Impact of economic and political decisions on the Pension Fund's employer workforce. Government funding level affecting the Councils spending decisions.	5	2	1	8	3	**24**	**TREAT:** 1) Actuary uses prudent assumptions on future of employees within workforce. Employer responsibility to flag up potential for major bulk transfers outside of the Westminster Fund. The potential for a significant reduction in the workforce as a result of the public sector financial pressures may have a future impact on the Fund. 2) Need to make prudent assumptions about diminishing workforce when carrying out the triennial actuarial valuation, next valuation to take place at 31 March 2022.	2	**16**	20/02/2023
Resource and Skill Risk	19		Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding. Following local elections, which took place in May 2022, the composition of the Committee has changed.	2	2	1	5	4	**20**	**TREAT:** 1) Succession planning process in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	3	**15**	20/02/2023

Regulatory and Compliance Risk	20		There is a technical issue surrounding the accounting classification of the London CIV regulatory capital and can be resolved only by making amendments to the Shareholder Agreement and the company's Article of Association (Articles). There is a risk that the LCIV will not receive all 32 signatures, however it should be noted that no further capital will be called upon as a result of this process. As at 23 August 2022, 30 local authorities have agreed in principle to sign, however 2 haven't given any indication that they will sign.	2	2	1	5	3	**15**	**TOLERATE:** 1) London CIV to facilitate discussions with London Boroughs and gather feedback, before signed amendments to Shareholder Agreement and Articles. 30 local authorities have agreed to sign, with 2 confirmations still outstanding. 2) WCC obtained written agreement and legal advice to approve the necessary changes to the Shareholder Agreement and LCIV's Articles.	3	**15**	20/02/2023
Liability Risk	21		Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	4	2	1	7	2	**14**	**TOLERATE:** 1) Review "budgets" at each triennial valuation and challenge actuary as required. Charge capital cost of ill health retirements to admitted bodies at the time of occurring. Occupational health services provided by the Council and other large employers to address potential ill health issues early.	2	**14**	20/02/2023
Liability Risk	22		Impact of increases to employer contributions following the actuarial valuation, next valuation to take place on 31 March 2022.	5	5	3	13	2	**26**	**TREAT:** 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	1	**13**	20/02/2023
Liability Risk	23		There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments. The Fund currently has £100m in cash held within a short duration bond fund and LCIV Absolute Return Fund, which allows access at short notice.	5	4	3	12	2	**24**	**TREAT:** 1) Cashflow forecast maintained and monitored. 2) Cashflow position reported to committee quarterly. 3) Cashflow requirement is a factor in current investment strategy review, Fund is expected to be c.£22m cashflow negative from 2022/23 onwards.	1	**12**	20/02/2023
Regulatory and Compliance Risk	24		Changes to LGPS Regulations	3	2	1	6	3	**18**	**TREAT:** 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will considered during the 2016 actuarial valuation process. 3) Fund will respond to consultation processes. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored.	2	**12**	20/02/2023
Regulatory and Compliance Risk	25		Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	3	3	5	11	2	**22**	**TREAT:** 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2)WCC IT data security policy adhered to. 3) Implementation of GDPR. 4) Pension administration transition project team in place.	1	**11**	20/02/2023

Liability Risk	26		Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy.	5	3	3	11	2	**22**	**TREAT:** 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Investment strategy review is currently underway with an approved switch from equities to affordable/social housing. 3) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 4) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific.	1	**11**	20/02/2023
Reputational Risk	27		Financial loss of cash investments from fraudulent activity.	3	3	5	11	2	**22**	**TREAT:** 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Strong governance arrangements and internal control are in place in respect of the Pension Fund. Internal Audit assist in the implementation of strong internal controls. Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls).	1	**11**	20/02/2023
Reputational Risk	28		Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	5	2	4	11	2	**22**	**TREAT:** 1) Officers maintain knowledge of legal framework for routine decisions. 2) Eversheds retained for consultation on non-routine matters.	1	**11**	20/02/2023
Asset and Investment Risk	29		A change in government may result in new wealth sharing policies which could negatively impact the value of the pension fund assets.	5	5	1	11	2	**22**	**TREAT:** 1) Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	**11**	20/02/2023
Liability Risk	30		Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	4	4	2	10	2	**20**	**TREAT:** 1) Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 2) No evidence in 2021/22 of members transferring out to DC schemes.	1	**10**	20/02/2023
Liability Risk	31		Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	5	3	2	10	2	**20**	**TREAT:** 1) At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. Committee and officers scrutinise and challenge advice provided.	1	**10**	20/02/2023
Asset and Investment Risk	32		Financial failure of third party supplier results in service impairment and financial loss	5	4	1	10	2	**20**	**TREAT:** 1) Performance of third parties (other than fund managers) regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers.	1	**10**	20/02/2023
Asset and Investment Risk	33		Failure of global custodian or counterparty.	5	3	2	10	2	**20**	**TREAT:** 1) At time of appointment, ensure assets are separately registered and segregated by owner. 2) Review of internal control reports on an annual basis. 3) Credit rating kept under review.	1	**10**	20/02/2023
Asset and Investment Risk	34		Financial failure of a fund manager leads to value reduction, increased costs and impairment.	4	3	3	10	2	**20**	**TREAT:** 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager. 4) Fund has the services of the London Collective Investment Vehicle (LCIV).	1	**10**	20/02/2023

Resource and Skill Risk	35		Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	4	3	3	10	2	**20**	**TREAT:** 1) Person specifications are used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge. 4) Officers maintain their CPD by attending training events and conferences.	1	**10**	20/02/2023
Regulatory and Compliance Risk	36		Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests.	3	3	4	10	2	**20**	**TREAT:** 1) Publication of all documents on external website. 2) Managers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews.	1	**10**	20/02/2023
Reputational Risk	37		Inaccurate information in public domain leads to damage to reputation and loss of confidence.	1	1	3	5	3	**15**	**TREAT**: 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed. 3) Stage AGM every year.	2	**10**	20/02/2023
Liability Risk	38		Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	1	**10**	**TOLERATE:** 1) Political power required to effect the change.	1	**10**	20/02/2023
Liability Risk	39		Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	5	3	1	9	2	**18**	**TREAT:** 1) Review maturity of scheme at each triennial valuation. Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. 2) Cashflow position monitored monthly.	1	**9**	20/02/2023
Regulatory and Compliance Risk	40		Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator.	1	3	5	9	2	**18**	**TREAT:** 1) Ensure that a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	**9**	20/02/2023
Regulatory and Compliance Risk	41		Loss of flexibility to engage with Fund Managers and loss of elective professional status with any or all of the existing Fund managers and counterparties resulting in reclassification. (The Fund is a retail client to counterparties unless opted up).	3	2	2	7	2	**14**	**TREAT:** 1) More reliance on investment advisor to keep Officers and Committee updated. Officers are considering other financial institution outside of the current mandates to 'opt up' with. 2) Maintaining up to date information about the fund on relevant platforms. 3) Fund can opt up with prospective clients. 4) Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. There is a training programme and log in place to ensure knowledge and understanding is kept up to date. 5) Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	**7**	20/02/2023

Regulatory and Compliance Risk	42		Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process.	2	2	3	7	2	**14**	**TREAT:** 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process. 2) Pooled funds are not subject to OJEU rules.	1	**7**	20/02/2023
Regulatory and Compliance Risk	43		Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	4	2	1	7	2	**14**	**TREAT:** 1) Maintain links with central government and national bodies to keep abreast of national issues. 2) Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	**7**	20/02/2023

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**9 March 2023**
Classification:	**Public (all appendices are exempt)**
Title:	**Performance of the Council's Pension Fund**
Wards Affected:	**All**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.**
Report of:	**Phil Triggs** **Tri-Borough Director of Treasury and Pensions** **ptriggs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 This report presents the performance of the Pension Fund's investments to 31 December 2022, together with an update on the London CIV.

1.2 The Fund returned 2.3% net of fees over the quarter to 31 December 2022, performing broadly in line with the benchmark.

2. RECOMMENDATION

2.1 The Committee is asked to:

- Note the performance of the investments.

- Approve that all appendices to this report are not for publication on the basis that they contain information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

3. BACKGROUND

3.1 This report presents a summary of the Pension Fund's performance to 31 December 2022. The investment performance report (Appendix 1) has been prepared by Deloitte, the Fund's investment advisor.

3.2 The market value of investments increased by £32m to £1.723bn over the quarter to 31 December 2022, with the Fund returning 2.3% net of fees. The Fund underperformed the benchmark by -0.7% net of fees, with the Abrdn long lease and Pantheon global infrastructure portfolios being the main detractors to performance. The Fund's underperformance was partially offset by outperformance of benchmarks within the London CIV Absolute Return fund, London CIV Multi Asset Credit and Macquarie Renewables, which outperformed by 3.4%, 2.4% and 2.8% net of fees respectively.

3.3 Over the 12-month period to 31 December 2022, the Fund underperformed its benchmark net of fees by -3.6% returning -12.8%. This underperformance can be largely attributed to the Baillie Gifford (LCIV) Global Equity mandate, with the strategy's large-cap growth stock bias proving detrimental as investors sought safety in value-oriented parts of the market.

3.4 The Abrdn long lease property fund outperformed its benchmark by 10.1% net of fees over the one year period, due 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 27.4%, 26.4% and 20.9% net of fees, respectively. Over the longer three-year period to 31 December 2022, the Fund underperformed the benchmark net of fees by 0.9%.

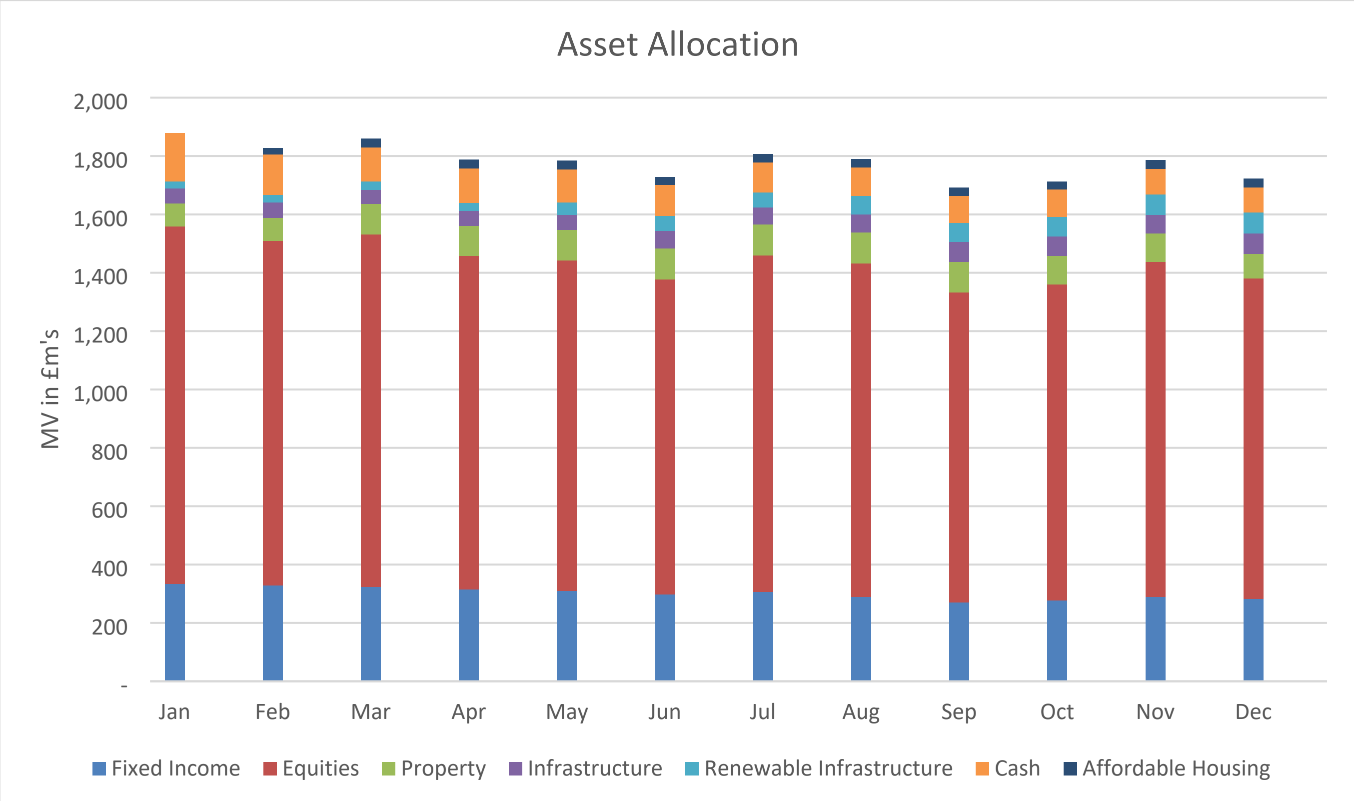
3.5 It should be noted that Deloitte continues to rate the fund managers favourably. During the quarter, Deloitte held a meeting with Baillie Gifford senior managers and remain satisfied that the manager has maintained the same investment philosophy and conviction within stock selection.

3.6 The transition of the Fund's holdings within the London CIV (Baillie Gifford) Global Alpha Equity mandate into the BG Paris-Aligned version, took place on 5 December 2022. The London CIV post transition report is attached at appendix 3, with a comparison of actual costs compared to estimated shown within appendix 4. Officers are pleased to report that the transition progressed as planned, without any delays, and with minimal deviation from the expected transition costs.

3.7 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 significant investment returns and additional deficit recovery payments received from the Council.

4. ASSET ALLOCATION AND SUMMARY OF CHANGES

4.1 The chart shows the changes in asset allocation of the Fund from 1 January 2022 to 31 December 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 Over the quarter to 31 December 2022, capital calls relating to the Pantheon Global Infrastructure fund, Quinbrook Renewables Impact mandate and CVC Credit Private Debt fund took place.

4.4 During the quarter, sales took place within the Insight Buy and Maintain Bond fund, London CIV Absolute Return fund and NT Ultra Short Bond fund, to fund these capital calls.

5. LONDON CIV UPDATE

5.1 The value of Westminster Pension Fund investments directly managed by the London CIV as at 31 December 2022 was £847m, representing 49% of Westminster's investment assets. A further £381m continues to benefit from reduced management fees, through Legal and General having reduced its fees to match those available through the LCIV.

5.2 As at 31 December 2022, the London CIV had £25.8bn of assets under management of which £13.9bn are directly managed by the London CIV. All London CIV funds, that Westminster are invested, were on normal monitoring at quarter end.

5.3 During the quarter, the London CIV undertook 54 meetings/engagements with Client Funds, including manager monitoring updates, seed investor group discussions and monthly business updates.

5.4 The LCIV UK Community Housing Fund is now operationally ready, with first close expected on 31 March 2023. Initial seeding of this fund is expected to be finalised following Pension Fund Committee decisions over the current quarter.

5.5 During the quarter to December, the London CIV signed up to the Taskforce on Nature-Related Financial Disclosure Forum, a developing framework for disclosing nature related risks and opportunities. The technical working group set out the four pillars for monitoring and reporting, as well as the need to ensure an understanding of the impacts, dependencies and financial risks and opportunities arising from nature across these pillars.

5.6 Please see the London CIV quarterly investment report as at 31 December 2022, attached at Appendix 5.

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:

Appendix 1: Deloitte Investment Report, Quarter Ending 31 December 2022 (exempt)
Appendix 2: Deloitte Investment Report, Fee Benchmarking (exempt)
Appendix 3: London CIV Baillie Gifford PA Post-transition report (exempt)
Appendix 4: London CIV Global Alpha Paris Aligned (PA) Transition Costs (exempt)
Appendix 5: London CIV Quarterly ACS Investment Report at 31 December 2022 (exempt)

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Responsible Investment Statement

City of Westminster Pension Fund • 2023

UK STEWARDSHIP CODE

City of Westminster

Table of Contents

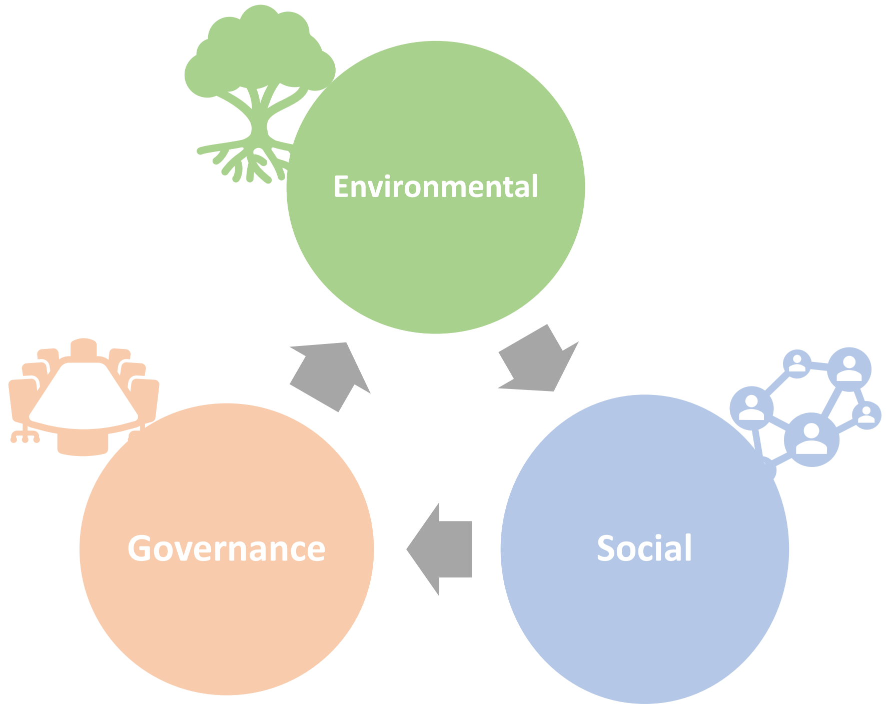
Introduction

Welcome to the City of Westminster Pension Fund's third annual Responsible Investment Statement.

Responsible Investment is defined by the United Nation's 'Principles for Responsible Investment' as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into the investment decision making process. This is beneficial for the Pension Fund as it helps us to better manage risks, generates more sustainable returns in the long term, diversifies from mainstream asset classes and supports the Councils target for net-zero emissions by 2030.

ESG refers to the three central factors, Environment, Social and Corporate Governance, in measuring the sustainability and societal impact of an investment. There are a wide range of ESG issues, with none greater currently than climate change and carbon reduction. The Pension Fund recognises climate change as the biggest threat to global sustainability alongside its administering authority employer, Westminster City Council.

The Fund committed 6% (c.£110m) to renewable infrastructure during 2021, with Macquarie and Quinbrook each selected to manage a 3% allocation. As at 31 December 2022, the Fund had approximately £62m of capital drawn down, with assets targeted to solar power, onshore and offshore wind, alongside supporting infrastructure such as battery storage and connection assets. It is estimated that once fully drawn these assets will offset 46,000 tCO_2 per annum for Westminster's allocation, and power up to c.12,000 homes annually.

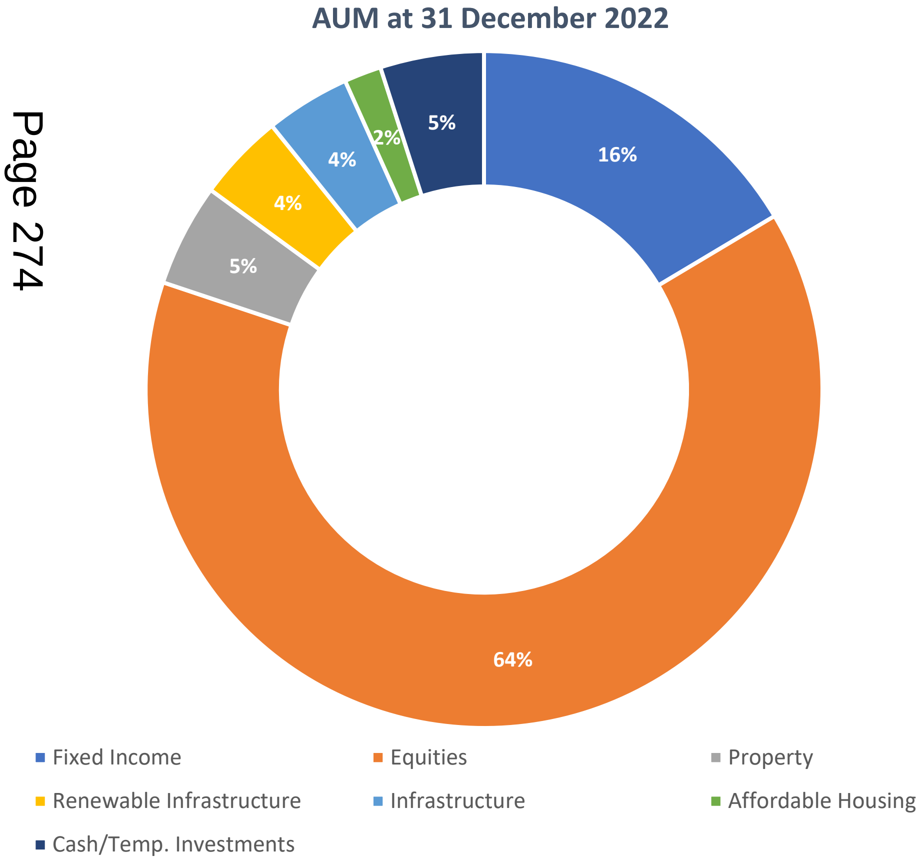


During 2022, the Pension Fund made commitments to both affordable housing and socially supported housing totalling 5% of the Fund. The allocation has a long term goal of providing 13,000 new homes that cost no more than 35% of a households gross income and across sectors, including children's services housing, specialised supported housing and older person supported housing within the supported living market.

During late 2022, the Pension Fund submitted an application to the Financial Reporting Council to become a signatory to the UK Stewardship Code. Its principal aim is to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries. The Pension Fund is pleased to report that the application was successful and the Fund is now a signatory to the Code, an accolade held by only a handful of LGPS Funds. The Stewardship Report can be found on the Pension Fund webpage.

Assets Under Management

As at 31 December 2022, the market value of the Pension Fund was £1.723bn. The Fund invests in a diverse range of assets including; equities, property, infrastructure, affordable housing, fixed income and absolute return. The Fund's assets are managed by 14 individual fund managers who specialise in that asset class.



Equities

- Monies invested in companies by purchasing their shares on stock markets.
- The Fund invests in active managers; who aim to the beat the market and passive managers; who match the performance of an index.

Fixed Income

- Fixed income assets deliver fixed investment returns to investors, at determined intervals.
- Types of fixed income assets include corporate bonds, government bonds, treasury bills, loans, structured credit, convertibles and emerging market debt.

Infrastructure

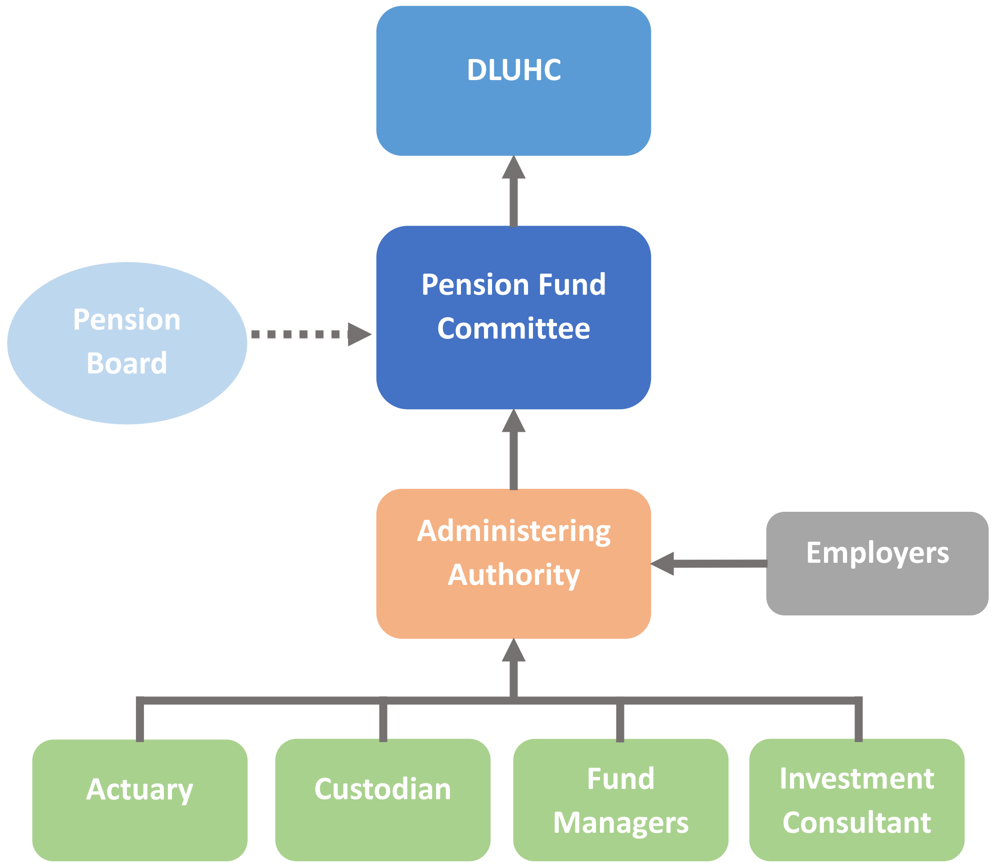
- Infrastructure assets are those that are required by society to facilitate the operation of the economy, this includes transportation, utilities, energy distribution and telecommunications.
- The Pension Fund invests in global infrastructure including renewable assets, such as wind farms.

Property

- The Pension Fund invests in long lease property and affordable housing.
- Long lease property delivers returns from cyclical rent payments usually linked to CPI/RPI.
- Affordable Housing is housing accommodation typically aimed at low income workers.

Governance

- The **Department for Levelling Up, Housing and Communities (DLUHC)** set the regulations for the Local Government Pension Scheme
- The **Pension Fund Committee** is the Fund's decision making body consisting of elected members
- The **Pension Board** assists the administrating authority, ensuring the effective and efficient governance and administration
- The **Administering Authority** (the Council), dispenses the scheme on behalf of the Fund employers
- The **Investment Consultant** and **Actuary** provide advice and assistance to the administering authority and Committee relating to the Fund's investment assets and liabilities
- The **Custodian** hold and maintain the Fund's assets
- The **Fund Managers** implement the Fund's investment strategy



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Investment Journey

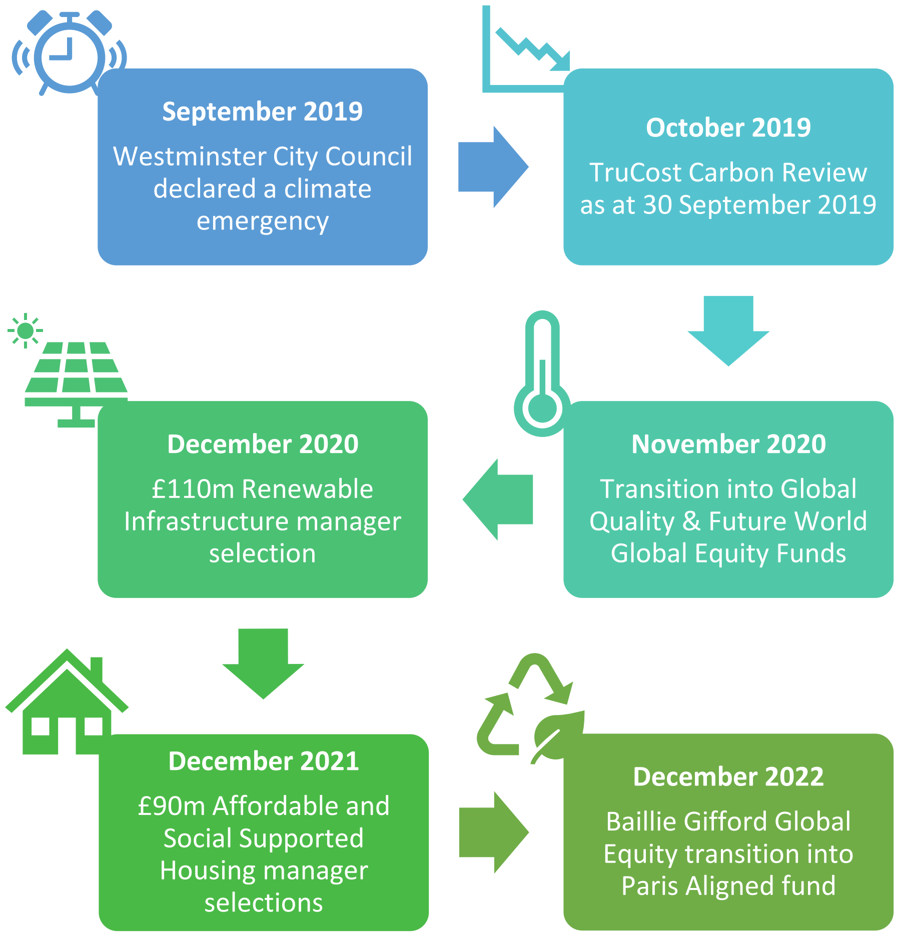
The City of Westminster Pension Fund has committed to reducing its carbon emissions, alongside Westminster City Council. The Pension Fund commissioned a carbon mapping of the Fund's equity and property investments as at 30 June 2019. This included metrics such as carbon intensity, carbon emissions, stranded assets and energy transition.

Since this mapping took place, the Fund transitioned its London CIV (LCIV) UK Equity allocation and Legal & General (LGIM) Global Passive Equities into the LCIV Global Quality Fund and LGIM Future World Fund. The Global Quality Fund seeks to provide a concentrated high-quality global portfolio of companies, however, excludes tobacco, alcohol, gambling, weapons, fossil fuels, and gas or electrical utilities. The LGIM Future World Fund tracks the L&G ESG Global Markets Index, whereby an Environmental, Social and Governance screening of companies takes place to remove those companies which do not meet the required ESG criteria.

Alongside this during late 2020, a £110m commitment was made towards investment within renewable infrastructure. A fund manager selection process took place during December 2020, with Macquarie and Quinbrook each selected to manage a 3% allocation. As at 31 December 2022, c.£62m has been invested within these renewable infrastructure funds.

During 2021, the Fund committed a 5% allocation to Affordable and Socially Supporting Housing. As at 31 December 2022, c.£31m had been invested within the Man Group Community Housing fund.

In December 2022, the Committee elected to transition the holdings within the London CIV (Baillie Gifford) Global Alpha Equity portfolio into the Paris Aligned version. The Paris Aligned version has a quantitative assessment process to screen out companies with particular levels of exposure to the fossil fuels industry, plus a qualitative method to screen out companies that will not play a role in the future transition to a low carbon environment.



Carbon Emissions

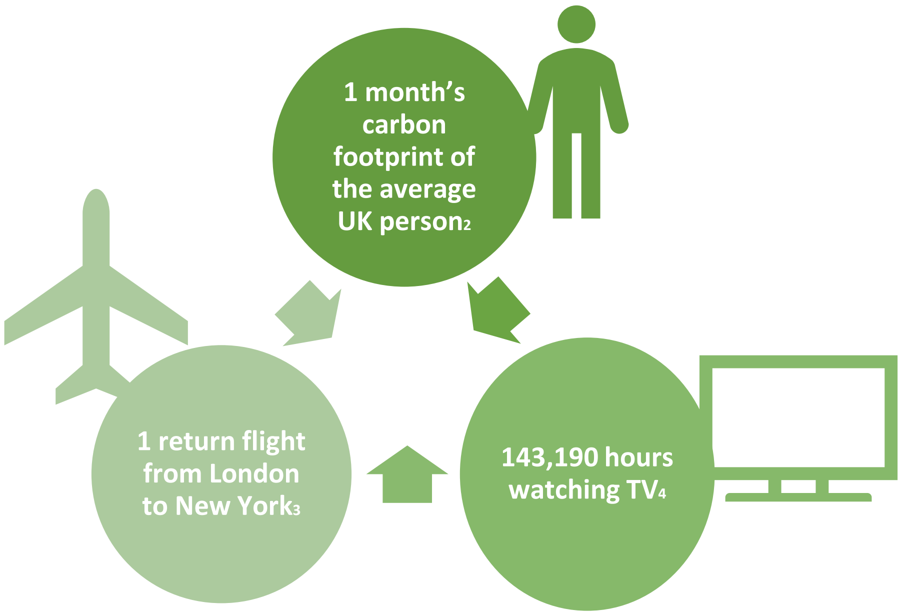
The Greenhouse Gas (GHG) emissions of the Pension Fund are reported in tonnes of CO_2 (tCO_2e). These carbon emissions can be broken down into three reporting categories as follows:

Scope 1: emissions directly attributal to a company e.g. vehicles

Scope 2: indriect emissions relating to a company e.g. utilities

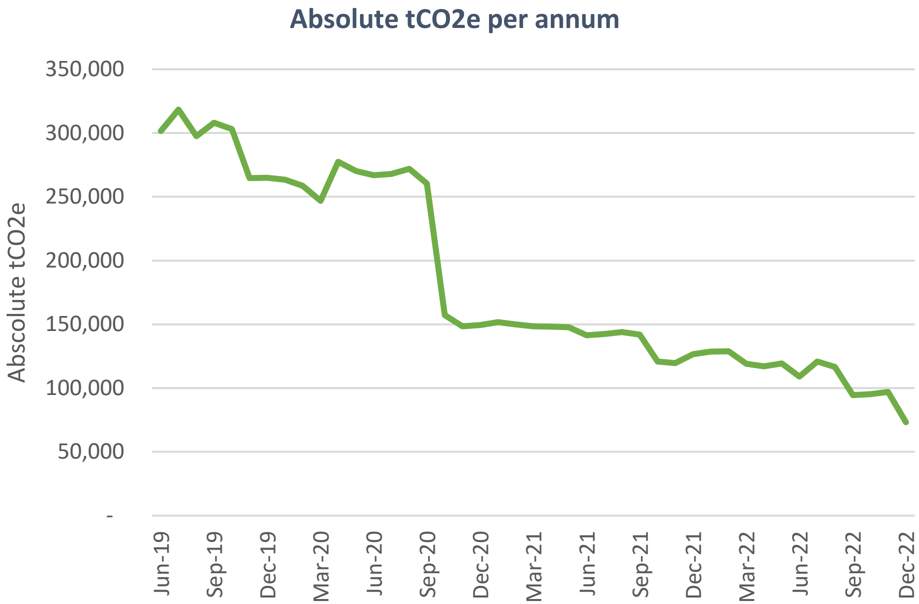
Scope 3: emissions further up/down a company's supply chain[1]

1 tonne of CO2 is equal to...



The following chart plots the absolute tonnes of CO_2 emissions of the Pension Fund from 30 June 2019 to 31 December 2022. It is estimated that the Fund has reduced its CO_2 emissions by circa 75% over this period.

Where possible the Fund reports on scope 1, 2 and 3 emissions, however as this data can be difficult to collect, this may vary amongst the Fund's asset classes and managers.



Please note the Pantheon infrastructure portfolio carbon emissions are not included within this graph and the Macquarie infrastructure fund and CVC Credit fund emissions include only one of the Fund assets. As data becomes available, this will be incorporated into the analysis.

1:https://www2.deloitte.com/uk/en/focus/climate-change/zero-in-on-scope-1-2-and-3-emissions.html?gclid=EAIaIQobChMIjsWNhfKu9QIVqejtCh3FSQ0lEAAYASAAEgLiIfD_BwE 2:https://www.nulacarbon.com/some-notes-on-climate-action/whats-in-a-tonne#:~:text=As%20an%20example%2C%20one%20tonne,person%20living%20in%20Sri%20Lanka! 3: https://www.theguardian.com/environment/ng-interactive/2019/jul/19/carbon-calculator-how-taking-one-flight-emits-as-much-as-many-people-do-in-a-year 4: https://www.tapioview.com/blog/article/what-represents-one-ton-co2-emissions/

Renewables Impact Modelling

Quinbrook Renewable Impact Fund

- c.**18,800** tCO2 offset per annum
- offset equivalent of c.**310,000** trees planted for 10 years
- **404** regional jobs expected during fund lifetime
- c.£**23**m economic contribution to local communities
- c.**11,770** homes powered per annum
- **103** MWs of pipeline assets

Macquarie Renewable Energy Fund

- c.**£502m** of pipeline solar assets
- US Residential Solar power **268** MW capacity
- Gwynt Y Mor wind farm **576** MW capacity
- c.**27,155** tCO2 offset per annum
- **950** MV aggregate capacity
- French Solar power plant **106** MW capacity

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Based on a portfolio of 372MW solar, 523MWBESS, 410MVA Synchronous Condenser; the information is based on the model" August 2022 Quinbrook Renewables Impact Fund. Please note all figures have been estimated, so may not be a true reflection of actual impact.

Based on Westminster's commitment of EUR 55 million, circa 3.4% of total fund size, and includes CO_2 offset estimates based on the two assets currently held in the fund. Please note all figures have been estimated, so may not be a true reflection of actual impact.

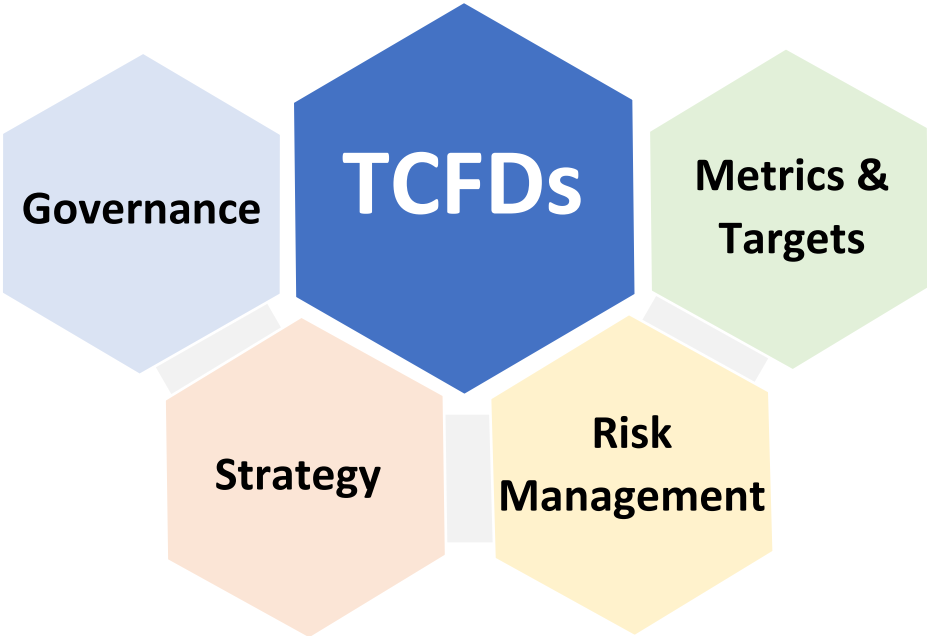
Task Force on Climate Related Financial Disclosures

TCFD | TASK FORCE ON CLIMATE–RELATED FINANCIAL DISCLOSURES

The Department for Work and Pensions (DWP) has announced a phased introduction of the planned new mandatory measures that ensure trustees are legally required to assess and report on the financial risks of climate change within their investment portfolios.

Although not yet compulsory for public sector pension schemes, it is anticipated these regulations will be extended to the LGPS by 2023. Therefore, the Pension Fund has started work on the specific climate risks to the Fund and how these can be assessed, monitored and managed.

The TCFD recommendations in relation to climate change, can be split into four thematic pillars.



Climate related risks can be classified into two categories; Physical and Transition risks.

Physical Risks

Flooding

Heat

Rising Sea level

Extreme Weather

Transition Risks

Policy & Legal

Liability

Technological

Demand-side

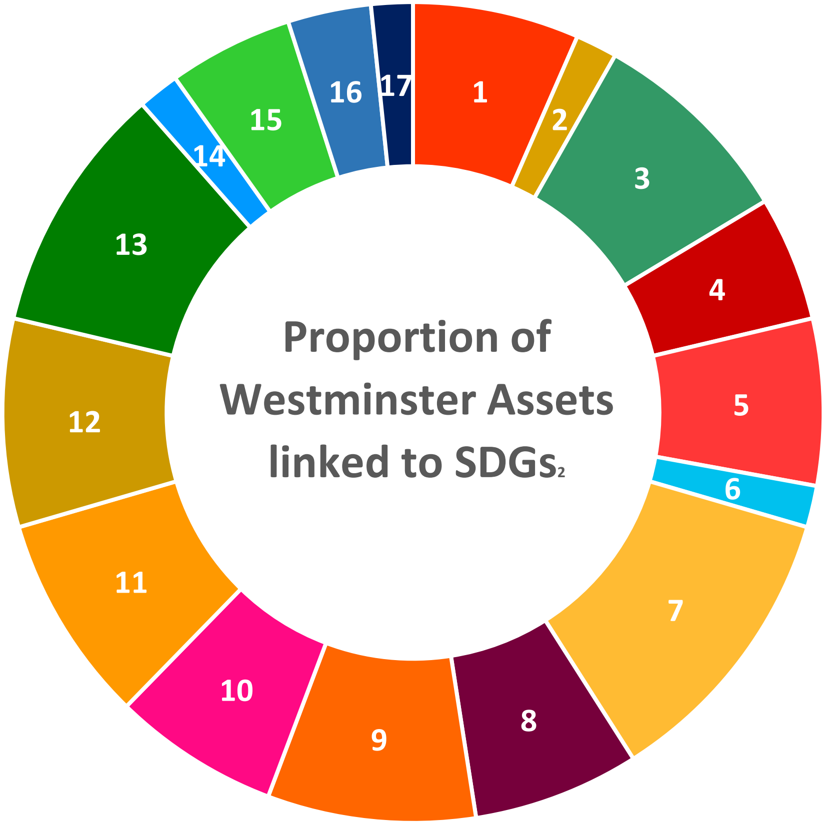
Analysis as provided by Deloitte Total Reward and Benefits Limited.

United Nations Sustainable Development Goals

During 2016, all United Nations (UN) members adopted the 2030 Agenda for Sustainable Development, at the heart of this was the 17 Sustainable Development Goals (SDGs). These goals call for urgent action by all developed and developing countries, for ending poverty, global hunger, improving health and education, reducing inequality, tackling climate change and promoting global economic growth.[1]

The UN's 17 Sustainable Development Goals are set out below:

The City of Westminster Pension Fund's asset managers meet a number of the SDGs as set out by the United nations. The chart below highlights the goals which the funds asset managers have been most successful in addressing. These include significant work towards addressing the gender pay gay, reducing deaths and illness from air pollution, developing reliable renewable infrastructure, efficient use of natural resources and improving impact on climate change mitigation.



Sources: 1: https://sdgs.un.org/goals 2:Chart includes data from Abrdn, London CIV, LGIM, Macquarie, Man Group, Pantheon and Quinbrook

ESG Case Studies

Environmental

Social

Governance

Environmental, Social and Governance factors are key indicators in measuring the sustainability and suitability of an investment. There is growing research which suggests, when integrated into business decisions and portfolio construction, these can offer stability in future returns.

The Fund expects managers to integrate ESG factors into investment analysis and decision making. Monitoring these effectively can assist with resolving issues at early stages through effective engagement with companies and board members. The Fund expects asset managers where possible to engage and collaborate with other institutional investors, as permitted by relevant legal codes to ensure the greatest impact.

The measurement of ESG performance is still developing and benefitting from significant improvements. There are several performance benchmarks and disclosure frameworks that exist to measure the different aspects of available ESG data which include carbon emissions and a variety of social impact scores.

Environmental: Inti Solar case study

The Inti solar farms are held within the Pantheon Global Infrastructure fund, with the assets located across different regions of Italy. There is also a further pipeline for future solar farms across the globe.

The fund focuses exclusively on generating electricity from 100% clean energy sources. It targets a reduction of CO2 emissions of over 2 million tons per year, thus helping achieve global climate mitigation targets. The asset manager will be heavily involved in the operation of new solar plants, thereby contributing to additional jobs in the countries it targets. As part of the project the manager has launched a charitable foundation, pledging 5% of annual profits towards alleviating poverty. Alongside this, the manager works with a specialist company to improve efficiency, including coating and tests to identify cell breakage and cracks.

Source: Pantheon Global Infrastructure Fund

Social: Experian case study

The Pension Fund holds, Experian, within its LGIM Future World Equity portfolio. The company is a multinational data and credit rating company, with headquarters in Dublin. LGIM believes the company has a key role as a business responsible for the delivery of greater social and financial inclusion.

During 2021, LGIM engaged with Experian on several occasions, and were pleased to note improvements to the company's ESG strategy, new reporting targets, greater disclosure on societal impacts and community investment, and increased capital allocated to transforming financial livelihoods.

This includes the roll out of Experian Boost, which uses data on how consumers spend their money to allow them to improve their credit score. Alongside this, the company also launched Experian Go, targeted at those with no credit history, to help them build their financial identity. Experian have also launched the United for Financial Health project to help educate and drive action for the most financially vulnerable.

Source: LGIM Active Ownership Report 2021

Governance: Rio Tinto case study

Within the London CIV (Baillie Gifford) Global Alpha Equities portfolio, the Pension Fund has exposure to Rio Tinto, a multinational metal and mining corporation.

During 2020, Rio Tinto demolished a site of cultural significance within Western Australia, promoting widespread criticism and the resignation of the CEO. LCIV had serious concerns on the corporate governance failures that led to the devastating impact on the local communities. Baillie Gifford advised they had undertaken several engagements with the company and recommended the Board to make necessary changes to its working practices to safeguard the long-term success of the company. Notable improvements within Rio Tinto include; the sale of all thermal coal assets leaving no fossil fuel exposure, strengthening carbon reduction commitments, supporting an initiative to improve global mining safety and increased disclosures; and clarity regarding the director remuneration targets. Additionally, the company has most recently published a workplace culture report to highlight areas of failing.

Source: London CIV Stewardship Outcomes Report 2022

Voting & Engagement

The Committee has delegated the Fund's voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Committee expects the investment managers to vote in the best interests of the Fund. In addition, the Fund expects its investment managers to work collaboratively with others if this will lead to greater influence and deliver improved outcomes for shareholders and more broadly.

The Fund will continue to collaborate with the London CIV on maintaining a shared voting policy for the equity managers on the London CIV platform and actively seek to align these policies with manager insights. Lobbying with other London CIV clients will give the Pension Fund greater control and impact over our voting choices and a centralised process will ensure our voting remains consistent and has the greatest impact.

The Pension Fund views engagement with companies as an essential activity and encourages companies to take positive action towards reversing climate change. The Westminster Pension Fund is a responsible owner of companies and cannot exert that positive influence if it has completely divested from all carbon intensive producing companies. The Pension Fund will continue to encourage positive change whilst officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including carbon and other ESG considerations.

Engagement: Shell case study

The Pension Fund holds Royal Dutch Shell within its Ruffer absolute return portfolio, as managed by the London CIV. As one of the highest emitters in the portfolio and following criticisms of the company's transition plan, Ruffer has engaged with the company on a number of issues. During the year, the fund manager met with Shell to discuss their climate transition strategy and to discuss the firm's reduction in carbon output to meet net zero reductions. Shell announced they intended to reduce their scope 1 and 2 emissions by 50% by 2030, however acknowledge that 90% of the emissions relate to scope 3. Ruffer challenged Shells offset transition strategy and the lack of interim targets and have planned future engagement to further discuss Shell's consumer strategies, which are focused on encouraging the decarbonisation of transportation. Following this Shell have:

- set a target to reduce absolute emissions by 50% by 2030, compared to 2016 levels.
- Pledged to reduce the carbon intensity of the energy products Shell sells by 20% by 2030, by 45% by 2035, and by 100% by 2050; and
- Announced that interim targets are on the way.

Source: LCIV RI and Stewardship Outcomes Report 2021

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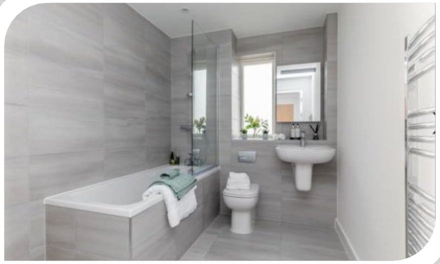
Man Group Community Housing Site Visit



During March 2022, the Pension Fund officers conducted a site visit of the Man Group Community Housing fund, the majority of which, will be made available for discounted rent or shared ownership. The visit was designed to provide an in-person experience of the types of assets within the portfolio, as well as, getting a better sense of the positive impact the portfolio is already having. The visit including two sites in East Sussex, one within Lewes and another in Saltdean.

Lewes Site

The Lewes site consists of an apartment complex with 41 properties, with 39 units to be sold as shared ownership homes and 2 penthouses to be sold on the open market. The development is located on previously developed brownfield land, in a format to support delivery of both homes and jobs.

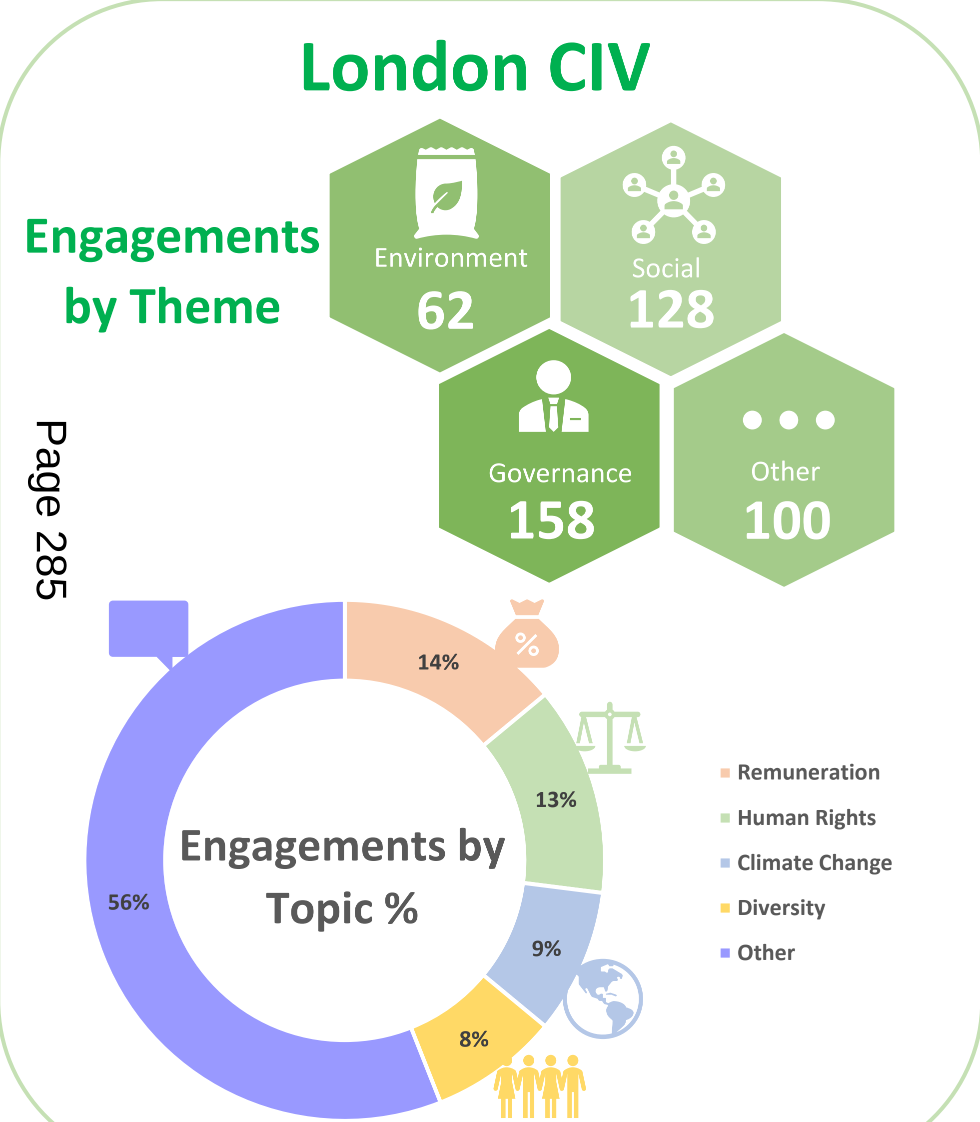
In Lewes, home ownership is not affordable for the median household, as a result this development will have a material impact on the provision of good quality affordable housing in the area.

Saltdean Site

The Saltdean site is located on the footprint of a former dairy farm, in proximity to the South Downs National Park. The development comprises of 71 new homes; with 42% allocated to key worker rent, 23% to affordable rent, 18% in shared ownership and 17% for market sale. The provision of these properties will help towards the provision of affordable homes within the Brighton area, with median house prices 10 times average earnings. Alongside this, the scheme will promote substantial environmental gains, with the provision of solar panels for every home, air source heat pumps, electric car charging ports and carbon emissions 46% below the government benchmark.

Source: Man Group UK Community Housing Fund

Engagement Activity



Source: London CIV Westminster Engagement Data 2022

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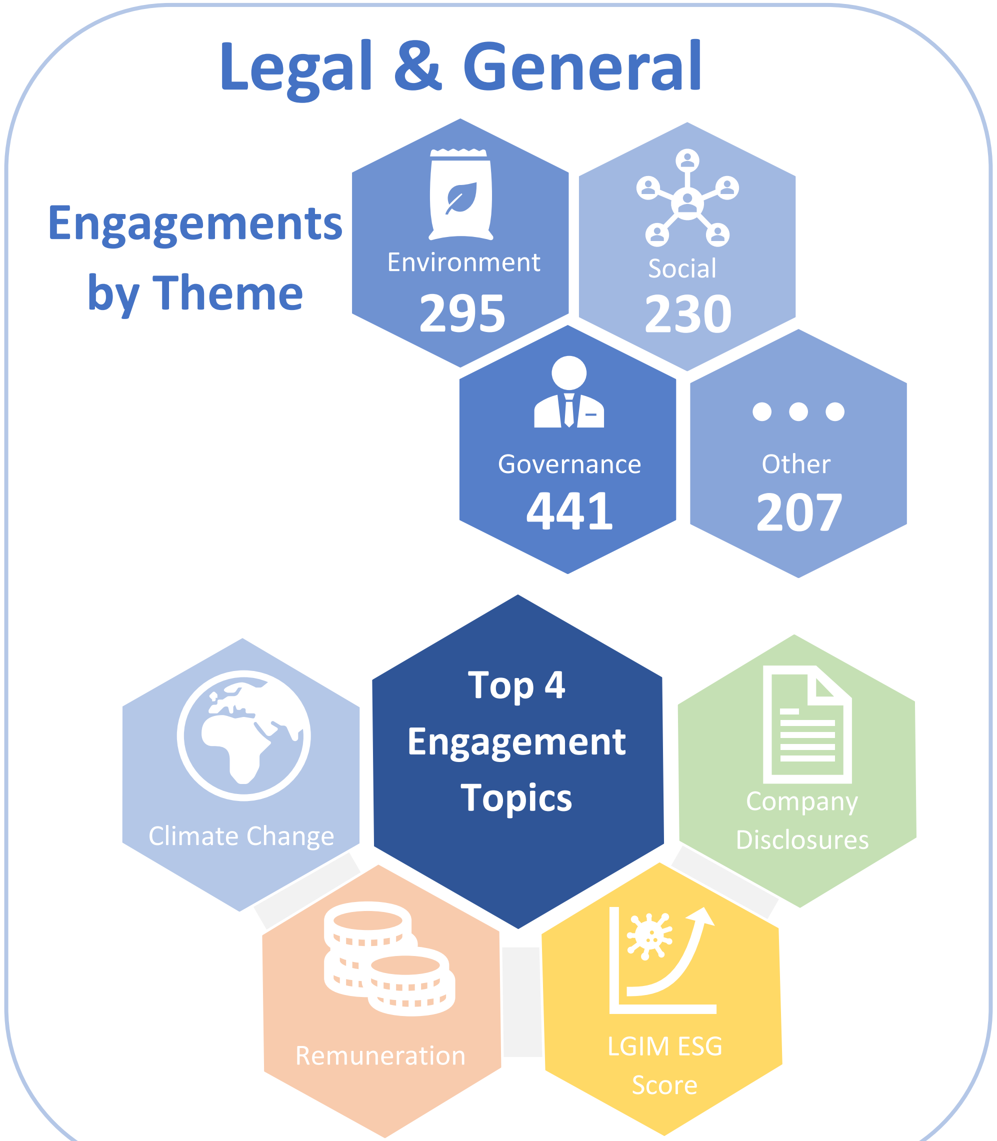
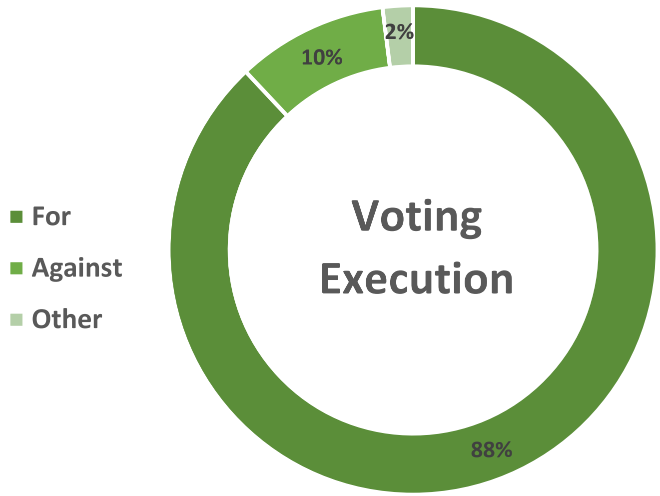
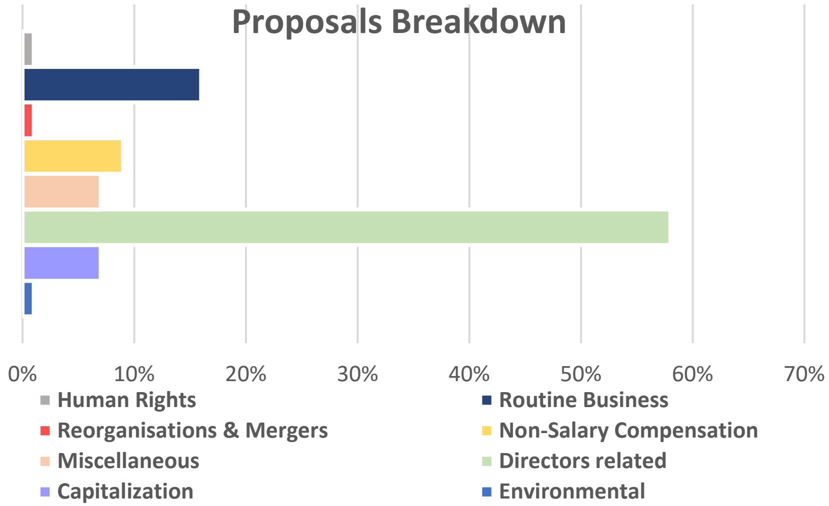


Source: LGIM Active Ownership 2022

Voting Activity

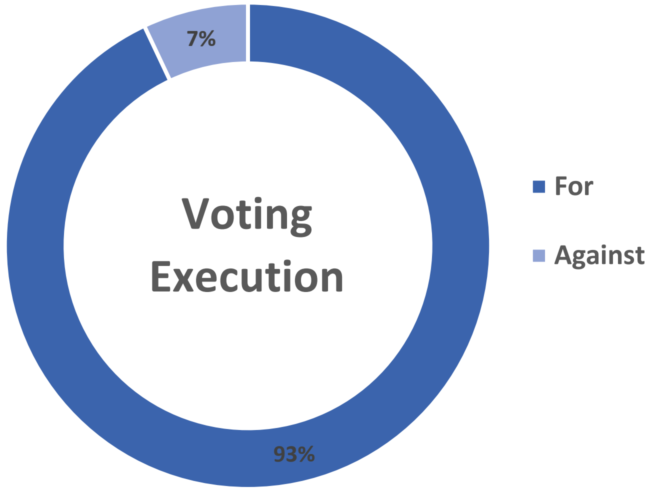
London CIV

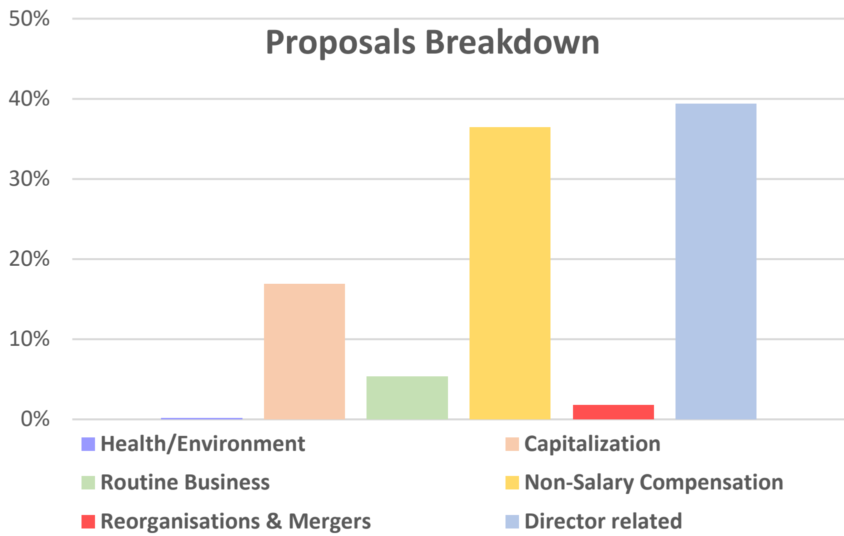




Source: London CIV Westminster Voting Data 2022

Legal & General





Source: LGIM Active Ownership 2022

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Connected Organisations

The Pension Fund recognises that significant value can be achieved through collaboration with other stakeholders. The Pension Fund works closely with its LGPS pool company, other LGPS funds and member groups such as the Local Authority Pension Fund Forum (LAPFF), Pensions and Lifetime Savings Association (PLSA) and ShareAction to ensure corporate interests are aligned with the Pension Fund's values.

The Pension Fund actively contributes to the engagement efforts of pressure groups, such as the Local Authority Pension Fund Forum (LAPFF) and requires investment managers to vote in accordance with the LAPFF's governance policies. In exceptional cases, investment managers will be required to explain their reason for not doing so, preferably in advance of the AGM.

Local Authority Pension Fund Forum

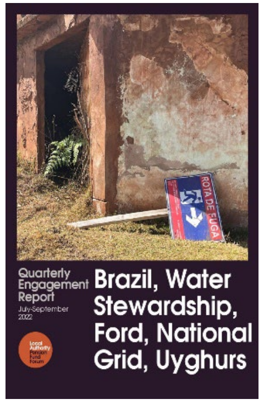
The Local Authority Pension Fund Forum are a collection of 84 local authority pension funds and 7 asset pool companies, with assets under management of over £350bn, promoting the highest standard of governance with the aim of protecting the long-term value of pension funds. The LAPFF engage directly with companies, on behalf of all asset owners and pension fund trustee members, on issues such as executive pay, reliable accounting and a transition to a net carbon zero economy.

LAPFF Case Study

The LAPFF produce quarterly engagement reports, covering all ESG related issues from climate change, governance, human rights and cyber security.

Over the quarter to 30 September 2021, the LAPFF engaged with 35 companies, including BHP, Apple and the Royal Mail.

During early September 2022, LAPFF Chairman, Doug McMurdo, spent three weeks in Brazil following the tailing dam collapses in Mariana and Brumadinho. This trip formed part of the LAPFF's work on human rights and mining.



During the trip, the Chair met with communities affected by the collapse and met with company executives from Vale, which own the Mariana dam. Air quality, water quality and availability of housing in resettlements remain major concerns for communities and LAPFF will continue to engage on these areas.

Source: LAPFF Quarterly Engagement Report 30 September 2022

Pensions and Lifetime Savings Association

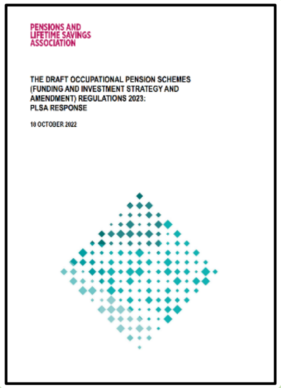
The City of Westminster Pension Fund is a member of the PLSA, who aim to raise industry standards, share best practice and support members. The PLSA works across a range of stakeholders including governments, regulators and parliament to help the implementation of sustainable policies and regulation. They represent pension schemes providing retirement income to more than 30m savers, with assets under management totalling £1.3tn, including those in the public and private sectors.

The PLSA provide an important source for training, support and guidance on regulations and pension support services.

PLSA Case Study

During October 2022, the PLSA published its response to two consultations with a view to new standards being adopted globally, requiring companies to report on sustainability. The PLSA welcomed the introduction of these standards, with the need for long-term targets for maturing schemes.

The PLSA however reflected their concerns that the framework forces a standardised approach, which does not reflect the wide range of defined benefit (DB) schemes and should allow for a more flexible approach.



PLSA noted that the proposals lacked a clear and measurable objective, with further concerns around the cost of implementation for smaller/mature schemes.

Source: PLSA Response to Funding and Investment Strategy Amendments

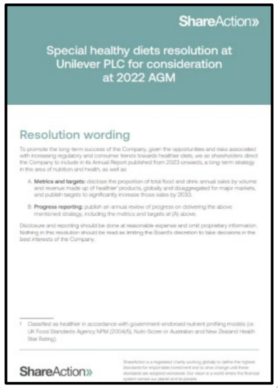
ShareAction

ShareAction is a registered charity who promotes responsible investment, working with investors to help influence how companies operate their business on a range of Environmental, Social and Governance (ESG) factors. This includes areas such as climate change, gender diversity, living wages, decarbonisation, biomass and healthy markets.

Healthy Markets Case Study

Since 2019, ShareAction has been working on a Healthy Markets coalition group. The Healthy Market Initiative aims to make food retailers and manufactures take accountability for their role and impact on people's diets. The City of Westminster is a member of the Healthy Markets coalition and along with other members, represents over $2 trillion in assets under management.

As per ShareAction research, 1/3 children and 2/3 adults are classified as overweight or obese, with over one million hospitalisations during 2019/20 linked to obesity. During 2022, ShareAction filed a resolution with Unilever, asking the company to commit to a long-term nutrition strategy and disclosure metrics on their proportion of sales related to healthy products. Following this, Unilever have set a new benchmark within the industry, disclosing the healthiness of sales against the government model and their own internal model. They have also set an ambitious target to double the sale of healthy products by 2030.



Source: https://shareaction.org/reports/unilever-resolution-2022

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**9 March 2022**
Classification:	**Public**
Title:	**Responsible Investment Statement 2023**
Wards Affected:	**None**
Policy Context:	**Effective control over council activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptriggs@westminster.gov.uk** **020 7641 4136**

1 Executive Summary

1.1 In late 2019, the Local Government Pension Scheme (LGPS) Scheme Advisory Board (SAB) issued draft guidance on Responsible Investment in the LGPS. This guidance outlined the duties of investment decision makers in LGPS administering authorities.

1.2 This paper introduces the 2023 Responsible Investment Statement for the Westminster Pension Fund, which is attached as Appendix 1 to this paper.

2 Recommendation

2.1 The Pension Fund Committee is requested to:

- Note and comment on the Responsible Investment (RI) Statement;
- Delegate authority to the Tri-Borough Director of Treasury and Pensions to publish the RI Statement on the Council's website.

3 Background

3.1 The purpose of the Responsible Investment Statement is to make clear the Pension Fund's approach to investing responsibly. This includes the integration of environmental, social and governance (ESG) factors as part of the Pension Fund's investment strategy.

3.2 The aim of the Responsible Investment Statement is to demonstrate to scheme members the direction in which the Pension Fund is moving in terms of responsible investment, decarbonisation/climate change and other ESG related issues. The Pension Fund is pleased to report that as at February 2023 the Fund is now a signatory to the Financial Reporting Council's UK Stewardship Code, an accolade held by only a handful of LGPS Funds.

3.3 The statement covers in detail topics such as:

- **Investment journey:** since 2019 the Fund has made a number of conscious investment decisions to improve the ESG impact of the Fund's investments. This includes transitioning all equities into ESG-tilted mandates, investment within renewable infrastructure and commitments to affordable and socially support housing.

- **Carbon journey:** over the last three years, the Pension Fund has taken significant steps to reduce its carbon footprint. Since June 2019, the Fund's CO2 emissions have fallen by circa 75% to December 2022.

- **United Nations (UN) Sustainable Development Goals (SDGs):** as adopted by UN members during 2016, the SDGs are goals that call for urgent action by all developed countries. The RI Statement sets out how the Pension Fund is helping to work towards achieving these goals through its investment assets.

- **Voting and engagement:** collaboration with key stakeholders in the investment community will be key in influencing companies to run their businesses more sustainably.

3.4 Several investment cases study examples have also been included in the RI statement to demonstrate how the Pension Fund has been implementing the policy.

3.5 This statement will be subject to regular, ongoing review.

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

Billie Emery bemery@westminster.gov.uk

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Responsible Investment Statement 2023

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City of Westminster

Pension Fund Committee

Date:	**9th March 2023**
Classification:	**General Release**
Title:	**Pension Administration Update**
Report of:	**Sarah Hay, Pensions Officer People Services**
Wards Involved:	**All**
Policy Context:	**Service Delivery**
Financial Summary:	**£**

1. Introduction

1.2 This report provides a summary of the performance of Hampshire Pension Services (HPS) with the Key Performance Indicators (KPIs) for the month of November 2022 through to January 2023. In Section 3, I have updated the Pension Committee on the excellent progress on the backlog project and on our continuing data work. in section 4 I confirm that we have responded DLUHC on their consultation on amending the revaluation date for annual allowance purposes.

2.1 KPI Performance

2.2 The scope of the KPIs in this report have been agreed between WCC and HPS in our agreement.

2.3 This paper covers the period of November 2022 to January 2023.

2.4 KPI performance for each month is within each partnership report. HPS report 100% compliance within the agreed KPI in each month. The majority of our KPIs require cases to be completed within 15 days. HPS do provide a breakdown for each category that shows the number of cases processed in each 5-day block.

2.5 Below I have summarised the cases completed in each category in the month.

KPI	Target Days	Nov-22	Dec-22	Jan-23
Active Retirement	15 days	7	4	3
Deferred Retirement	15 days	20	19	10
Estimates	15 days	48	40	42
Deferred Benefits	30 days	30	55	19
Transfers In & Out	15 days	1	1	1
Divorce	15 days	1	0	2
Refunds	15 days	13	17	10
Rejoiners	20 days	4	5	5
Interfunds	15 days	14	17	12
Death Benefits	15 days	1	8	24
Grand Total		139	166	128
		100%	100%	100%

2.6 I am pleased to say that BAU work progresses well, and I have no general concerns. There are currently 189 business as usual cases pending action at the end of January.

2.7 The fund strategy working with HPS is to increase the interaction the fund has with members via the member portal. In the last Committee report I updated that at the end of October 2022 we had 28.65% of members signed up to the member portal. This has now increased to 31.09% as at the end of January 2023 as broken down below. We are steadily increasing portal access.

Portal	Opted IN
Active	38.61%
Deferred	22.02%
Pensioner	35.20%
TOTAL	31.09%

2.8 In November there was one complaint received by HPS made by a member and outlined below. There were no other complaints or compliments in the period

2.9 Complaint raised was by a member who was having their pension put into payment from deferred benefit status. The wording of the retirement letter indicated that they would only get partial CPI increases because they were taking pension part way through a tax year. This is the case for a retirement from active status because the pension is calculated as due at the date of retirement based on the salary details and service provided from the employer and additional increases are added as at the following Pension Increase (PI) date backdated to the retirement date. However, for a preserved pension record CPI increases are effective every year. HPS are reviewing the wording of the retirement letter for deferred into pension records to make it clear that they are not losing out any CPI increases by drawing their pension part way through a tax year.

3. Data Work

3.1 I am pleased to say we are making excellent progress with the backlog project. There are now 611 cases in scope, this is an increase from 536 previously advised as cases arose from the annual return work. I would not expect there to be any increases beyond 611 as annual return queries for 2022 are now minimal.

3.2 Employers have been responding to queries and as at the 31st of January 2023 408 cases had been completed by HPS. This leaves 203 cases that were still in scope as of the 1st of February 2023. Employers are being chased up to send in data and employers that were not previously responding to requests have sent in significant numbers of replies. This is due to the constant chasing the internal team and HPS have been doing. Also, employers are realising that we may apply Pension Administration Strategy (PAS) charges if we don't receive adequate responses. I would expect the number of completed cases to have risen significantly in February.

3.3 In the last report I confirmed that we had 63 outstanding queries following the 2022 annual returns reduced from an original 775. We have now managed to reduce the outstanding queries to 16 as at the 27th of February when we had the last full update. I know that responses have been coming in from employers and some of the remaining cases are where there is ongoing discussion to resolve discrepancies of for example where there is a zero hours record where no claim has been processed in a year the employer may need to process a leaver on their system. All employers have engaged with HPS, I am really pleased at the progress made to reduce the queries outstanding to 16.

3.4 HPS has held two end of year workshops ahead of the annual returns for 2022/2023 the first on the 20th of February 2023 and the second on the 8th of March 2023. A number of employers and their payroll providers are booked onto the workshops, and this will give them a guide to our processes and gives them the chance to reach out and ask any questions or seek support if they require it before the deadline. All employers have now been advised that they need to submit their annual return files by Friday the 28th of April or be subject to fines under the Pension Administration Strategy (PAS). Employers have also been advised that if there are missing joiners or leavers identified in the annual returns we will be PAS charging for those cases at £50 per case automatically. I remind the Committee that of the 775 queries we had last year two thirds of those cases were missing joiners and leavers. If the fund does not get these numbers down further backlogs will build up which the administrator will charge us additionally for.

3.5 For information PAS charges have been issued to a few employers in the last few months. PAS charging has helped to get responses from some employers who were otherwise not responding to requests. The fund is in the process of issuing £200 PAS charges to a number of academies that use EPM as their payroll provider due to the fact that schedule data was outstanding despite being chased several times. This provider had already been chased previously to clear a prior backlog that they only cleared last October and so action has been taken now to fine the employers and ensure that they manage their provider. EPM have made contact with the fund and we are in the process of setting up interim measures to support their management to help them ensure the fund gets the data it needs by the deadline set. I am always conscious of the limited funds the schools and academies have but as above we need to ensure our members data is accurate and that employers are paying the pension fund money correctly.

3.6 In 2023 we will be sending out to all the fund employers an employer performance letter. I will provide the Committee with an example letter later in the year. In essence this will set out the employer's performance in relation to their data following the submission of the annual returns. The letters will measure three key areas, timeliness, financial control and data accuracy. Each area will be given a traffic light colour to set out where they sit as an employer against the expected standards in each area. I am expecting at least on data quality that all the WCC employers will be green if we don't find excessive data missing in the 2022/2023 returns as all employer's data is now looking much better. On timeliness if they send their data in by the deadline and respond to queries raised reasonably, they should be green. On financial control again they should be green. I have also asked the team that supports the school governors to reach out and let them know that the letters are due to be sent out in September / October 2023 and that they should expect to see them. This should help ensure the correct level of governance over any issues within the schools themselves. From a fund perspective, measuring employer performance in this way will give us and our auditors assurance regarding our ability to satisfy regulatory requirements for the fund and to meet the needs of our members.

3.7 Address tracing results as at the 12th of January for the two populations we sent for full IDV traces are as below.

Deferred Lost Contact trace
Successful new addresses: 233
Unwilling to confirm – 2
No Response – 385

Preserved Refund Trace
Successful new address – 83
Unwilling to confirm – 3
No Response – 234

3.8 From the no responses some results will probably still come through in the following months in low numbers. Target have recommended international traces for 87 people in the above populations, but this would cost the fund £70 a case. The Pension Board have suggested that they are not keen for us to go down that route at our last meeting. I asked HPS for a breakdown by age of the 87 people and two were 62, one was 63 and one was 75. Those four people I have asked HPS to send for international traces as they are either due their pension now or will be shortly and I considered that reasonable. I won’t ask for traces on the others at this time unless the Pension Committee request it. In the future it is hopeful that people will contact the fund via the pensions dashboards that are being introduced.

4 Employer Updates / Other Admin Issues

4.1 For information the DLUHC published a consultation on amending the revaluation period to align with the tax year for the purposes of measuring the increase in the pension pot for annual allowance calculations. If the current method is retained that adjusts the pot for inflation at the start and end of the year. The increase in inflation between 2021 and 2022 would see potentially thousands of additional members exceed the £40,000 annual allowance limit and those that would expect to exceed will do so by more. If the changes are not made it would likely cause excess additional stress to public sector staff and add additional pressure to sensitive pay negotiations. WCC has responded and confirmed that we support the proposed changes.

5. Summary

5.1 In Section 2, I covered the KPI data for the period November 2022 through to January 2023 is 100% within the agreed target.

5.2 In section 3, I update the Pension Committee excellent progress on the backlog project and continued responses from employers following last year’s annual returns. The fund has PAS charged some employers, but we are trying to support employers and payroll providers to submit the data we need on time.

5.3 I ask the Committee to advise if they wish to do international traces for 83 people at £70 a case or can we leave those cases and hope the majority of them get in touch with the fund when they want to claim their pension.

5.4 I update the Pension Committee that we have responded to DLUHC in relation to changing the revaluation year for annual allowance calculations in local government to remove the impact of inflation increases in 2022.

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City of Westminster

Pension Fund Committee

Date:	**9th March 2023**
Classification:	**GENERAL**
Title:	**Update on GMP Project – Mercer Ltd Postponement**
Report of:	**Diana McDonnell-Pascoe** Pension Project and Governance Lead, People Services
Wards Involved:	**All**
Policy Context:	**Service Delivery**
Financial Summary:	**None**

1. Introduction

The purpose of this paper is to update the Pension Committee on the status of the Guaranteed Minimum Pension Project with respect to failure of Mercer Ltd to complete their part of the GMP Rectification project by the deadline of February 2023.

2. Guaranteed Minimum Pension (GMP) Project

2.1. GMP Rectification with Mercer Ltd

As the Committee is aware, following the transfer of pension administration services from Surrey to Hampshire Pension Services in November 2021, a decision was made that Mercer should effectively continue to complete our GMP project but report directly to Westminster rather then to our new pension administration partner.

As the Committee is aware from my previous papers, there was a significant delay to Mercer Ltd starting the rectification of the GMP data as although we had project meetings to discuss the requirements of the project in advance of April 2022 (when the rectification activity was meant to start post Pensions Increases), the data template which was not provided until 26th April 2022 requested far more data than was expected and Civica, Hampshire Pension Services' software provider, had to be engaged to extract the data from UPM.

Despite this delay, Mercer Ltd received the data in the format they requested on 11th August 2022 in advance of the 15th August 2022 deadline. Unfortunately, there was a further delay until 8th September 2022 as there had been an error in the data template and two fields marked "optional" and therefore ignored, were found to be "essential" and Hampshire Pension Services were asked to provide this data which they did with good faith and without extra charge.

On 27th October 2022 Mercer Ltd advised us they were conducting a review of all GMP projects and resources for the schemes they were project managing. The Westminster / Hampshire project team were informed that we would receive an updated project plan which would set out the tasks and timeline to keep the project on track within ten working days.

Despite much chasing and an email on 23rd November 2022 saying, "*it's looking positive we can deliver for February*", the promised version three of the project plan detailing how they would meet the February deadline never materialised and neither did the expected quote for extra resource to complete the project.

Notwithstanding this positive outlook, we were informed by email from Karen Scott, our account manager at Mercer Ltd on 21st December 2022 that there was a significant risk to non-delivery. This communication was sent close to end of business hours just as Karen was going on annual leave and we were told that she would update us in January.

2.2. Mercer Ltd – Rectification Calculations postponed to April 2023

On 13th January 2023 Karen informed us by email that there was a failure with the calculation tool that Mercer Ltd were going to use to complete the rectification of our data and the February deadline could not be met. Mercer Ltd proposed a new timeline which starts on 31st April 2023 and concludes 7th October 2023.

While unsurprised at this news, I and the project team were particularly disappointed at this outcome given the amount of monitoring and support Mercer Ltd had to complete the project from Westminster and Hampshire Pension Services. At this point, I would like to recognise the invaluable support provided to us from Hampshire Pension Services and their partners Civica and Intellica who provided a lot of support without charge in acknowledgement of the strong partnership between Westminster and Hampshire Pension Services.

In terms of progress and since receiving the email on 13th January 2023, I've consulted with Legal and Procurement internally and with Hampshire externally and determined a strategy to move forward which is to aim to complete the project with Mercer Ltd albeit with more stringent conditions imposed on them by us.

We considered terminating the contract with Mercer Ltd, which we can do "no-fault" with 90 days' notice and awarding the contract to Hampshire but, on balance, the lowest risk to completing the project before 2024 Pensions Increases in April next year is continuing the project with Mercer Ltd – assuming they engage with us and can satisfy our requirements. If they don't, then we will terminate the contract and, with Committee approval, award the contract to Hampshire. Another factor in this decision is that Hampshire will not be completing their GMP project before 2023 PI increases either as the technical aspect of the project is taking longer than expected and they want to minimise risk to data quality.

Furthermore, we have since ascertained via the Mercer Ltd website and through additional verification from Hampshire, that Mercer Ltd have engaged Intellica to help them manage the project. This is an interesting development because it is

Intellica who are completing the GMP calculations for Hampshire and who Mercer Ltd ultimately will be sending the rectified data to. The fact that Mercer Ltd have engaged Intellica gives us increased confidence in their ability to deliver the project and, assuming that Intellica are completing the calculations on Mercer Ltd's behalf, to give us a quality assured product.

We have made a formal complaint to Mercer Ltd and set out our list of requirements including a proposed timeline for Mercer Ltd that Hampshire agree with. I have also queried Mercer Ltd's proposed timeline and asked for clarification and evidence where we seek assurance that they have the expertise, ability, and knowledge to complete the project for us. Our list of requirements includes increased project monitoring by having a formal monthly Project Board as opposed to project meetings, improved documenting by logging risks, issues, actions, dependencies etc as well as evidence of quality assurance with their calculation tool and the final product we will receive.

We have also notified Mercer Ltd that Westminster is putting them on poor performance contract monitoring. Additionally, and to strengthen the contract monitoring, Harbinder Manku, a contract manager from Procurement, has joined the project team to be a Project Board member and will support me to manage the formal poor performance process.

We gave Mercer Ltd a deadline of to respond to our 10th February letter on or before 24th February 2023 and on 22nd February 2023 we received a formal response. I will update the Committee verbally as to our position at the Committee meeting on 9th March 2023.

Finally, with respect to project costs, of the total £33,000 contract cost, we have only paid £6,600 which is a fifth of the contract overall. We do not expect any further costs with Mercer Ltd. Additionally and with Harbinder's support and experience as a public sector contract manager, we will determine a gateway process for releasing any more money so that we only pay for work completed.

3. Summary

3.1. The Guaranteed Minimum Pension project will not be completed before Pensions Increases in April 2023. Mercer Ltd, our supplier for the data rectification has told us that their calculation tool is not working and therefore they cannot deliver the project in time.

3.2. We have made a formal complaint to Mercer Ltd about their failure to deliver the project by the agreed deadline of February 2023 and in our letter of complaint we set out our requirements for continuing the project with Mercer Ltd. We requested a response to our letter on or before 24th February 2023.

3.3. Mercer Ltd submitted their response to our letter on 22nd February 2023 and there will be internal discussion and review of the response in the coming days with a further verbal update of our position to the Committee at the 9th March 2023 Pension Fund Committee meeting.

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