Public Document Pack

City of Westminster

Committee Agenda

Title:	**Pension Fund Committee**
Meeting Date:	**Wednesday 29th November, 2023**
Time:	**6.30 pm**
Venue:	**18th Floor, 64 Victoria Street, London, SW1E 6QP**
Members:	**Councillors:** Robert Eagleton (Chair) Ed Pitt Ford Ryan Jude Maggie Carman

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: jrobinsonyoung@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
21st November 2023

MINUTES

CITY OF WESTMINSTER

Pension Fund Committee
MINUTES OF PROCEEDINGS

Minutes of a hybrid meeting of the **Pension Fund Committee** held on **Thursday the 19th of October 2023**, Room 18.01 - 18.03, 18th Floor, 64 Victoria Street, London, SW1E 6QP and via Microsoft Teams.

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

Also Present: Mathew Dawson (Strategic Investment Manager), Billie Emery (FM Pensions), Sarah Hay (Strategic Pension Lead), Diana McDonnell-Pascoe (Pension Project and Governance Lead), Emily McGuire (Head of Investment Services - Isio), Jonny Moore (Investment Advisor - Isio), Jack Robinson-Young (Cabinet and Councillor Coordinator), Patrick Rowe (SFM Treasury & Pensions), Phil Triggs (Tri-Borough Director of Treasury and Pensions)

1 MEMBERSHIP

1.1 There were no changes to the membership.

2 DECLARATIONS OF INTEREST

2.1 There were no declarations of interest.

3 MINUTES

3.1 The Committee approved the minutes of its meeting on 29th June 2023 with the following amendment from Councillor Pitt Ford with regards to item 12 Asset Allocation Review:

On request of the Committee, Isio agreed to put together a position paper on investing 5% into ESG specific Private Equity Funds.

3.2 RESOLVED:

That the minutes of the meeting held on Thursday the 29th of June be signed as a correct record of proceedings.

4 PENSION ADMINISTRATION UPDATE

4.1 Sarah Hay, the Pensions Officer People Services, introduced her report covering the key performance indicators (KPIs) for each month. The Pensions Officer People Services informed Members present that the Hampshire Pension Services (HPS) report indicated 100% compliance with the agreed KPIs each month and the majority of our KPIs required cases to be completed within 15 days, with HPS providing a breakdown for each category, showcasing the number of cases processed in each 5-day block.

4.2 The Pensions Officer People Services was pleased to announce that business as usual work had progressed well, and there were no general concerns. The Committee were informed that at the end of September, there were 182 business-as-usual cases pending action, a number the Pensions Officer People Services was comfortable with in the workflow. The Committee were informed that the positive working relationship with HPS, established since November 2021, led us to schedule meetings with their management on a bimonthly basis from April 2023 onwards, instead of monthly. Despite this change, Members were informed that the Fund would still receive a comprehensive monthly partnership report, and meetings could be arranged if necessary. With the service in a robust position, the Pensions Officer People Services believed time could be more productively spent than in monthly meetings.

4.3 The Pensions Officer People Services informed the Committee there had been steady progress made in clearing the remaining backlog cases, reducing the number from 43 to 22 since the last update to the Pension Fund Committee. The Pensions Officer People Services anticipated this number would further decrease in the upcoming weeks. The Pensions Officer People Services said that clearing these remaining backlog cases had proved challenging, partly due to employers lacking the correct data and sometimes knowledge to provide the Fund with the required information. Additionally, some cases were pending data from other funds for transfers before completing a deferment. Engagements with employers had taken place, and efforts to reach out to other funds had been extended. The Pensions Officer People Services was pleased to inform Members present that there was a total of 455 queries from this year's annual returns, most of which have been resolved. The few remaining queries were primarily linked to one employer, and efforts were underway to address them swiftly, enabling the excellent Annual Benefit Statement (ABS) rates.

4.4 The Pensions Officer People Services informed the Committee that the internal team had attended a couple of events in 2023, organised by the Westminster Women's network to support members in understanding their pensions.

The first event was held on the 18th of May 2023, focusing on the Pensions Journey. This was then followed by a subsequent event on the 5th of September 2023, where members gained insights into their annual benefit statements and had their queries addressed on various Local Government Pension Scheme issues. The Pensions Officer People Services expressed hope that as key projects are delivered in the coming months, more personalised support to Fund members across all employers could be given.

4.5 The Committee asked where the backlog had come from, and in reply the Pensions Officer People Services informed Members that it had built up over a number of years during the move from Surrey Pension Services into Hampshire Pension Services.

4.6 The Committee asked the Pensions Officer People Services what more could be done to advertise the pensions portal to Council Officers and other members of the Fund. In reply, Sarah Hay said that it is already widely advertised including featuring in the Employee Benefits Programme and all new starters are emailed information during their onboarding. The Committee noted that there had been positive progress, with a 5% increase in members using the portal.

5 PENSION PROJECTS & GOVERNANCE UPDATE

5.1 The Pension Project and Governance Lead, Diana McDonnell-Pascoe, addressed the Committee and outlined her report. The Committee were informed that the Guaranteed Minimum Pension (GMP) project had progressed according to the planned timeline, with data and the accompanying report expected to be received in early October. Members were informed that a decision was made to descope a portion of the member records from the project, necessitating manual review by Westminster and HPS, which is planned for the following financial year. The Communication phase commenced on the 11th of September 2023, with a focus on tailoring communications for each category of members.

5.2 The Committee were informed that Westminster City Council had submitted the McCloud data sets on time to HPS, with some sets needing further review before submission. Westminster City Council had successfully obtained the required historic HR data from the legacy Oracle Software, resolving earlier concerns. The Committee were informed that the quality of the data enabled a swift review with Hampshire Pension Services, and the efficient collaboration with the IT team and an external consultant was acknowledged. The Pension Project and Governance Lead went on to say that the data return rate for August for all employers was approximately 64%, with an expectation of improvement in September and that HPS would review all data sets for quality and utilise scheme guidance to manage poor data sets, to ensure the project's completion.

5.3 The Committee were reminded that the deadline for the Pensions Dashboard program had been extended to the 31st of October 2024, with HPS engaging Civica as the integrated service provider for the project. The Committee were updated on the fact that there had been no significant changes were reported, but that additional information was expected in September's partnership report.

5.4 The Committee were updated on the Pensions Website Project and how the timeline was extended for additional research purposes with no material impact on the overall project timeline. For research participation, invites were sent out to Westminster City Council and Scheme Employer staff, with 17 participants, exceeding the target. The Pension Project and Governance Lead informed Members that interviews were conducted with neurodiverse and visually impaired members of the Council’s ABLE network, as well as staff from other non-Westminster Council Scheme Employers which ensured inclusivity in the research process.

5.5 The Pension Project and Governance Lead updated the Committee on governance and that the external audit conducted by Grant Thornton had progressed smoothly, with draft papers being prepared for internal review. Regular meetings between all parties had ensured timely resolution of any queries. The Committee were further informed that internal audits also continued, with the focus on specific areas, including contract management processes and controls.

6 ADMITTED BODY REQUEST

6.1 Sarah Hay, the Pensions Officer People Services, introduced her report on a proposed admission into the Fund. The Pensions Officer People Services said it was her recommendation to the Pension Committee to not accept a new employer unless they fulfilled specific criteria, such as TUPE transferring of staff or being a scheduled body with entitlements to access the Fund. Despite not meeting these requirements, the London Diocesan Board of Schools (LDBS), operating in Westminster and supporting local schools, is regarded as a special case. The Committee were informed that the Executive Director of Bi-Borough Children's Services at Westminster City Council, Sarah Newman, supported the application into the Fund, acknowledging their contributions to educational needs in the Borough.

6.2 The Committee were informed that the LDBS provided membership data for 11 staff, which was reviewed by the Fund's actuary. The Pensions Officer People Services informed Members that initially, they had proposed an open admission agreement, allowing them to add new members continuously. However, due to the risks involved, an open admission agreement without a ceding employer to guarantee their liabilities was deemed unfavourable for the Fund. The Pensions Officer People Services informed the Committee that the actuary calculated an appropriate rate for LDBS potential admission based on a closed admission agreement and a cautious funding outcome strategy. LDBS would transfer staff from the Church of England defined benefit scheme by a specific date, with subsequent, new staff joining a different scheme. The actuary's assessment suggested an employer rate of 42.5%, significantly higher than the current contribution in the Church of England Pension scheme, assuming a 90% likelihood of their future funding success.

6.3 The Pensions Officer People Services said that, when considering the possibility of future financial issues, various measures were explored, including the potential requirement of a bond to cover insolvency risk. A credit report on LDBS was requested, and legal consultation was pending, awaiting the Pension Fund Committee's direction. The recent financial accounts shared by LDBS reflected a healthy balance sheet. The Pensions Officer People Services proposed that the Pension Committee should decide on allowing LDBS to join the Westminster City Council Pension Fund on a closed admission basis from 1 April 2024.

6.4 The Committee asked how many schools the LDBS dealt with and were informed by the Pensions People Officer that there was not a definitive figure, and some of their schools were located in the neighbouring borough of Kensington and Chelsea. The Pensions People Officer informed Members that the LDBS itself was located within Westminster, which is why the request was coming to this Pension Fund Committee for admittance.

6.5 The Committee asked if it would be possible for a bond to be put in place and then reviewed at five-year intervals. In reply, the Pensions People Officer informed Members that this had not been done before but was technically possible.

6.6 The Tri-Borough Director of Treasury and Pensions informed Members present that the standard approach when evaluating an admission body into the Fund would be a 66.6% (2/3) chance of probability of success. Members were informed that this admission had been estimated at a 90% probability, a very prudent approach.

6.7 The Committee asked what other options would be open to the LDBS if they were not admitted, and if they could not afford the admission rate if they were to be admitted. The Pensions People Officer replied that she was unsure what other options would be available, or if there would be any at all. With regards to their contribution rate, Members were informed that if they could not meet this obligation, they could be denied entry to the Fund.

6.8 The Committee were postponed making a decision and asked for the Pensions People Officer to re-enter discussions with the London Diocesan Board of Schools, and to include the possibility of a bond with them.

7 FUND FINANCIAL MANAGEMENT

7.1 The Tri-Borough Director of Treasury and Pensions addressed the Committee and outlined the top 5 risks for the fund:

7.1.1 *Liability Risk*: The Committee were informed that inflation in the UK and globally was exceeding actuarial assumptions, with the Consumer Price Index (CPI) at 6.7% in August 2023, albeit lower than the peak of 11.1% in October 2022. The Tri-Borough Director of Treasury and Pensions said that the persistently high inflation was attributed to various factors such as labour shortages, supply chain challenges, and the ongoing Russia-Ukraine conflict.

7.1.2 *Asset and Investment Risk*: The Committee were informed that despite efforts, investment managers had failed to meet the benchmark or outperformance targets over an extended period. A mere 0.1% shortfall in the investment target translated to an annual impact of £1.8m. The Fund's performance until August 31, 2023, yielded a net return of 3.21%, falling short of the benchmark by -2.50% net of fees.

7.1.3 *Asset and Investment Risk*: The Committee were informed that global economic stability faced heightened risks, evident from the collapse of multiple banks since March 2023. Advanced economies were experiencing a deteriorating outlook, marked by elevated uncertainty, setbacks in growth and confidence, increased volatility in oil and commodity prices, and the depreciation of the pound. These conditions have resulted in tightened financial situations, reduced risk appetite, and heightened credit risks.

7.1.4 *Regulatory and Compliance Risk*: The Committee were informed that the Department for Levelling Up, Housing and Communities (DLUHC) had introduced proposed regulations for Local Government Pension Scheme (LGPS) administering authorities in England and Wales. These regulations aimed to assess, manage, and report climate-related risks as recommended by the Taskforce on Climate-Related Financial Disclosures (TCFD). The implementation of these regulations has been delayed, with the first reporting year now expected to be 2024/25 and the initial reports due by December 2025.

7.1.5 *Liability Risk*: The Committee were informed that there is a concern about the potential financial strain that may be imposed on the Fund due to the failure of certain bodies, which might result in unpaid liabilities that need to be covered by others. The Tri-Borough Director of Treasury and Pensions said that this risk is exacerbated by the current economic conditions, particularly impacting smaller employers.

7.2 The Committee were updated by the Tri-Borough Director of Treasury and Pensions on the Monitoring and Forecasted Cashflows as of 30 September 2023 which in the Pension Fund's Lloyds bank account balance amount to £2.1m, serving as the primary account for day-to-day transactions, including member contributions and pension payments. Despite stable payment and receipt patterns over the past year, Members were informed that the Fund is experiencing a persistent imbalance, with withdrawals likely from the cash at custody to maintain a positive cash balance. An amount of £6.0m was withdrawn from the cash at custody during the quarter.

7.3 The Committee were informed that the Fund's total cash balance, inclusive of the Lloyds bank account and the cash at custody, was £42.7m as of 30 September 2023. Additionally, a significant cash holding of £40.6m was reported with Northern Trust. The Committee were informed that the Fund conducts various financial activities, including manager distributions and asset transactions, within the Northern Trust custody account.

7.4 On 29 June 2023, the Committee decided to transition 5% of the Fund's equities into renewable infrastructure, a move that was executed in July 2023. The Committee were informed that officers remain vigilant in their monitoring of the cash balance and take necessary measures to ensure adequate liquidity is maintained.

8 STEWARDSHIP CODE

8.1 The Committee were presented to by the Tri-Borough Director of Treasury and Pensions on the Stewardship Code, which was initially introduced in 2010 and updated in 2020 by the Financial Reporting Council. The Committee were informed that the Code was aimed at institutional investors in the UK, encouraging active engagement in corporate governance for the benefit of their beneficiaries.

8.2 The Committee were informed that the 2020 version of the UK Stewardship Code set rigorous standards for asset owners, managers, and related service providers, utilising a "comply or explain" approach, meaning non-compliance must be explained rather than strictly enforced. The Committee were informed that to become a signatory, applicants must submit a Stewardship Report showcasing adherence to the Code's principles over the previous year, with the FRC assessing applications for compliance before listing successful organisations as signatories and that annual reapplication is mandatory.

8.3 The Committee were updated that the Fund displayed significant progress in responsible investment, with substantial investment in renewable infrastructure, specifically in solar power, onshore and offshore wind, and related infrastructure, as detailed in Appendix 1 of the papers before Members.

8.4 The Committee were informed that during 2023, the Pension Fund allocated a portion of its assets to the London CIV UK Housing Fund, with a long-term goal of constructing 13,000 affordable homes across various sectors, aiming for affordable housing for different demographics.

8.5 The Committee were informed that the Pension Fund had transitioned its holdings in the Baillie Gifford Global Alpha Growth mandate to the BG Paris Aligned version, which incorporated a thorough screening process to exclude companies heavily reliant on fossil fuels and those not aligned with a low carbon future.

8.6 The Committee were informed that the Westminster Pension Fund recently became one of the few London LGPS funds to attain signatory status, with the next submission deadline set for October 31, 2023, and the decision on its latest possible success anticipated in March 2024.

8.7 The Committee asked how often people and organisations are removed from the Stewardship Code. The Tri-Borough Director of Treasury and Pensions explained that this is demonstrated on their website on a day-to-day basis, and removal from the Stewardship Code would likely come from a fund not submitting its latest annual Stewardship report.

9 LGPS CONSULTATION

9.1 The Tri-Borough Director of Treasury and Pensions addressed Members present that the Department for Levelling Up, Housing and Communities had published a comprehensive consultation on the investment strategies of the LGPS, addressing five key areas, including accelerating and expanding pooling, promoting levelling up, and increasing investments in high-growth companies. The consultation included 15 specific questions for funds to respond to, and discussed issues such as investment deadlines, reporting requirements, and collaboration with entities such as the British Business Bank.

9.2 The Committee were informed that the Fund had submitted its response to the Department for Levelling Up, Housing and Communities on 29 September 2023, and expressed partial support for the government's proposals. However, the Fund emphasised the need for a cautious approach, advocated for longer timelines and the consideration of individual fund characteristics and risk factors, particularly concerning specific asset classes such as private equity.

10 INVESTMENT STRATEGY STATEMENT

10.1 The Tri-Borough Director of Treasury and Pensions introduced his report to the Committee which outlined the Investment Strategy Statement (ISS) for the Westminster City Council’s Pension Fund and outlined the Fund's compliance with LGPS legislation, the Pension Fund Committee’s terms of reference, and the government guidance on preparing and maintaining an investment strategy statement.

10.2 The ISS highlighted six main objectives, including requirements for diversified investments, assessments of suitability, approaches to risk management and pooling, considerations of environmental, social, and governance (ESG) factors, and the exercise of investment rights and voting. Additionally, the ISS addressed compliance with the CIPFA Pensions Panel Principles, which covered effective decision-making, clear objectives, risk assessment, performance evaluation, responsible ownership, and transparency and reporting.

10.3 The Tri-Borough Director of Treasury and Pensions informed Members that the Fund's adherence to the Stewardship Code 2020 was detailed in the ISS, following the "comply or explain" approach similar to the UK Corporate Governance Code.

10.4 The Tri-Borough Director of Treasury and Pensions said that the strategic asset allocation, provided in Appendix E of the ISS, specified the target allocation for various assets and the review ranges and that rebalancing exercises were conducted when the review range for an asset was triggered to ensure compliance with the Fund's target allocation limits.

RESOLVED:

10.5 That the Committee approved the updated Investment Strategy Statement and delegated authority to the Tri-Borough Director of Treasury and Pensions to publish the final Investment Strategy Statement.

11 INVESTMENT CONSULTANT OBJECTIVES REVIEW

11.1 The Tri-Borough Director of Treasury and Pensions introduced the report which stated that the Pension Fund, in compliance with the directives of the Competition and Markets Authority (CMA), had established specific aims and objectives for its investment consultant. The Tri-Borough Director of Treasury and Pensions went on to say that the CMA, following an extensive review of the pension fund consultancy and fiduciary management industry, had issued a report with recommendations aimed at enhancing pension fund governance, particularly addressing concerns related to fees and conflicts of interest.

11.2 The Committee were also informed that the Pensions Regulator (tPR) endorsed the CMA's review and subsequently provided guidance on defining aims and objectives. The tPR considered it prudent for Pension Funds, including the LGPS, to have established clear aims and objectives for their investment consultants and advisors, fostering improved outcomes and the management of potential areas of underperformance.

11.3 The Committee were informed that there was initially formulated a set of consultant objectives for the investment advisor, which were approved on 23 October 2019. To ensure adherence to best practices, the performance of the investment consultant in relation to these objectives was reviewed annually, and the objectives are updated at least once every three years or when there are substantial alterations in the investment approach.

11.4 The Committee asked how the engagement of the Stewardship Code and the ESG was being managed. In reply, the Tri-Borough Director of Treasury and Pensions said that this can be added to the monitoring schedule.

RESVOLVED:

11.5 That the Committee commented and approved on the IMC aims and objectives for the Pension Fund Committee's investment consultant, Isio.

12 CVC CREDIT PAPER

12.1 The Tri-Borough Director of Treasury and Pensions introduced the report to Committee and said that at the private debt strategies had provided loans directly to businesses requiring capital, primarily mid-market companies unable to raise debt through bond markets. The Tri-Borough Director of Treasury and Pensions informed Members that EDL III would begin to return capital to investors as the underlying assets were realized, leading to a reduction in the allocation, with CVC expecting to return all capital to investors by Q3 2028.

12.2 The Committee were informed that CVC Credit European Direct Lending Fund IV (EDL IV) broadly exhibited the same characteristics as EDL III, with a similar investment process. The fund had a six-year, close-ended structure, primarily investing within senior secured loans, including unitranche, and capped junior debt. As with the EDL III fund, CVC Credit confirmed that a co-investment vehicle would also be made available for EDL IV. The Committee were informed that this co-investment vehicle largely consisted of the same investments as the main fund but without the position concentration restriction and on a no-fee basis, thereby diluting the total management fees payable.

12.3 The Committee were informed that the CVC Credit had provided modelling to set out the expected drawdown and runoff timelines for both EDL III and EDL IV. As part of this analysis, Isio had proposed two scenarios: "*No Growth Assumption*" and "*5% p.a. Investment Portfolio Growth."* Isio had set out three potential commitment amounts to avoid being under or overexposed to the Fund's 6% allocation range over a long period of time. Under each of the proposed commitments, the combined allocation was expected to exceed the target allocation by mid-2025 for all scenarios.

12.4 The committee formally agreed with the recommendation to commit to EUDL IV (with a timeline consistent with achieving the early investor fee discount) and maintain the WCC Fund strategic exposure to both CVC Credit and the EUDL fund range at £110m total: £85m to the main fund and £25m to the co-invest vehicle, subject to gaining a commitment that CVC is in a position to further consider becoming a signatory to the Stewardship and Cost Transparency Codes.

13 QUARTERLY PERFORMANCE REPORT

13.1 The Tri-Borough Director of Treasury and Pensions introduced the report which presented a summary of the Pension Fund's performance to 30th June 2023. The Committee were informed that over the 12-month period to 30th June 2023, the Fund had underperformed its benchmark net of fees by -1.0%, returning 7.2%. Over the longer three-year period to 30th June 2023, the Westminster Fund had underperformed the benchmark net of fees by -1.1%. Isio continued to rate the fund managers favourably.

13.2 The Committee were informed that Isio Group had acquired Deloitte Total Reward and Benefits during May 2023, with the businesses fully integrated from 1st October 2023. The Committee were reassured that there had been no changes to the current terms and conditions of the existing agreement. However, all rights and obligations had transferred to Isio Group Limited. During September 2023, the Fund's longstanding investment advisor, Kevin Humpherson, had left Isio Group to join Ernest and Young. Kevin had been the Fund's primary investment consultant since 2015 and had been instrumental in the Pension Fund's funding level rising from 80% during 2016 to 161% at 30th June 2023.

13.3 Following Kevin's departure, Andrew Singh would be the Fund's main contact at Isio. The Committee were informed that the Fund's existing contract with Isio Group had expired on 30th September 2024, with an option to extend a further two years to 30th September 2026.

The meeting ended at 20:22

CHAIR: ________________ **DATE:** ________________

Pension Fund Committee

Date:	**29th November 2023**
Classification:	**General Release**
Title:	**Revised Pension Administration Strategy**
Report of:	**Sarah Hay, Pensions Officer People Services**
Wards Involved:	**All**
Policy Context:	**Service Delivery**
Financial Summary:	**£ unknown**

1. Introduction

1.2 This report summarises the proposal to update the City of Westminster Pension Fund (COWPF) Pension Administration Strategy with effect from April 2024.

2. Pension Administration Strategy (PAS)

2.1 Pension Administration Strategies are recommended Local Government Pension Scheme (LGPS) documents as covered by Regulation 59 of the 2013 LGPS regulations. The PAS should set out the roles and responsibilities of both the Administering Authority and the Fund employers.

2.2 The COWPF has had a PAS for several years, and this was last revised when we moved our pension fund administration to Hampshire Pension Services (HPS) in November 2021.

2.3 The PAS we have has allowed us to fine employers when they have been slow to submit member data including missing leaver data. In addition, we have also used our PAS to fine employers where they were not sending us the relevant remittance and schedule information or not correcting errors with payments in a timely manner.

2.4 The PAS has been an important tool in the Fund eliminating the backlog of over 611 cases that came with us from our prior administration partner until now. With our data much improved now appears to be the time to revise the PAS increases the scope of potential PAS charges as an added incentive for employers to ensure that they build on the progress made in the last couple of years.

2.5 The revised PAS is included as an attachment with this report.

2.6 Some of the main changes are an increase in the PAS charge for the submission of starters and leavers to £100 per case from £50. It should be noted that following last year's annual return the fund still had 75 missing starters and 90 missing leavers plus 178 members with missing data many of which would have been leavers identified when we processed the 22/23 annual returns. Although the Funds employers have cleared up most of the data issues and the number of queries had reduced from the prior year, we need to make sure employers are fully on board sending us data in a timely manner for the sake of members. If we don't control the data coming into us going forward, we could accrue another backlog.

2.7 In addition I have increased the PAS charge to £250 for retirements and leavers where the member is immediately entitled to payment of their benefits. This is to represent the risks to the fund in this data being delayed and the impact it may have on members who could be relying on their pension.

2.8 The charge for late or inaccurate remittance and schedules has increased to £100 per document. We have a common ongoing issue with some employers that payment is a day or so late, they send in remittance documents that don't match payments. The remittance and schedule don't match, whilst we do work very closely with employers and with one of the bulk payrolls providers, we have monthly meetings to resolve issues we need to add some more incentives to employers to get what I consider the basics correct particularly when we have had multiple discussions. I have therefore also added a potential additional PAS penalty of £500 if there were multiple issues in a 12-month period.

2.9 Finally the Pension Committee has been advised that we have for the first year advised our employers under the HPS Employer Benchmarking System of their scores. You can see below we have scores for 21/22 but these were not shared as we concentrated on backlog work.

Timeliness	2023			2022		
Return received	30 April or before	Between 1 and 31 May	1 June or after	30 April or before	Between 1 and 31 May	1 June or after
Rating	Green	Amber	Red	Green	Amber	Red
No. of employers	21	13	0	22	13	0
% represented	62%	38%	0%	63%	37%	0%

Financial Control	2023			2022		
	No reconciliation issues	Minor reconciliation issues/quickly resolved	Major reconciliation issues and/or slow/failed to respond	No reconciliation issues	Minor reconciliation issues/quickly resolved	Major reconciliation issues and/or slow/failed to respond
Rating	Green	Amber	Red	Green	Amber	Red
No. of employers	33	1	0	31	1	3
% represented	97%	3%	0%	89%	3%	8%
Data Quality	**2023**			**2022**		
	Data quality good	Minor data quality issues, quickly resolved	Major data quality issues and/or slow/failed to respond	Data quality good	Minor data quality issues, quickly resolved	Major data quality issues and/or slow/failed to respond
Rating	Green	Amber	Red	Green	Amber	Red
No. of employers	6	18	10	6	11	18
% represented	18%	53%	29%	17%	32%	51%

2.10 The committee can see that there was an improvement between 21/22 and 22/23. In the most important category data quality, we had 18 employers with major data quality issues in 21/22 and that had reduced to 10 employers in 22/23 although it appears there is still work to do.

2.11 In the PAS I have introduced a fine of £1000 for an employer that has three years of red or failing data quality in a row from the year 22/23. I would point out that any employer in that position would have had already accrued PAS charges for missing joiners and leavers likely and we do warn employers before the submission on the annual return to make sure their data is accurate. Three years effectively gives any employer the chance to remedy the situation before this penalty would be imposed.

2.12 The long-term aim would be to further develop the PAS and build out the Administering Authority roles and responsibilities. However, for now I would like to go out to the employers and consult with them on going live with this updated PAS with effect from the 1st of April 2024.

3. Summary

3.1 I am asking the Pension Committee to decide if they are agreeable to the approach of the revised PAS with increased potential charges.

3.2 Does the Committee agree to consultation with the employers on the revised PAS or do the Pension Committee require changes?

FAIRER
WESTMINSTER

City of Westminster

Pension Administration Strategy

City of Westminster Pension Fund

Effective from 1st April 2024

Page 19

Contents

1. Introduction

This is the Pension Administration Strategy of the City of Westminster Pension Fund (COWPF “the Fund”) about the Local Government Pension Scheme (LGPS) Fund.

The administration of the Fund has primarily been outsourced to Hampshire Pension Services (HPS) from the 8th of November 2021. It’s important to note that whilst some administration documents and guides are in common with HPS, this PAS is specifically for COWPF. COWPF as an LGPS Administering Authority (AA) determines our PAS and its application.

This document:

- Confirms the purpose of the strategy and says what it is intended to achieve.
- Outlines the role of COWPF scheme employers and sets out their expected levels of performance.
- Outlines the role of COWPF and sets out its expected levels of performance.
- Explains how the performance of COWPF and its employers will be monitored.
- Explains what actions might be taken when employers do not meet the requirements.
- Confirms how COWPF will communicate with its employers.
- Details the resources and support that is available for employers to access the - Employer Hub Portal

The LGPS is a statutory scheme, established by an Act of Parliament. Regulation 59 of the LGPS Regulations outline the key responsibilities of administering authorities and fund employers. The regulations include specific provisions recommending the fund develops a Pensions Administration Strategy (PAS). The COWPF has had an agreed PAS for a number of years, and this is periodically reviewed by the Fund in consultation with the employers to ensure that the PAS remains fit for purpose.

The PAS includes a schedule of additional administrative costs under Regulation 70 of the LGPS Regulations 2013, which provides scope for pension funds to recover costs where additional costs are being incurred due to an employer’s level of performance.

The PAS is linked to the following statutory documents of the Fund which are available on COWPF website www.wccpensionfund.co.uk

- Retention Policy and Full Privacy Notice
- Communications Policy
- Annual Report
- Statement of Investment Principles

Under no circumstances does the PAS override any provision or requirement of the LGPS regulations nor is it intended to replace the more extensive guide provided by the Employers’ Guide available on the Hampshire Pension Services website Employer Administration Tools and Guidance | Hampshire County Council (hants.gov.uk) for day-to-day operations.

2. Purpose of the Pension Administration Strategy

The purpose of the PAS is to set out the relationship between the Fund and it’s member employers so that together we can meet our statutory obligations for members and beyond that gives members comfort in their pension with us. The PAS is being amended from April 1, 2024, following excellent work by our fund employers and administrators to clean COWPF data since we moved to HPS in November 2021. The COWPF is now in a position to broaden the PAS and to ensure progress made by everyone is maintained. The purpose of the PAS Summary is below.

- ♣ Provides clarity on the key roles and responsibilities of COWPF and its employers.
- ♣ Sets expectations and confirms the targets that COWPF and its employers need to work to
- ♣ Helps all parties to achieve regulatory compliance by providing a framework that is clear and user-friendly.
- ♣ Assists COWPF and its scheme employers in adhering to the Pensions Regulator’s Codes of Practice
- ♣ Complements procedures that help all parties to meet their data protection and data quality responsibilities.
- ♣ Helps to ensure all parties provide the best possible service to scheme members and other relevant stakeholders.
- ♣ Emphasises the importance of the shared role that COWPF and its scheme employers have in ensuring excellent service delivery to scheme members.
- ♣ Promotes efficient working practices, hand in hand partnership with transparency and a culture of continual improvement.

3. Roles and Responsibilities

The purpose of the strategy set out in Section 2 will be achieved by:

- ♣ Clearly defining the respective roles of Scheme Employers and the Administering Authority
- ♣ Setting clear and achievable standards of service levels for the functions carried out by Scheme Employers and the Administering Authority
- ♣ Setting out clear procedural guidance for the secure and effective exchange of information between Scheme Employers and the Administering Authority
- ♣ Monitoring service delivery, identifying poor performance and establishing a platform for the provision of support to improve performance where required.
- ♣ Continuous development of resources via the use of digital technology and staff training for both the Fund and its employers
- ♣ Applying charges where an employer consistently fails to meet deadlines to ensure the resulting additional administrative strain is not a burden on all employers.

3.1 The Employer’s Roles and Responsibilities

The primary responsibilities for the employer are to:

- ♣ Communicate the entitlement to benefit from the LGPS to all eligible staff who can join the COWPF.
- ♣ Communicate to new members of the Fund the Pension Portal address and how they can access information on their pension.
- ♣ Communicate to new members of the scheme that transfer requests must be made within 12 months of joining the Fund.

- Apply the scheme via the collection and payment of the correct levels of pension contributions.
- Report information and data to the COWPF as set out in this strategy.
- Determine and publish relevant employer discretions as required in the LGPS Regulations.

3.2 The Administering Authority’s Roles and Responsibilities

The City of Westminster is an Administering Authority (AA) responsible for the provision of our own Local Government Pension Scheme Fund. The COWPF is invested for the benefit of all members as instructed by the COWPF Committee. The Pension Fund Committee has the support of internal AA Officers and qualified external advisors to ensure that the Fund is able to meet all future pension promises. The Pension Fund Committee is also supported by a separate Pension Board that has both employer and member representatives.

COWPF is responsible for ensuring that our appointed administration partner HPS is performing to our agreed contractual standards and is providing a reliable pension administration service to our members. Internal administration officers will support both HPS as our administrators and the funds employers to meet our high standards for members and ensure their expectations are met and exceeded where possible.

COWPF will ensure that any other third party engaged on behalf of the Fund is properly monitored to ensure our Fund remains strong.

The key responsibilities for the Administering Authority are to:

- Administer the LGPS in respect of all scheme members (Active, Deferred and Pensioner members) in accordance with this Strategy and in line with the LGPS and other regulatory requirements.
- Maintain and review the Fund’s Statements, Policies and Reports and all other matters relating to the Governance of the scheme.
- Communicate and engage with employers on LGPS matters.
- Provide support/training to scheme employers.
- Maintain and develop an effective web presence for the benefit of members and scheme employers.

HPS have invested in an Employer Hub Portal which links into the pensions administration system. This portal empowers employers to conveniently submit data online, facilitating the review and update of their members' individual records and the prompt notification of employment-related changes to the COWPF.

Employers can submit various notifications and requests online. These include new starters, transitioning to the 50/50 scheme, updates to addresses, changes in personal circumstances, adjustments in work hours and breaks in service, leavers, opt-outs within a three-month period, and submission of ill health certificates.

COWPF expects all employers to sign up and use the Employer Hub. HPS offers regular training on various pensions subjects and in using the Employer Hub. Employers can request support from the Employer Pension Team pensions.employer@hants.gov.uk

A summary of the main roles and responsibilities of employers in the Fund are set out in Appendix A with the applicable PAS charge the fund can apply in each case. The summary is not intended to set out every employer responsibility or to override any employer responsibility as set out within the LGPS regulations or other statute.

Appendix B sets out the main summary of duties for the Administering Authority, defining the main functions, which enable the Pension Fund to deliver an efficient, accurate and high-quality pension service to scheme members.

4. Performance Monitoring

The strategy recognises that there is a shared responsibility for ensuring compliance with the LGPS regulations and the PAS.

COWPF will monitor employer performance across the following key areas:

- The submission of monthly data returns
- The payment of contributions and other payments due
- The number of queries, along with the rate and quality of responses
- The number of complaints received and IDRP cases upheld against the employer and the COWPF where applicable.
- The annual return employer performance (A summary to Annual Return Employer Performance Benchmarking is set out in Appendix C)

The LGPS regulations grant pension funds the authority to recover administration costs incurred due to a scheme employer's underperformance from that employer. The COWPF has applied some PAS charges to employers following our move to HPS in November 2021 as we worked to remove a backlog of unprocessed leaver cases. The Fund has also applied PAS charges for the late submission of remittance and contribution data on a few occassions. The COWPF has centrally covered the administration costs of clearing administration backlogs to date and not recharged these directly to employers.

From April 2024 onwards any backlog of work that is directly related to any employer not fulfilling their duties and responsibilities as outlined in this PAS, will result in that employer specifically being PAS charged for the administration costs to deal with that backlog. The costs will be determined at the time of assessment of any backlog and advised to the employer at the time. This change is to ensure that fund employers who comply with the PAS are not contributing to the cost of dealing with any that do not.

If there were an administration backlog that was caused because of issues outside the control of an individual employer, the COWPF would cover those costs centrally.

COWPF, in partnership with our administration associate in HPS, will extend support to employers to fulfil our shared responsibilities to members. We appreciate and are open to feedback to improve services for both employers and members.

If you represent an employer struggling to meet the terms of this PAS, please contact us promptly so we can work together and avoid additional charges if we can resolve outstanding issues through mutual agreement between COWPF and the employer.

In cases of persistent employer failure to improve performance, we will take the following steps:

- The COWPF will engage with the employer to discuss areas of poor performance.
- An improvement plan with required changes and a timeline will be agreed upon if possible.
- If no improvement occurs within the agreed time frame, or if the employer fails to take action, a formal written notice will be issued, outlining identified issues and possible cost recovery.
- The Fund employer may be required to exit the COWPF for further accrual by their members. The COWPF would expect the employer to advise those members affected.
- Detailed calculations of losses or additional costs incurred in resolving poor performance will be provided.
- The COWPF may have to report the employer to The Pensions Regulator (TPR) for noncompliance with the TPR code. The COWPF will advise the employer if this action is being taken. The TPR may apply their own penalties separate to COWPF.

For more information about the work of The Pensions Regulator, you can visit the following link: https://www.thepensionsregulator.gov.uk/en

A schedule of charges is detailed in table below.

5. Communication, Recourses and Available Support

The various channels of communication employed by the fund include:

1. The **Westminster City Council Pension Fund** website is the main communication tool for both employers and scheme members.

- **Employers** – a dedicated and secure employer section where employers can access procedure guides, information on courses run by the Fund. All employers are required to provide data through the UPM - Civica Employer Hub Portal.
- **Scheme members** – access to up-to-date information about all aspects of the LGPS and the Member Self Service area where members can update personal details, review annual benefit statements, complete their own pensions estimates and access online tutorials.
- **Contact Details** – Westminster City Council Retained Payroll and Pension contact information are available on the website, together with contact details for the Hymans Robertson Team, Investment and Pension Fund Committee and Pension Board.

2. **Scheme members** who have chosen to opt out of the Member Self Service will continue to receive postal communication. They will still be able to access up-to-date information about all aspects of the LGPS via our website.

3. **Employer newsletter** are issued to scheme members and all employing authorities and published on the COWPF website.

4. **Pension surgeries** may be arranged to support individuals or groups of individuals who need support with particular pension issues. Employers can contact the WCCCPF administration team to discuss the needs of members.

5. **Regular feedback** sent directly to employer representatives to provide notification of any scheme / administrative updates and developments.

6. **Employer workshops** to review scheme developments, and/or to resolve any training needs that employers may have.

For further information regarding our methods of communication, please see our Communications Policy which is located on our website.

6. Feedback and Review Process

COWPF is also accountable for its performance and we welcome feedback from our Employers regarding the performance of the Fund against the standards in this administration strategy, as set out in Section 3. Comments should be sent to the Strategic Pension Lead Sarah Hay shay@westminster.gov.uk . Any feedback received will be incorporated into the quarterly reports provided to the Pension Board.

You should send any questions about this Pension Administration Strategy to the Strategic Pension Lead Sarah Hay.

Sarah Hay
Strategic Pension Lead
Westminster City Council
11th Floor
64 Victoria Street
London
SW1E 6QP
E-mail: shay@westminster.gov.uk

Westminster City Council Pension Fund is not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme. This responsibility rests with the employer.

Regulation 59 of the Local Government Pension Scheme (LGPS) Regulations 2013 is the regulation that allows WCCPF to create this strategy.

Regulation 59 states that on creating or revising its strategy, the administrating authority must consult with its employers.

The WCCPF Pensions Committee approved this strategy on xx/xx/xx Date.

It is effective from 1st April 2024 and we will keep it under review to ensure it remains up to date and meets the necessary regulatory requirements.

In preparing this pension administration strategy, we have consulted with our Fund employers and our third-party administrator. If we need to revise this strategy, we will notify our Fund employers and our third party administrator.

We will publish the current version of the strategy statement on our website at www.wccpensionfund.co.uk and will make paper copies available on request.

Appendix A	City of Westminster Pension Fund Employer Performance Targets and PAS Charges	
Administration Description	**Performance Targets**	**Non-Compliance Charge**

New Scheme Member		
Employer to send to the Administrating Authority the details of the new member.	Within 30 working days after the start of membership.	**£100**
Employers must enrol eligible staff into the LGPS when they reach their staging date or when members meet their eligible enrolment criteria	Advise COWPF of the new starter as per the standard fund process within 30 working days of the start of membership. Failure to comply with auto enrolment is a breach of the Pension Regulator code.	**£100**
Leavers		
Employer to send the Administrating Authority a completed leaver notification.	Within 30 working days after the end of membership. Except in retirement or death in service cases	**£100**
Refund contributions following opt out with less than 3 months scheme membership.	The employers payroll should refund the member any LGPS contributions in the month the opt out is processed. The employer then has the standard 30 working days to update the fund of the leaver and provide a copy of the validated opt out election to the pensions administration team.	**£100**
Retirements and Death in Service.		

Page 28

Notification of retirement via online portal	no later than 10 working days after the member's final payroll has run.	**£250**
Ill Health Retirement notification notify the Fund via Ill Health Retirement (medical certificate) form or via online portal	no later than 10 working days after the member's final payroll has run.	**£250**
Ill-Health Retirement (Deferred members)	No later than 10 working days after the decision has been taken to grant ill health retirement.	**£250**
Death in Service	Provide an initial notification within 5 working days of the employer being informed of the death of the employee	No PAS charge determined.
Review payment of Tier 3 ill-health benefits	Within 3 months of being notified by the administrators to review.	No PAS charged determined but note failure to complete may result in the members pension being suspended until the review is complete
Flexible retirement notification	no later than 10 working days after the member's final payroll has run accompanied by confirmation of the number of hours per week to be worked in the continuing job role.	**£250**
Contracting Out of Services		

Page 29

Notify COWPF of an Outsourcing of staff in the LGPS	COWPF should be advised of any contracting out prior to the award of any contract. The Fund requires notification no later than the day of transfer to a new employer.	PAS charge no less than **£250** from the 1st of April 2024. The COWPF reserves an entitlement to increase that charge should the transfer involve more then ten people or there be a delay in advising the fund exceeding three months.
Contributions and Other Payments Due		
Apply the applicable employee contribution rate to eligible members salary as determined by the LGPS Regulations and review at least annually and whenever their salary rate is adjusted.	Payment date - payment must credit the pension fund bank account on or before 19th of the month following the month to which deductions relate (or previous working day if 19th is a weekend or public holiday)	**£100** for receipt of late payment for each monthly payment. COWPF may seek recovery of under deducted LGPS employee contributions from an employer if the fund identifies an issue. The Fund may in exceptional circumstances PAS fine additionally employers to recover COWPF officer time to review complex contribution issues.

Apply the employer contribution rate agreed with the Fund on becoming a scheme employer and adjust as instructed by the Fund from a date determined by the Fund. and Complete monthly remittance form containing detail of the contribution's payment	Payment date - payment must credit the pension fund bank account on or before 19th of the month following the month to which deductions relate (or previous working day if 19th is a weekend or public holiday)	**£100** for receipt of late payment for each monthly payment. COWPF will seek recovery of under deducted LGPS employer contributions from an employer if the fund identifies an issue. The Fund may in exceptional circumstances PAS fine additionally employers to recover COWPF officer time to review complex contribution issues,
Remittances and schedules	Remittances - a copy of the monthly remittance and schedule must be sent 3 working days prior to the date that payments are credited to the fund, to the following email addresses: WCCIMSupport@westminster.gov.uk and PensionFund@westminster.gov.uk	**£100** per late remittance and **£100** per late schedule. The COWPF may also PAS charge an additional **£500** if there are three or more months in the prior 12 months where either payment, remittance or Schedule are late or inaccurate.

AVC	AVCs payments - should be paid monthly by 19th of the following month of deduction. AVC payments should be made directly to the COWPF AVC provider AEGON	Please note that if payment is made after the 19th day of the month following deduction, then the Fund may charge a PAS charge of **£100** per late payment. In addition, the Fund expects the employer to meet any lost return as a result of late payment and credit that to the members AVC pot. Also in addition, meet the costs from the AVC provider for calculating those additional returns and pay the provider invoice.
APC, ARC, Added Year Contributions	deductions should be applied as applicable in the LGPS regulations and notified to the employer by the member or COWPF.	Payment should be received with the next contribution payment as above received by the 19th day of the month following deduction.

Make additional fund payments in relation to early payment of benefits from flexible, redundancy or business efficiency retirement or where a member retires early with employer's consent, or the employer 'switches on' the 85 year rule, and a financial strain cost arises	Within 30 days of date of invoice from the Fund	The Fund will PAS Charge an additional **£250** per invoice received more than 60 days after the deadline.
General Information		
Move members between the main scheme and the 50 50 scheme.	The employer is expected to move members into the relevant section of the scheme following receipt of the relevant certified election form. The administrator must then be advised within working 30 days of that change with a copy of the relevant election form.	No PAS charge determined. Compliance will help ensure data quality.
Methods of data exchange	All employers should use the Employer Hub transfer system, UPM, to submit data every month. All forms should be submitted using a secure method of data transfer via online portal. Additional information can also be supplied by email. However, employers must consider data protection when sending information by email and take appropriate steps to ensure data breaches do not occur.	No PAS charge determined but note employers will need to ensure that the administrator does have relevant data sent via other methods or PAS charges could be applied to missing data.

Control of System Access	Each employer must provide COWPF and our admin with a completed employer contact form. That form will provide and administration contact or contacts for day-to-day administration queries. A nominated payroll contact who will provide the authorised payroll users list and a finance contact responsible for the submission of monthly postings and coordination of the exception's reports. The employer or relevant representative must advise the administration team within 5 working days that a nominated contact who would have access to the employer hub has left the employer. This is to help maintain correct control of the system.	PAS Charge **£100** if notified after 5 working days.
Additional responsibilities (optional) of those using an external payroll provider.	Any COWPF Employer that moves or outsources their payroll provider must advise the administration team of the change of payroll at the earliest opportunity and no later than the day prior to the change of payroll service. The employers existing and new payroll providers will be expected to provide relevant data to ensure that the fund can account for all members.	PAS fine of **£250** if advised of the transfer after the move to a new payroll provider. The existing payroll provider has 30 working days from the end of their last payroll period to provide their data and the new payroll provider has 30 working days from the last day of their first payroll period to

		provide the administrator with relevant data to complete the reconciliation exercise. Failure to comply would result in a PAS fine of **£100** per member up to a maximum **£500.**
End of Year Data Return	The deadline for submitting the end of year return is the 30th of April every year or the last working day in April prior to the 30th	PAS fine of **£100** if received after the deadline but before the 31st of May. PAS fine of **£250** if received from the 1st of June.
Employer Performance Scoring Data Quality	Less than 2% of queries on active membership following the annual return processing with responses received to any queries raised by our administrators within 30 working days. More information on the Annual Performance Scoring is included in Appendix C.	PAS fine of **£1000** is being introduced from the 1st of April 2024 for any employer that has had reported to them poor data quality for three years in a row going back to the performance year 22/23 moving forward. Poor data quality is defined as having queries on 5% of active membership or more and being slow
		to respond to administrator queries.

Governance		
Employers must nominate an adjudicator to deal with appeals at stage one of the IDRP where the dispute is against a decision the employer has made or is responsible for making. Employers are responsible for providing details of the IDRP and the adjudicator in writing to members when informing them of decisions they have made	Within 20 days of change or becoming a scheme employer.	No PAS fine determined.
The employer is responsible for exercising the discretionary powers given to employers by the regulations. The employer is also responsible for compiling, reviewing and publishing its policy in respect of the key discretions as required by the regulations to its employees.	A copy of the policy document is to be submitted to the Fund within 20 days of the change in policy	No PAS fine determined.
Distribute any information provided by the Fund to scheme members/potential scheme members (e.g. scheme benefits or benefit statement production)	In a timely manner as required	No PAS fine determined.

Appendix B

Summary of The Administering Authority’s Roles & Responsibilities

Appendix B	City of Westminster Pension Fund Administering Authority Roles and Responsibilities	
Administration Description	**Performance Targets**	**KPI Target**
New Scheme Member		
Member to be set up on the UPM Pensions software	Within 15 days after the receipt of completed information from the employer	**100%**
Leavers		

Retirements to be Processed from both active and deferred status. This includes all types of retirement, ill health, voluntary, redundancy and flexible retirement.	Within 15 days after receipt of all relevant information. This includes employer leaver information if retiring from active status at a fund employer. Members also need to complete the retirement declaration form which can be located on the member portal.	**100%**
Deferred Benefits	30 days from receipt of all relevant information from the employer.	**100%**
Reviews, Estimates and Transfers		

Page 38

Tier 3 Ill Health Review	Reminder to be sent to the employer three months before review is due. Upon receipt of notification to suspend a tier 3 pension enact in the next within the next payroll period. Upon notification to amend a Tier 3 ill health retirement enact within 20 days as per the original retirement. Suspend pension if no response from employer three months after the review date.	**100%**
Employer Estimate Requests	20 days from receipt of all relevant information from the employer. Employers can request 2 estimates per individual in any 12-month period within our agreed costs. Additional estimates must be paid for and we ask employers to only request multiple estimates if there is a significant change in leaving date or member pay.	**100%**
Member Estimate Requests	20 days from receipt of all relevant information from the employer/ member. Most members can run accurate retirement estimates by accessing the facility on the member portal which is user friendly and the Annual Benefit Statement (ABS) available on the portal will provide an estimate of pension each year. Members can request 1 estimate per year by completing a request form available from our administrators Hampshire Pension Services (HPS). If active members of staff the employer will need to confirm the members pay before submitting to HPS to complete and return.	**100%**

Cash Equivalent Transfer Value (CETV) Request	CETV requests within 20 days although these could soon be run on the member portal. Where the member is still actively contributing to the scheme, the employer will need to confirm the salary details. A CETV specifically for divorce proceedings has to be run by the pensions administration team.	**100%**
Death in Service	Provide an initial notification to the next of kin within 5 working days of the employer advising the administrator of the death and providing the relevant final pay and contact information. Payment of any dependent pension benefits due will be processed within 5 days of receipt of relevant forms with payment in the next available pension payroll run.	**100%**
Death from deferred status	Initial contact will be made within 5 days of notification with the next of kin or appointed representative where known to the Fund.	**100%**
Death of a member in receipt of pension.	Initial contact will be made within 5 days of notification with the next of kin or appointed representative where known to the Fund.	**100%**
Payments		

Payment of Pension Lump Sums	Pension Lump Sums will be processed for payment within the 15 days retirement processing deadline with payment processing via BACS to normally take no more than 5 working days.	**100%**
Contribution Requirements	The COWPF will hold a pension fund valuation every three years to determine each employers contribution rate. The Fund will consult with employers on their rate. The Fund aims to be more than 100% funded for all employers.	
Other Payments	The COWPF will pay other payments due on behalf of members within the agreed timescale for that payment type. This include payments to HMRC.	**100%**
Contracts and Governance		
Appoint and monitor third party Contactors	The COWPF will appoint and monitor the performamce off all relevant third party contractors operating on behalf of the Fund. This includes the administrator Hampshire Pension Services and the Pension Fund Auditors	100%

Data Quality	The COWPF will constantly measure and monitor the quality of members data to ensure the fund is able to provide accurate information to members and pay members benefits as per our ageed timescales when due. Where an area for improvement is identified the Fund will take all reasonable steps to improve that data with consideration to the benefit from improvement and the cost.
Reports to the The Pension Regulator and other Returns	The COWPF will complete any statutory return on behalf of the Fund. This includes the Pension Regulator
Discretions	Will publish a policy outline it's Administering Authority Discretions COWPF will maintain links to these discretions on WCC website https://www.wccpensionfund.co.uk
Policies	Arrange for the reports and policies to be provided to all employers requiring such a information. WCCPF regularly review the Fund's policies: • Retention Policy and Full Privacy Notice • Communications Policy • Annual Report • Statement of Investment Principles WCCPF will maintain links to these policies on WCC website https://www.wccpensionfund.co.uk
Security	
Cyber and Data security	Will be working with our administration partners and our Fund employers to ensure maximum security for our members data. This includes regular cyber security updates on the pension software and monitoring access via the employer hub.
Employer and Member Support	
HPS Telephone Helpline	HPS will provide a helpline open between 8 am and 4pm Monday to Friday Telephone: 01962 845588
HPS Email	E - mail: pensions.employer@hants.gov.uk Employers have a dedicated employer team to help them with any pension issue related to the LGPS

Regular Training	Regular Training is offered by HPS to Westminster Pension Fund employers on a variety of areas. This training will be promoted throughout the year to employers but can be located per this link https://www.hants.gov.uk/hampshire-services/pensions/local-government/employers/training	

Appendix C

Employer Performance Benchmarking Guide

When we transitioned our pension administration service to Hampshire Pension Services (HPS) in November 2021, it was agreed to incorporate employer performance benchmarking into the annual returns process.

Hampshire Pension Services assesses Scheme Employers for timeliness, financial control, and data quality.

Timelines - The deadline for submitting a complete and accurate annual return to Hampshire Pension Services is April 30th.

Financial control - The pension contributions from both employees and employers, as outlined in the annual return, should align with the contributions received by the WCCPF, which are reported during the monthly reconciliation process. In the event of genuine reasons for any discrepancies, these reasons should be documented in the return to facilitate the reconciliation of contributions.

Data quality - The data provided in the annual return should align with the member records maintained by Hampshire Pension Services for the respective employer. This includes details regarding new starters, leavers, and any modifications to the records.

The benchmarking scores are provided in the following section:

	Timeliness	**Financial control**	**Data quality**
No issue	Return received before 30 April	No reconciliation issues	No or very minor data quality issues (below 2% of active membership)
Minor concern	Return received between 1 May and 31 May	Minor reconciliation issues and quickly resolved	Some data quality issues (between 2 and 5% of active membership
Significant Concern	Return received more than a month late	Major reconciliation issues and/or slow/failed to respond	Major data quality issues (more than 5 queries or 5% of membership, whichever is higher) and/or slow/failed to respond

In our continuous commitment to upholding the utmost data quality standards for our WCCPF members, we conduct an evaluation of Scheme Employer performance as a part of the annual return process.

For the financial year 2022-2023, we initiated the distribution of our first round of employer performance letters. During the previous financial year 2021-2022, WCCPF assessed employer and payroll provider data and responses. However, at that time, we refrained from sending letters to employers or schools as our focus was on resolving historical queries and ensuring that employers and payroll providers understood the various requirements inherited by Hampshire Pension Services from the previous administrator.

For the financial year 2023-2024, we are currently in the process of dispatching our second round of employer performance letters.

Looking ahead to the financial year 2024-2025, we will be introducing a **£1000** charge to employers for insufficient data quality, provided they have experienced issues in the three preceding years. This fee will serve as additional evidence of costs that the COWPF can provide in its efforts to address data quality concerns.

As part of these initiatives, all scheme employers rated "red" in one or more areas during annual return benchmarking will receive a letter, requesting a review of their processes to improve future performance.

Employers with "red" ratings for data quality will undergo a data validation exercise to update information and ensure timely notifications for starters and leavers since April 1, 2023.

Hampshire Pension Services will collaborate with payroll providers and employers to enhance their understanding of returns and address identified reporting issues.

Pensions Matters will raise employer awareness about the importance of notifying opt-outs and scheme section changes, particularly during re-enrolment.

Additionally, employer training for annual returns will be reviewed to highlight key checks before submission, and awareness and promotion of using Employer Forms and document uploads in the Employer Hub will be encouraged. Consideration will be given to potential charges for scheme employers who fail to provide necessary notifications, changes, or respond to queries.

City of Westminster

Pension Fund Committee

Date:	**29th November 2023**
Classification:	**GENERAL**
Title:	**LGPS Projects – GMP Project Update**
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 Guaranteed Minimum Pension Project with respect to the rectification calculation results, the financial impacts of rectification on the Fund and pension recipients as well as to provide options for consideration and to ask the Committee for their recommendations.

In order to effect the changes to our members, we not only need to understand how our members and the Fund are both individually and generally affected by the changes; we also need to be aware of the wider national picture (this is a statutory project affecting all LGPS schemes in England and Wales), how other Funds may decide to effect the changes, the potential impact of decisions with LGPS Scotland and requests for guidance and appeal to the Department for Levelling Up, Housing and Communities (DLUHC) and how our decisions may be received by the Pensions

Ombudsman as well as the Media should there be widespread coverage of the project and negative impacts to members in receipt of their pension.

Therefore, I have set out this paper into sections explaining the data, how it is presented, what our initial findings through analysis are, what we know and don't know, what we consider are the options to proceed and what we want the Committee to discuss.

2. Guaranteed Minimum Pension Project

2.1. End of Mercer Rectification Calculations

I am pleased to tell the Committee that we have received the rectification data from Mercer Ltd and Hampshire Pension Services (HPS) have commenced their data validation exercise. I am also pleased to tell the Committee that Mercer have praised the Project Board format and have agreed that having a structured project was to the benefit of all.

As per my previous paper, I would like to highlight to the Committee that there are still rectification calculations to be completed on circa 400 member records that need manual review due to inconsistencies in and/or missing administration data. These records were descoped with agreement between Westminster, HPS and Mercer. I will be presenting a paper with costs on this at the Q4 Committee Meeting as we intend to review these in the next financial year after April 2024 pension increases.

Note on calculations

It is important to note that what is being rectified is only **one element** of the affected members' pensions i.e., the guaranteed minimum pension (GMP) element. What this means is that any changes to the GMP element may or may not result in an overall increase or decrease to pensions in payment.

Additionally, the changes will not be one common single value or percentage (e.g., they all receive a 10% increase or decrease) as each member will have an increase or decrease calculated on their specific record.

Therefore, to understand the impacts of this rectification exercise, we need to present the data (and the member records) in groupings so that we can make decisions depending on the significance of the changes.

2.2. How the Calculations are presented

As per their protocol, HPS have organised the data into groups by creating seven bands of changes.

We are aiming, where possible, to align our approaches with HPS and their methodology for their Fund scheme and the other Fund schemes they administrate for. The reasoning for this is twofold; we want to follow best practice where possible and eliminate the need for bespoke management of cases which could make administration more complex, and therefore costly, in the future.

Group	Group Description	# Members
Group 1a	No change	365
Group 1	Decrease of £1 or less	4
Group 2	Decrease between £1.01 and £5	32
Group 3	Increase	45
Group 4	Decrease between £5.01 and £15	45
Group 5	Decrease between £15.01 and £50	58
Group 6	Decrease of more than £50	60
		609

The purpose of these groupings is to easily identify members who will have …

a) *no change* to their records (i.e., their pension payments won't change).

- ***Group 1a***

For Group 1a, there will be no changes applied to the members' pension payments and the group will be exempt from further work although the member records will be updated show they were part of the rectification exercise.

b) been *underpaid* (i.e., the Fund owes them money) and will receive an increase in their pension payments as well as a single arrears payment.

- ***Group 3***

Group 3 will have their member records adjusted to the new value and will receive their increased pension payment and arrears payment with Pensions Increases (PI) in April 2024.

c) been *overpaid* (i.e., they owe the Fund money) and will receive a decrease in their pension payments to a lesser or greater degree.

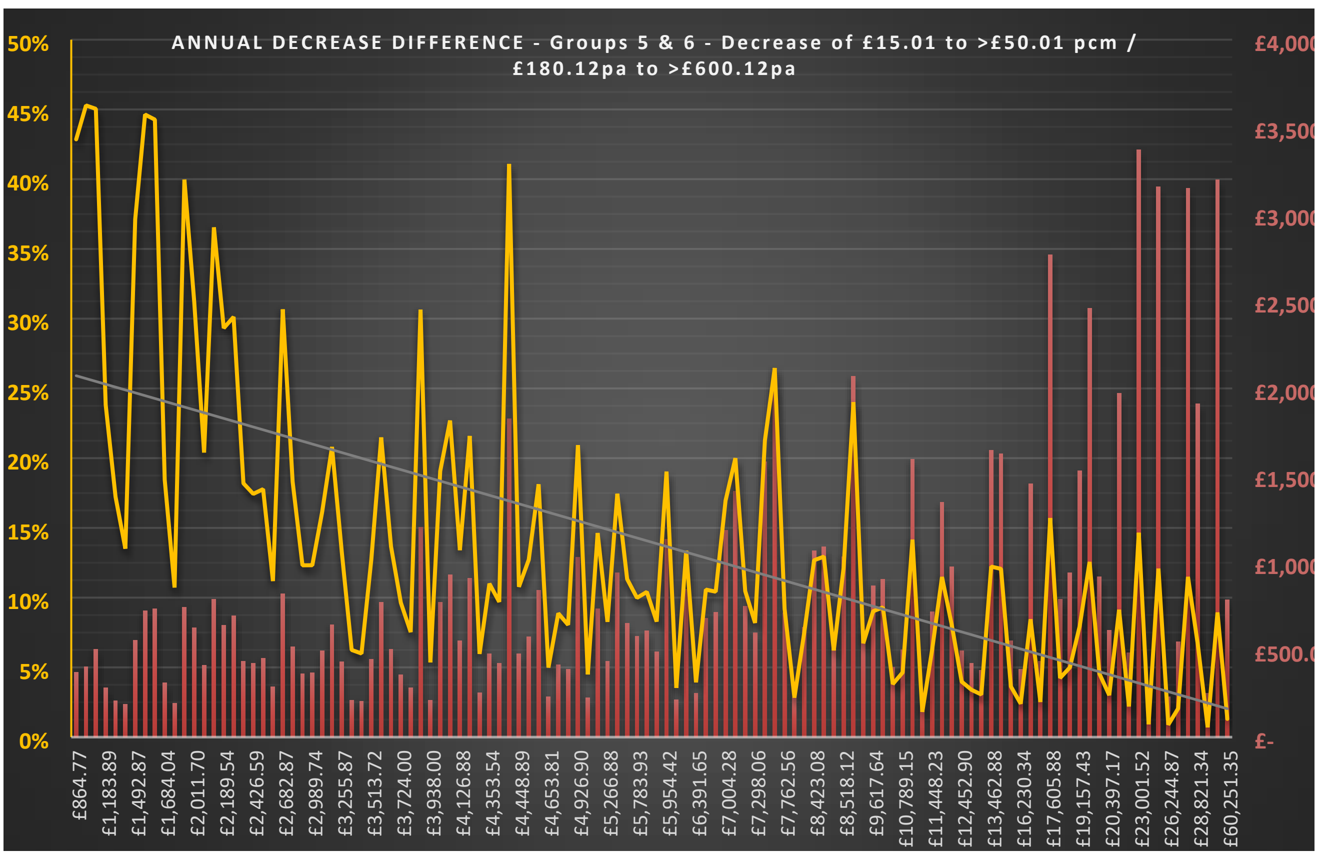
- ***Groups 1, 2, 4, 5 & 6***

We have taken the position that we will not ask members who have been overpaid for reimbursement of historic overpayments. This is because any GMP errors are an administrative error dating back many years, not a member error, and the member could have not known they were being overpaid their pension. This position also mitigates the fact that in some cases, the decrease in the pension in payment is approx. 45%.

2.3. Initial Analysis of Rectification Calculations

Initial analysis of the rectification shows that, in the groups with the biggest monthly decreases, the greatest proportional reduction is in the pensions of the members with the smallest pensions in payment, i.e., a member with an annual pension of £ 889.36 has the greatest reduction proportion of 45.29% compared to a member with an annual pension of £ 60,251.35 who has a proportional reduction of 1.31%.

However, ***this is a trend*** and not a linear decrease (e.g., there are two members with a pension of approx. £30k (midway between the smallest pension and the biggest pension) each receiving a decrease of less than 10% and not 20% or more as you would expect if the decrease was linear).



2.3.1. **Impact on Members in Receipt of Pension**

To better understand the impact on our members, the financial and proportional impacts on the various groups are presented in the following tables. Please note that Groups 1a and 3 are effectively excluded from the tables because Group 1a are the group with no change to their pension payments and Group 3 are recipients of an increase not a decrease as shown.

Please also note that the financial and percentage figures are independent of each other e.g., the max annual financial figure in Group 6 – £3,369.91 does not represent the decrease of 46% in the percentage table.

While I accept that this is confusing, there has been little time since receipt of the initial analysis to conduct and write up a detailed scrutiny ahead of writing this paper. I will verbally update the Committee with more analysis on the impact to members.

Nevertheless, while perhaps the percentage table better informs us of the impact on the member in receipt of their pension, the financial table informs us of the sums involved which relates to the overall cost to the Fund in the next section.

	Decreases in Pensions £			
Group	**Min Monthly £**	**Average Monthly £**	**Max Monthly £**	**Max Annual £**
Group 1a	£ -	£ -	£ -	£ -
Group 1	£ -	£ 0.01	£ 0.85	£ 10.25
Group 2	£ 1.25	£ 2.42	£ 4.58	£ 55.01
Group 3	£ -	£ -	£ -	£ -
Group 4	£ 5.95	£ 9.42	£ 14.21	£ 170.49
Group 5	£ 15.67	£ 32.01	£ 49.80	£ 597.59
Group 6	£ 50.89	£ 102.62	£ 280.83	£ 3,369.91

Group	Decreases in Pensions %			
	Min Monthly %	Average Monthly %	Max Monthly %	Max Annual %
Group 1a	-	-	-	-
Group 1	<0.5%	<0.5%	<1%	<1%
Group 2	<0.5%	<1.5%	<13%	<13%
Group 3	-	-	-	-
Group 4	<0.5%	<6%	<30%	<30%
Group 5	<1%	<12%	<46%	<46%
Group 6	<1.5%	<17%	<46%	<46%

2.3.2. **Financial Impact on Fund**

Based on the figures received, I have created two tables. The first table gives monthly and annual costs to the Fund (without calculations for Pensions Increase which would increase the figures for the next Financial Year and beyond) should we continue paying the overpayments to the members whose rectification requires a decrease in their GMP element. As per the other tables, Groups 1a and 3 are not shown as they either represent no change or an increase in pension payments.

Group	Cost to the Fund (Overpayments) if pension not decreased		Comment
	Total Monthly Cost	Total Annual Cost	
Group 1a	£ -	£ -	**No Cost**
Group 1	£ 2.22	£ 26.61	
Group 2	£ 77.28	£ 927.36	
Group 3	£ -	£ -	**See table below**
Group 4	£ 423.79	£ 5,085.50	
Group 5	£ 1,856.63	£ 22,279.54	
Group 6	£ 6,157.39	£ 73,888.70	
	£ * 8,517.31	**£ * 102,207.71**	

**This figure is subject to pensions increases (PI) annually and would increase annually.*

The second table is solely on Group 3 – the group that have been underpaid and require an increase in their pension payment and arrears due to their underpayment.

The arrears payment is a single payment to the members that will be paid once in the next financial year.

	Cost to the Fund (Underpayments) for pensions increased		Comment
Group	**Total Monthly Cost**	**Total Annual Cost**	
Group 3	£ *2,009.99	£ * 24,119.83	
		£ ** 275,279.78	This is a one-off
	£ 2,009.99	**£ 299,399.61**	

** This figure is subject to pensions increases (PI) annually and will increase annually.*

***This is the total combined one-off arrears (underpayment) payment to members.*

2.3.3. **Considerations**

The purpose of the GMP project was to rectify erroneous GMP elements on members' records and ensure members received their correct pension payments for their retirements. It was always understood that some members' records would not change meaning their pension payments would remain the same, some members would be due an increase plus underpayment arrears and the remaining members would receive a reduced pension payment because they had been overpaid to date and that we would not claim overpayments arrears as a gesture of goodwill.

Having conducted the initial analysis on the rectification calculations, it is evident that the overpayments are costing the Fund a large sum of money each year. Equally, this is a statutory project to correct data quality in pension records and as such we must make the rectifications. However, and just as importantly, it is also right to acknowledge that the reductions required will, in general, significantly impact members in receipt of smaller pensions and greatly reduce their income which may in turn substantially reduce their circumstances.

With that in mind, some points for consideration include:

1. Depending on their circumstances, a large decrease in pension could push some of our members into poverty. However, without speaking individually to each member, we cannot confirm that this would happen as all member finances are personal to them and they may have other income from elsewhere.

2. We cannot assume all members are or have been Westminster residents. We know that some will have been and may still be, but this will not be true of all members. We can check addresses where required.

3. LGPS Scotland are requiring Funds to make a balancing shortfall payment to pensioners who have had a decrease after GMP rectification to ensure their overall pension payments don't change and they receive PI as normal.

4. One or more Funds are in the process of writing or have written to DLUHC for clarification and guidance on balancing payments for LGPS England and Wales. It may be that DLUHC legislate the same as LGPS Scotland.

5. Funds may receive complaints which could go on to the Ombudsman who may make recommendations for all LGPS Funds.

6. It is possible that the project in general will become newsworthy, particularly if there are large numbers of complaints to the Ombudsman from various Fund schemes and/or the media and consequently our Fund and Fund decisions may receive enhanced scrutiny.

There may be other considerations that will develop as we conduct further analysis but any more would be further speculation at this point.

2.3.4. Options

As per our discussions with HPS, we are proposing some options for consideration.

1. **Do not make any changes to the member records and knowingly pay incorrect pensions**. We do not advise this course of action.

2. **Correct the member records but put in place a balancing shortfall payment which will ensure the member continues receiving their payments as if nothing has changed.** This course of action will perpetuate the cost of overpayments to the Fund for each member until the member deceases. The cost will increase each year with Pension Increases. With this course of action, we would need to do further investigation as to the longer-term costs to the Fund and discuss with the Actuary how this would impact the Fund with respect to longevity and mortality and if it would affect Valuation.

3. **Correct the member records but keep the current pension amount in payment. Calculate Pensions Increases (PI) each year as normal but retain the PI amount until the shortfall is made up.** This course of action will cease any future overpayment and ensures the member does not receive a decrease in their pension payment immediately thereby not impacting their circumstances negatively. Although the current overpayment is retained, we recoup monies owed by retaining their PI each year until their account "breaks even" (i.e., until the total PI retained equals the overpayment) at which point we cease withholding PI, and it is added as normal and the pension in payment increases. This is our preferred course of action; however, we would need to investigate further to ensure it is lawful and practicable. Additionally, we would need to work out an estimate of the costs involved.

4. **Correct the member records and reduce the pension in payment.** This is the straightforward outcome from the results of the rectification calculations but doesn't mitigate any significant reductions to the member.

2.4. Next Steps

We have completed our contract with Mercer Ltd, subject to Hampshire Pension Services (HPS) signing the milestone achievement to say that they are satisfied with the data provided. We will conclude our business with Mercer on 12th December 2023 at the November GMP Project Board (held in December to accommodate annual leave at Mercer Ltd).

We will conduct further analysis with HPS on the calculation data and the impact that will have on our members, particularly those members with significant reductions in their pension payment which may make them vulnerable. I would like to highlight to the Committee that although we will be able to get some extra data such as date of birth, address etc., we will only be able to create sets of data with potential indicators of vulnerability due to the fact that we will not know our members' finances in detail, and we will not be able to say categorically who will be pushed into poverty if their pension payment is decreased substantially.

The GMP Project Boards will continue monthly from December with particular emphasis on our Communications and Media strategy and detailed focus on how we will be communicating with members with changes. We will also be creating a timeline of payments so that we ensure we give sufficient notice to groups before we make any changes to their pensions in payment. We have invited Comms and Media teams from Westminster City Council (internal Comms, External Comms, Strategic Comms and the Press and Media office) and Hampshire Pension Service to join the Project Board so that we can craft and evaluate our communications appropriately.

Subject to the Committee's agreement on which option we pursue, we intend to push forward with contacting groups 1, 2, 3 and 4, in either December or January to let them know that their pension payments will be changed and why and then the changes will be put into effect on their records during the February 2024 payroll run so that the correct Pensions Increases (PI) can be calculated for April 2024.

For groups 5 and 6, we will pause any changes until after April 2024 PI so that we can give either give enough time to members to prepare for their decreases (if we just implement the reductions) and/or give enough time to HPS to conduct any calculations for either retaining PI going forward or making a balancing shortfall payment. Either way, these two groups will require specific monitoring and we need to implement any changes carefully.

In summary, this project will continue into next year, but we can finally make decisions with clean data, move forward with the rectifications, and correct our member records. This is a very positive move for the scheme, and we look forward to putting the solutions in place.

Agenda Item 6

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**29 November 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 October 2023 for the Pension Fund bank account and cash held at custody (Northern Trust). The bank/cashflow position continues to be stable.

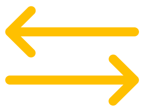
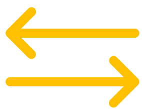
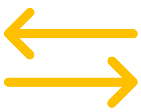
2. Recommendations

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

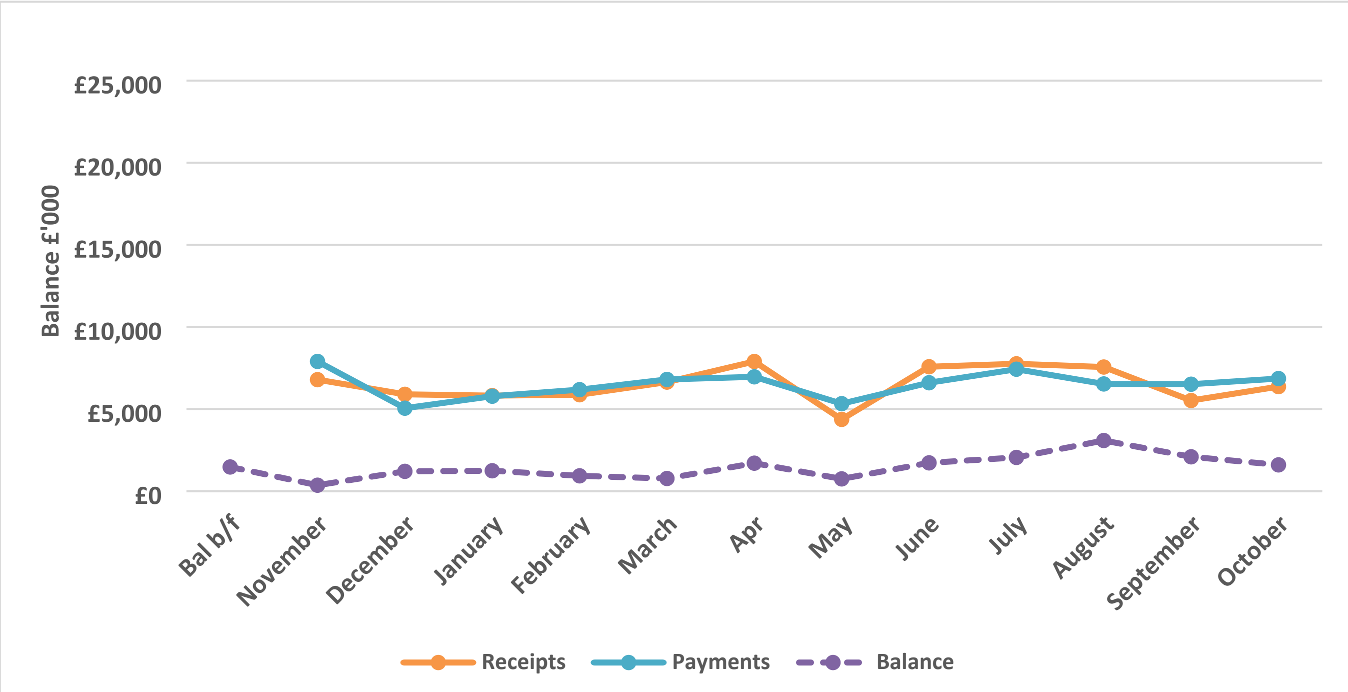
3.1 The risk register is divided into two sections: investment and pensions administration. The risk groups have been updated to reflect the CIPFA guidance on risk categories. The current top five risks to the Pension Fund, as updated in November 2023, are highlighted in the table below:

CIPFA Risk Group	**Risk Rank**	**Risk Description**	**Trending**
Liability Risk	1st/42	Price inflation is significantly more than anticipated in the actuarial assumptions. Inflation continues to remain high in the UK and globally due to labour shortages, supply chain issues, and the ongoing Russia-Ukraine conflict, as well as the conflict in the middle East. CPI inflation was 4.6% as at October 2023, down from the peak of 11.1% in October 2022.	
Asset and Investment Risk	2nd/42	Significant volatility and negative sentiment in global investment markets following disruptive geopolitical and economic uncertainty, including the conflict between Russia and Ukraine, and Israel and Gaza. Increased risk to global economic stability, with the collapse of a number of banks since March 2023. 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.	
Asset and Investment Risk	3rd/42	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 7.5% net of fees in the year to 30 September 2023, underperforming the benchmark by 2.7% net of fees.	
Regulatory and Compliance Risk	4th/42	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 is now expected to be the financial year 2024/25, with the regulations now delayed. Therefore, the first reports will be required by December 2025.	
Liability Risk	5th/42	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 October 2023 was £1.6m. 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 November 2022 to 31 October 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 £5.0m from cash at custody to maintain a positive cash balance.

4.4 The Pension Fund held £46.4m in cash with Northern Trust as at 31 October 2023. Fund manager distributions and proceeds/withdrawals 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 August 2023 to 31 October 2023.

Cash at Custody	Aug	Sep	Oct
	£000	£000	£000
	Actual	Actual	Actual
Balance b/f	**19,349**	**17,187**	**40,537**
Distributions	699	6,411	902
Sale of assets	116	17,058	20,531
Interest	134	1,445	1,774
Cash withdraw	(3,000)	0	(2,000)
Foreign Exchange Gains/Losses	6	69	2
Purchase of Assets	(1)	(1,426)	(15,357)
Miscellaneous	(0)	0	0
Management fees	(116)	(207)	12
Balance c/f	**17,187**	**40,537**	**46,401**

4.5 During the quarter, equalisations took place within the Quinbrook renewable infrastructure fund, as well as further capital calls within the Macquarie, Quinbrook and Pantheon infrastructure funds. The Fund also received distributions of £8.0m from asset managers over the quarter to 31 October 2023.

4.6 The total cash balance, including the Pension Fund Lloyds bank account and cash at custody, is shown below for the period from 1 August 2023 to 31 October 2023. The total cash balance as at 31 October 2023 was £48.0m.

Cash at custody & Bank account	Aug	Sep	Oct
	£000	£000	£000
	Actual	Actual	Actual
Balance b/f	**21,406**	**20,275**	**42,633**
Cash outflows	(6,649)	(8,148)	(22,217)
Cash inflows	5,518	30,506	27,590
(Withdraw)/Deposit from custody to bank account	(3,000)	0	(2,000)
Withdraw/(Deposit) from bank account to custody	3,000	0	2,000
Balance c/f	**20,275**	**42,633**	**48,006**

4.7 The following table illustrates the rolling cashflow for the 12-month period from 1 April 2023 to 31 March 2024 for the Pension Fund Lloyds bank account. Forecast cashflows are estimated using the previous year's actual cashflows, which are inflated and then divided equally over the 12 months.

Current Account Cashflows for period April 2023 - March 2024:

	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	*Nov-23*	*Dec-23*	*Jan-24*	*Feb-24*	*Mar-24*	*Rolling Total*
	£000	£000	£000	£000	£000	£000	£000	*£000*	*£000*	*£000*	*£000*	*£000*	
	Actual	Actual	Actual	Actual	Actual	Actual	Actual	*F'cast*	*F'cast*	*F'cast*	*F'cast*	*F'cast*	
Balance b/f	**774**	**1,707**	**751**	**1,726**	**2,056**	**3,087**	**2,095**	***1,603***	***1,021***	***1,439***	***1,857***	***1,275***	***£000s***
Contributions	6,298	993	3,970	3,810	3,795	4,050	3,849	*3,759*	*3,759*	*3,759*	*3,759*	*3,759*	*45,563*
Various Receipts[1]	601	380	611	948	767	1,473	519	*872*	*872*	*872*	*872*	*872*	*9,661*
Pensions	(3,813)	(3,923)	(3,913)	(3,977)	(3,964)	(3,956)	(3,992)	*(3,767)*	*(3,767)*	*(3,767)*	*(3,767)*	*(3,767)*	*(46,374)*
HMRC Tax Payments	(744)	(795)	(916)	(890)	(853)	(1,192)	(927)	*(681)*	*(681)*	*(681)*	*(681)*	*(681)*	*(9,720)*
Transfers out, lump sums, death grants, refunds & misc. payments	(2,164)	(455)	(1,744)	(2,552)	(1,530)	(1,349)	(1,764)	*(1,572)*	*(1,572)*	*(1,572)*	*(1,572)*	*(1,572)*	*(19,419)*
Expenses	(245)	(157)	(32)	(9)	(185)	(18)	(176)	*(194)*	*(194)*	*(194)*	*(194)*	*(194)*	*(1,793)*
Net cash in/(out) in month	**(67)**	**(3,956)**	**(2,024)**	**(2,670)**	**(1,969)**	**(991)**	**(2,492)**	***(1,582)***	***(1,582)***	***(1,582)***	***(1,582)***	***(1,582)***	***(22,081)***
Withdrawal/(deposit) from custody	1,000	3,000	3,000	3,000	3,000	0	2,000	*1,000*	*2,000*	*2,000*	*1,000*	*2,000*	*23,000*
Balance c/f	**1,707**	**751**	**1,726**	**2,056**	**3,087**	**2,095**	**1,603**	***1,021***	***1,439***	***1,857***	***1,275***	***1,693***	

4.8 The three-year cashflow forecast for 2023/24 to 2025/26 for the Pension Fund's Lloyds bank account is shown below. The 2023/24 forecasted cashflows are linked to the rolling cashflow. The following years' forecasts are calculated using the previous year's cashflows which are then inflated, with pensions payable linked to CPI-inflation.

Three Year Cashflow Forecast for 2023/24 to 2025/26

	2023/24	2024/25	2025/26
	£000	£000	£000
	F'cast	F'cast	F'cast
Balance b/f	**774**	**1,692**	**989**
Contributions	45,563	46,475	47,404
Transfers in, overpayments, VAT reclaim, recharges & misc. receipts	9,661	9,854	10,051
Pensions	(46,374)	(49,481)	(50,471)
HMRC Tax	(9,720)	(9,915)	(10,113)
Transfers out, lump sums, death grants, refunds & misc. payments	(19,419)	(19,807)	(20,203)
Expenses	(1,793)	(1,829)	(1,865)
Net cash in/(out) in year	**(22,082)**	**(24,703)**	**(25,197)**
Withdrawal/(deposit) from custody cash	23,000	24,000	25,000
Deficit Recovery Contributions	0	0	0
Balance c/f	**1,692**	**989**	**792**

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 November 2023

Appendix 1 - Tri Borough Risk Management Scoring Matrix

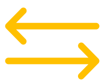
Scoring (Impact)

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

This page is intentionally left blank

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, which took place on 31 March 2022. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	2	**18**	08/11/2023
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**	08/11/2023
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**	08/11/2023
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**	08/11/2023
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**	08/11/2023
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**	08/11/2023
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 undertaken during 2022/23 showed substantial assurance with only two recommendations, which have since been fully/partially implemented.	1	**10**	08/11/2023
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 provided by Hampshire CC since 8 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**	08/11/2023
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**	08/11/2023

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**	08/11/2023
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**	08/11/2023
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**	08/11/2023
Administrative and Communicative Risk	13		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**	08/11/2023
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**	08/11/2023
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**	08/11/2023
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**	08/11/2023
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**	08/11/2023

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 remain high in the UK and globally due to labour shortages, supply chain issues, and the ongoing Russia-Ukraine conflict, as well as the conflict in the middle East. CPI inflation was 4.6% as at October 2023, down from the peak of 11.1% in October 2022.	5	3	3	11	4	**44**	**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 will start to drawdown into the LCIV UK housing fund during 2023. 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.	3	**33**	15/11/2023
Asset and Investment Risk	2		Significant volatility and negative sentiment in global investment markets following disruptive geopolitical and economic uncertainty, including the conflict between Russia and Ukraine, and Israel and Gaza. Increased risk to global economic stability, with the collapse of a number of banks since March 2023. 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.	4	4	3	11	4	**44**	**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 October 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. 6) Officers have assessed any exposures to SVB, with minimal direct exposure within the Fund. 7) Having reached out to the investment managers underlying the Pension Fund investment portfolio, we have ascertained that there is relatively low overall exposure to the Israel and Gaza regions.	3	**33**	08/11/2023
Asset and Investment Risk	3		Investment managers fail to achieve benchmark/ outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.8m. The Fund returned 7.49% net of fees in the year to 30 September 2023, underperforming the benchmark by -2.67% net of fees.	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.	3	**33**	08/11/2023

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 is now expected to be the financial year 2024/25, with the regulations now delayed. Therefore, the first reports will be required by December 2025.	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, with the regulations still outstanding.	3	**24**	08/11/2023
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**	08/11/2023
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**	08/11/2023
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 drafted for 2023. 6) Officers regularly attend training events on ESG and TCFD regulations to ensure stay up to date with latest guidance.	3	**21**	08/11/2023

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**	08/11/2023
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**	08/11/2023
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)Fund representation on key officer groups. 4) Ongoing Shareholder Issue remains a threat.	2	**20**	08/11/2023
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. 3) The DLUHC may introduce regulations to mandate Committee member training.	2	**18**	08/11/2023
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. Consultation on Next Steps on Investments released during July 2023, the Fund has submitted a response.	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 2023/24, following consultation.	3	**18**	08/11/2023

Resource and Skill Risk	13		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 appointment of a Tri-Borough Responsible Investment (RI) officer to cover ESG and RI areas, including stewardship and TCFD reporting.	2	**16**	08/11/2023
Asset and Investment Risk	14		Volatility in investment markets caused by government decisions.	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 was reviewed during 2023.	2	**16**	08/11/2023
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 2023, a new strategy was agreed to reduce equities by 5% and move into renewable infrastructure. 4) Pension Fund Officers in frequent contact with Fund Managers and the Funds investment advisor.	2	**16**	08/11/2023
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**	08/11/2023

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**	08/11/2023
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 2025.	2	**16**	08/11/2023
Resource and Skill Risk	19		Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding.	2	2	1	5	4	**20**	**TREAT:** 1) Succession planning process in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	3	**15**	08/11/2023
Liability Risk	20		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**	08/11/2023
Liability Risk	21		Impact of increases to employer contributions following the actuarial valuation, next valuation to take place on 31 March 2025.	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**	08/11/2023
Liability Risk	22		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.£25m cashflow negative per annum. However, going forward income distributions are expected to offset this.	1	**12**	08/11/2023
Regulatory and Compliance Risk	23		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**	08/11/2023

Regulatory and Compliance Risk	24		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**	08/11/2023
Liability Risk	25		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**	08/11/2023
Reputational Risk	26		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**	08/11/2023
Reputational Risk	27		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**	08/11/2023
Asset and Investment Risk	28		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**	08/11/2023
Liability Risk	29		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 2023/24 of members transferring out to DC schemes.	1	**10**	08/11/2023
Liability Risk	30		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**	08/11/2023
Asset and Investment Risk	31		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**	08/11/2023
Asset and Investment Risk	32		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**	08/11/2023

Asset and Investment Risk	33		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**	08/11/2023
Resource and Skill Risk	34		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**	08/11/2023
Regulatory and Compliance Risk	35		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**	08/11/2023
Reputational Risk	36		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**	08/11/2023
Liability Risk	37		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**	08/11/2023
Liability Risk	38		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**	08/11/2023
Regulatory and Compliance Risk	39		Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator.	1	3	5	9	2	**18**	**TREAT:** 1) Ensure that a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	**9**	08/11/2023

Regulatory and Compliance Risk	40		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**	08/11/2023
Regulatory and Compliance Risk	41		Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process.	2	2	3	7	2	**14**	**TREAT:** 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**	08/11/2023
Regulatory and Compliance Risk	42		Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	4	2	1	7	2	**14**	**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**	08/11/2023

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**29 November 2023**
Classification:	**Public (Appendices 1, 2, 4 and 5 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 30 September 2023, together with an update on the London CIV and funding level.

1.2 The Fund returned -1.5% net of fees over the quarter to 30 September 2023, underperforming the benchmark by 1.9%.

2. RECOMMENDATION

2.1 The Committee is asked to:

- Note the performance of the investments and the updated funding level as at 30 September 2023.

- Approve that Appendices 1, 2, 4 and 5 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 30 September 2023. The investment performance report (Appendix 1) has been prepared by Isio, the Fund's investment advisor.

3.2 The market value of investments decreased by £34.0m to £1.795bn over the quarter to 30 September 2023, with the Fund returning -1.5% net of fees. The Fund underperformed the benchmark by 1.9% net of fees, with the Baillie Gifford Global Alpha Growth Paris Aligned Fund's growth orientated portfolio proving detrimental against a backdrop of macroeconomic uncertainty. The Fund's underperformance was partially offset by outperformance within the Macquarie Renewable Infrastructure and Pantheon Global Infrastructure mandates, which outperformed their benchmarks by 2.7% and 1.9% net of fees respectively.

3.3 Over the 12-month period to 30 September 2023, the Fund underperformed its benchmark net of fees by 2.7% returning 7.5%. This underperformance can be largely attributed to the Abrdn Long Lease Property, which underperformed its benchmark by 23.5%, due to the detraction in long-dated property performance over the year. Over the longer three-year period to 30 September 2023, the Westminster Fund underperformed the benchmark net of fees by 2.0%, returning 3.5% net of fees.

3.4 It should be noted that Isio continues to rate the fund managers favourably.

3.5 During the quarter, the London CIV transitioned the underlying sub fund of the London CIV Absolute Return Fund from the Ruffer Absolute Return Fund into the LF Ruffer Thames Absolute Return Fund. Isio is satisfied that this transition does not impact the investment objectives of the sub fund or the team managing the product. However, they will monitor as to whether the changes to the ESG and responsible investment parameters impact the underlying investment portfolio over the long term.

3.6 The Pension Fund holds Rio Tinto, within its Baillie Gifford Paris Aligned Equity mandate. The company is a British-Australian multinational metals and mining company. The Local Authority Pension Fund Forum (LAPFF) have raised the issue of water impacts at Rio Tinto mining sites, and are encouraging investors to co-file a shareholder resolution requesting that the company undertake independent water impact assessments.

3.7 Baillie Gifford has undertaken engagements with the company over the last couple of years to understand the company's ESG practices and how to best monitor going forward. From an environmental perspective, Baillie Gifford believe the company has made good progress in decarbonising its operations, with a 46% reduction in emissions since 2008. Baillie Gifford continues to engage and push the company to improve its environmental, social and governance practices, but highlights that the position is under scrutiny. Please see the investment report, attached at Appendix 1, for more detailed information on the Baillie Gifford position and LAPFF resolution.

3.8 Please see attached at Appendix 5, an update on the Man GPM RI UK Community Housing Fund. Please note any discussions in relation to this appendix will need to be held within the exempt part of the meeting.

3.9 During the quarter to 30 September 2023, the Fund's officers have engaged with asset managers and other related parties on a number of issues as follows:

- **Water Company Exposure:** following a Pension Board member query, as at 30 June 2023, the Fund had £3.2m in exposure to water companies, including within the Insight Buy and Maintain Bond fund and the LGIM Future World Equity fund. These companies include Anglian Water, Severn Trent, Southern Water, Thames Water, Yorkshire Water, United Utilities Group and Pennon Group.

- **Abrdn Performance:** officers engaged with Abrdn, following the period of underperformance within the long lease property fund. With Abrdn provided the following commentary:

  "The second half of 2023 saw a deterioration in real estate pricing as the weaker macroeconomic environment impacting public markets began to weigh on the real estate market. As a result, the Long Lease fund has been subject to capital decline across the portfolio over the last 12 months, Particularly during Q3 2023 as valuers revised their views across sectors sharply.

  The industrial sector has been subject to the largest declines overall over the period. Industrial assets had been a key driver of the wider market performance over the previous two years but, due to the very low levels of yields that the sector had reached, as yields moved out this sector saw a greater impact and has seen the largest movement in yields.

  The strength of our assets and the diversity of assets we hold, especially in the alternatives sector, will stand the fund in good stead going forward. The funds void rate remains low and over 90% of rental income has some form of inflation linkage (i.e. subject to CPI/RPI or fixed increases). We continue to focus on high-quality real estate assets with strong underlying credit and are focusing heavily on our

ESG efforts during 2023. Overall we believe the fund is well positioned to benefit as the market stabilises and we move into a recovery period."

- **Royal Dutch Shell:** during September 2023, officers engaged with the London CIV in regard to the Fund's exposure to Shell through the LCIV Absolute Return fund. The London CIV provided the following commentary:

  "We have written our concerns and recommendations to Shell in a letter dated 21 October 2022, asking for a response if the Board intended to change course to reduce its impact on the climate. London CIV strongly believed that its recommendations would benefit Shell in the long-term. Regrettably, no response was received. Now the key concern is that it does not believe the Board has adopted a reasonable or effective strategy to manage the risks associated with climate change affecting Shell, which includes the Board's approach to compliance with the order of the Hague District Court dated 26 May 2021.

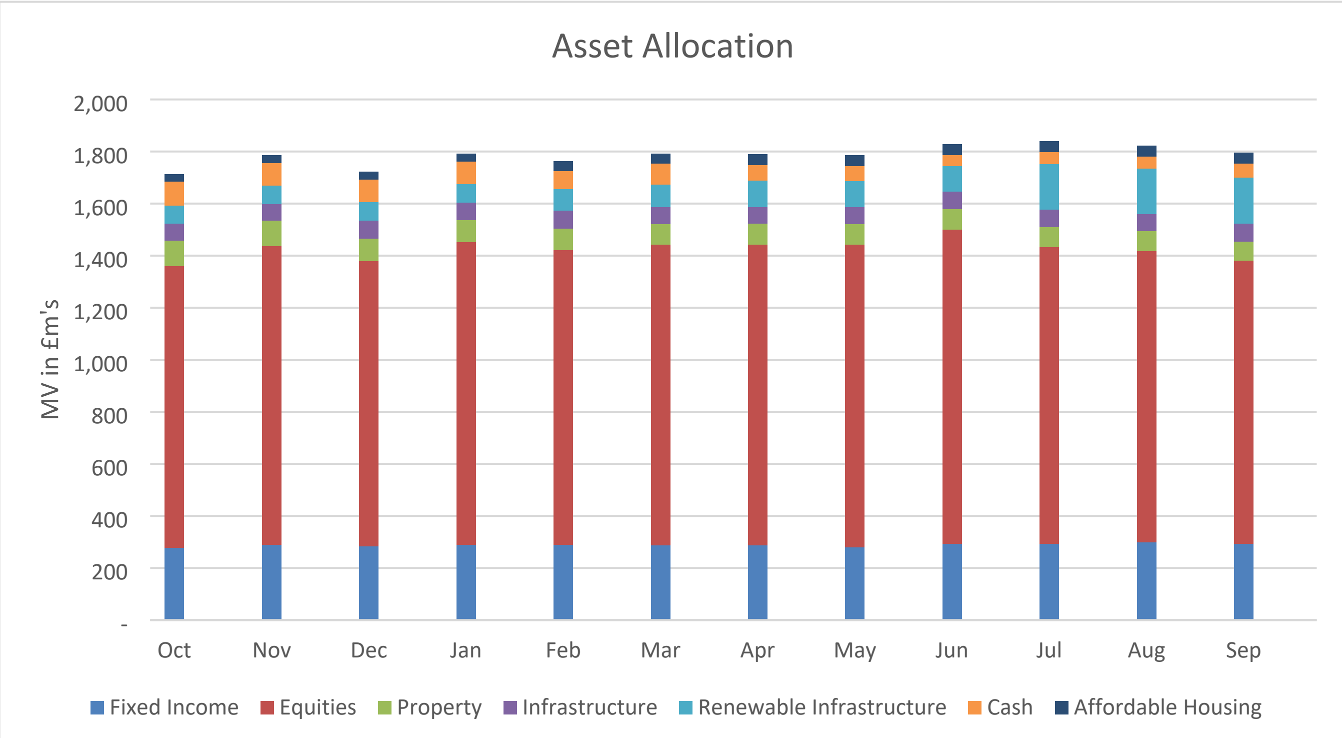
  In January 2023, we wrote a letter to ClientEarth backing their claim against Shell regarding climate risk mismanagement."

  In addition, Ruffer also met with Shell's Chair to discuss the company's energy transition strategy, whether it would set absolute Scope 3 emissions targets and its capital allocation strategy, and then met with the company again in response to the letter sent to the CEO earlier in 2023.

3.10 The estimated funding level for the Westminster Pension Fund has remained stable at 160% at 30 September 2023 (161% at 30 June 2023). Please see Appendix 3 for the actuary funding level report.

4. ASSET ALLOCATION AND SUMMARY OF CHANGES

4.1 The following chart shows the changes in asset allocation of the Fund from 1 October 2023 to 30 September 2023. 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 55% of assets within equities, 19% in fixed income, 11% in renewable infrastructure, 5% within infrastructure, 5% within property and 5% to affordable and socially supported housing.

4.3 Over the quarter to 30 September 2023, capital calls relating to the Quinbrook Renewables Impact mandate, Macquarie Renewable Infrastructure and Pantheon Global Infrastructure. At the Committee meeting on 29 June 2023, the Committee elected to transition 5% from equities into renewable infrastructure. This transition took place during July 2023.

5. LONDON CIV UPDATE

5.1 The value of Westminster Pension Fund investments directly managed by the London CIV as at 30 September 2023 was £786m, representing 44% of Westminster's investment assets. A further £423m 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 30 September 2023, the London CIV had £27.4bn of assets under management of which £14.8bn are directly managed by the London CIV. All London CIV funds, that Westminster are invested in, were on normal monitoring at quarter end.

5.3 During the quarter, the London CIV undertook 70 meetings/engagements with Client Funds, including seed investor groups, investment consultant updates, specific pooling opportunities and monthly business updates.

5.4 Please see the London CIV quarterly investment report as at 30 September 2023, attached at Appendix 4.

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: Isio Investment Report, Quarter Ending 30 September 2023 (exempt)
Appendix 2: Isio Investment Report, Fee Benchmarking (exempt)
Appendix 3: Hymans Robertson Funding update report at 30 September 2023
Appendix 4: London CIV Quarterly ACS Investment Report at 30 September 2023 (exempt)
Appendix 5: Isio Man GPM RI UK Community Housing Fund Update (exempt)

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

HYMANS ROBERTSON

City of Westminster Pension Fund

Funding update report at 30 September 2023

This report is addressed to the Administering Authority of the City of Westminster Pension Fund. This document should be read in conjunction with the fund's current Funding Strategy Statement.

The purpose of this report is to provide the funding position of the City of Westminster Pension Fund as at 30 September 2023 and show how it has changed since the previous valuation at 31 March 2022. This report has not been prepared for use for any other purpose and should not be so used. The report should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. Hymans Robertson LLP accept no liability where the report is used by or disclosed to a third party unless such liability has been expressly accepted in writing. Where permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses the advice and the basis on which it is given.

The figures presented in this report are prepared only for the purposes of providing an illustrative funding position and have no validity in other circumstances. In particular, they are not designed to meet regulatory requirements for valuations.

This report also contains the data and assumptions underlying the results and the reliances and limitations which apply to them.

1 Results

1.1 Funding position update

The table below shows the estimated funding position at 31 March 2022 and 30 September 2023.

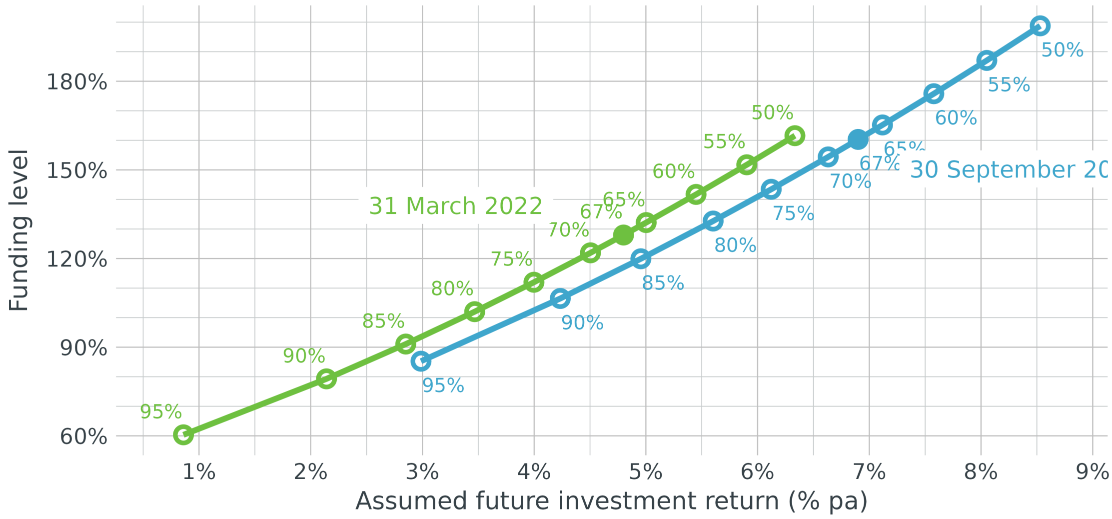
Please note that the asset value at 30 September 2023 shown in this report may differ to the actual asset value at that date because it is an estimate based on estimated cashflows (see section 3.2). However, the estimated value is consistent with the liabilities and therefore gives a more reliable estimate of the funding position than the actual asset value at the same date.

The table also shows what assumed investment return would be required at each date for the deficit to be exactly zero, along with the likelihood of the investment strategy achieving this return. An increase in this likelihood corresponds to an improvement in the funding position.

Monetary amounts in £bn	Ongoing basis	
	31 March 2022	30 September 2023
Assets	1.88	1.80
Liabilities		
– Active members	0.36	0.27
– Deferred pensioners	0.38	0.26
– Pensioners	0.73	0.59
Total liabilities	1.47	1.12
Surplus/(deficit)	0.41	0.68
Funding level	128%	160%
Required return assumption (% pa) for funding level to be 100%	3.4%	3.9%
Likelihood of assets achieving this return	81%	91%

1.2 Funding level range chart

The chart below shows how the funding level varies with the assumed rate of future investment returns, comparing the position at 31 March 2022 with the updated position at 30 September 2023 . The percentages next to each point show the likelihood of the investment strategy achieving that return (for further details see section 3.4). The solid coloured point indicates the assumed future investment return and funding level on the Ongoing basis.



1.3 Funding level progression

The chart below shows the estimated funding level (ratio of assets to liabilities) over time between 31 March 2022 and 30 September 2023. It allows for changes in market conditions and other factors described in Appendix A. If the fund has moved to a different basis since 31 March 2022 this may give rise to step changes in the funding level on the date of the change.

2 Next steps

2.1 Understanding the results

The results at 30 September 2023 in this report are estimates based on rolling forward the fund's funding position from 31 March 2022. You should understand the methodology and limitations of this approach described in appendices A and B.

Decisions should not be based solely on these results and your Hymans Robertson LLP consultant should be contacted to discuss any appropriate action before any is taken. Please also bear in mind that the information is estimated and consider other factors beyond the funding level or surplus/deficit. These could include, but are not limited to, changes to investment strategy, membership profile and covenant strength (where relevant).

Please get in touch with your usual Hymans Robertson contact if you wish to discuss the results in this report further.

3 Data and assumptions

3.1 Membership data

The membership data underlying the figures in this report was supplied by the fund for the purpose of the valuation at 31 March 2022 and is summarised below:

31 March 2022	Number	Average age	Accrued benefit (£k pa)	Payroll (£k pa)
Active members	3,930	53.5	24,900	148,947
Deferred pensioners	8,732	53.5	22,453	
Pensioners and dependants	6,517	69.4	48,427	

The membership is assumed to evolve over time in line with the demographic assumptions described in the Funding Strategy Statement. Please see Appendix A for details of the rollforward methodology which includes the estimated changes in membership data which have been allowed for.

3.2 Cashflows since the valuation at 31 March 2022

We have allowed for the following cashflows in estimating the assets and liabilities at 30 September 2023. Cashflows are assumed to be paid daily. Contributions are based on the estimated payroll, certified employer contributions (including any lump sum contributions) and the average employee contribution rate at 31 March 2022. Benefits paid are projections based on the membership at 31 March 2022.

Estimated cashflows (£k)	31 March 2022 to 30 September 2023
Employer contributions	41,374
Employee contributions	18,374
Benefits paid	90,547
Transfers in/(out)	0

3.3 Investment returns since the valuation at 31 March 2022

Investment returns are based on actual returns where available and index returns otherwise.

Investment strategy	Actual/index	From	To	Return
Whole fund	Actual	1 April 2022	30 September 2023	(2.44%)

The total investment return for the whole period is (2.44%).

3.4 Financial assumptions

The financial assumptions used to calculate the liabilities are detailed below. For further details please see the Funding Strategy Statement.

Assumption	31 March 2022	30 September 2023
Funding basis	Ongoing	Ongoing
Discount rate methodology	Expected returns on the Main Fund strategy over 20 years with a 67% likelihood	Expected returns on the Main Fund strategy over 20 years with a 67% likelihood
Discount rate (% pa)	4.8%	6.9%
Pension increase methodology	Expected CPI inflation over 20 years with a 50% likelihood	Expected CPI inflation over 20 years with a 50% likelihood
Pension increases (% pa)	2.7%	2.3%

Salary increases are assumed to be 1.0% pa above pension increases, plus an additional promotional salary scale.

3.5 Demographic assumptions

Demographic assumptions are set out in the Funding Strategy Statement. All demographic assumptions, including longevity assumptions, are the same as at the most recent valuation at 31 March 2022.

Life expectancies from age 65, based on the fund's membership data at 31 March 2022, are as follows. Non-pensioners are assumed to be aged 45 at that date.

	Ongoing basis	
Life expectancy from age 65 (years)	**Male**	**Female**
Pensioners	22.3	24.7
Non-pensioners	23.6	26.2

Appendix A - Technical information

A.1 Funding update methodology

The last formal valuation of the fund was carried out as at 31 March 2022. The results in this report are based on projecting the results of this valuation forward to 30 September 2023 using approximate methods. The rollforward allows for

- estimated cashflows over the period as described in section 3.2;
- investment returns over the period (estimated where appropriate) as described in section 3.3;
- changes in financial assumptions as described in section 3.4;
- estimated additional benefit accrual.

The CARE, deferred and pensioner liabilities at 30 September 2023 include a total adjustment of 7.2% to reflect the difference between actual September CPI inflation values (up to 30 September 2022) and the assumption made at 31 March 2022. The adjustment for each year’s actual inflation is applied from 31 October that year, cumulative with prior years’ adjustments, which may lead to step changes in the funding level progression chart.

In preparing the updated funding position at 30 September 2023 no allowance has been made for the effect of changes in the membership profile since 31 March 2022. The principal reason for this is that insufficient information is available to allow me to make any such adjustment. Significant membership movements, or any material difference between estimated inputs and actual ones, may affect the reliability of the results.The fund should consider whether any such factors mean that the rollforward approach may not be appropriate.

No allowance has been made for any early retirements or bulk transfers since 31 March 2022. There is also no allowance for any changes to Local Government Pension Scheme (LGPS) benefits except where noted in the formal valuation report or Funding Strategy Statement.

A.2 Sensitivity of results to assumptions

The results are particularly sensitive to the real discount rate assumption (the discount rate net of pension increases) and the assumptions made for future longevity.

If the real discount rate used to value the accrued liabilities was lower then the value placed on those liabilities would increase. For example, if the real discount rate at 30 September 2023 was 1.0% pa lower then the liabilities on the Ongoing basis at that date would increase by 16.7%.

In addition, the results are sensitive to unexpected changes in the rate of future longevity improvements. If life expectancies improve at a faster rate than allowed for in the assumptions then, again, a higher value would be placed on the liabilities. An increase in life expectancy of 1 year would increase the accrued liabilities by around 3-5%.

Appendix B - Reliances and limitations

The last formal valuation of the fund was carried out as at 31 March 2022 and these calculations rely upon the results of that valuation. The reliances and limitations that applied to that valuation apply equally to these results. The results of the valuation have been projected forward using approximate methods. The margin of error in these approximate methods increases as time goes by. The method may not be appropriate if there have been significant data changes since the previous formal valuation (for example redundancy exercises, significant unreduced early retirements, ill health retirements and bulk transfers). The methodology assumes that actual experience since the valuation at 31 March 2022 has been in line with our expectations.

The data used in this exercise is summarised in section 3. Data provided for the purposes of the formal valuation at 31 March 2022 was checked at the time for reasonableness and consistency with other sources. Data provided since then (eg actual investment returns) has been used as-is. The data is the responsibility of the Administering Authority and the results rely on the data.

The results in this schedule are based on calculations run on 24 October 2023 using the data set out in section 3. Any other factors coming to light after this report was prepared have not been allowed for and could affect the results. If any data has materially changed since 24 October 2023 the results could be materially different if they were recalculated.

Some financial assumptions may be based on projections from our Economic Scenario Service (ESS) model which is only calibrated at each monthend. Results between monthends use the latest available calibration, adjusted in line with the movement in market conditions. This adjustment is approximate and there may be step changes at monthend dates when a new ESS calibration is factored in.

The methodology underlying these calculations mean that the results should be treated as indicative only. The nature of the fund's investments means that the surplus or deficit identified in this report can vary significantly over short periods of time. This means that the results set out should not be taken as being applicable at any date other than the date shown.

As with all modelling, the results are dependent on the model itself, the calibration of the underlying model and the various approximations and estimations used. These processes involve an element of subjectivity and may be material depending on the context. No inferences should be drawn from these results other than those confirmed separately in writing by a consultant of Hymans Robertson LLP.

Decisions should not be based solely on these results and your Hymans Robertson LLP consultant should be contacted to discuss any appropriate action before any is taken. Hymans Robertson LLP accepts no liability if any decisions are based solely on these results or if any action is taken based solely on such results.

This report complies with the relevant Technical Actuarial Standards.

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**29 November 2023**
Classification:	**General Release**
Title:	**ESG Private Equity**
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 (the Fund) and this is a charge to the General Fund.**
Report of:	**Phil Triggs** ***Tri-Borough Director of Treasury and Pensions*** **ptrigs@westminster.gov.uk** **020 7641 4136**

1. EXECUTIVE SUMMARY

1.1 This paper summarises the attached Isio paper, shown in Appendix 1, on the ESG private equity asset class, including investment characteristics, an overview of market conditions and its suitability within the City of Westminster Pension Fund strategic asset allocation.

2. RECOMMENDATIONS

2.1 That the Pension Fund Committee:

- note the assessment, observations and recommendations in relation to ESG Private Equity as set out by Isio at Appendix 1.

3. BACKGROUND

3.1 Following the Pension Fund's investment strategy review at the 9 March 2023 committee meeting, the committee requested consideration of the ESG Private Equity asset class for the Fund's strategic asset allocation. This paper includes an overview of the Private Equity asset class, key investment characteristics and risks, an overview of market conditions and Isio's views on the attractiveness of private equity.

3.2 Private Equity is classified as ownership of a company that is not publicly listed or traded on a public stock exchange. In comparison to debt financing, equity returns are more variable, with profits generated used to repay debtholders first and residual profits flowing to equity holders. As private equity is traded infrequently, specialised expertise is needed to access this market, with generally four areas of investment: venture capital, distressed, development capital and management buy-outs or buy-ins.

3.3 Generally, private equity can be accessed either as a direct investment or through a pooled fund, with the following pooled investment types:

- **Open-ended:** the fund manager will create or redeem units in a private equity fund as demand to buy or sell units fluctuates.
- **Closed-ended:** the fund will raise commitments from investors for the entire duration of the fund cycle, and cash will be redistributed to investors as the fund matures.
- **Listed Fund:** investment via publicly listed companies that invest in private companies.
- **Fund of Funds:** diversifying across a range of private equity asset managers.

3.4 Generally the asset class carries a higher level of risk than traditional asset classes. However, private equity is expected to provide additional returns to compensate for bearing this risk. The key investment characteristics and risks of the asset class are set out as follows:

- **Illiquidity risk:** as private equity is infrequently traded, it is difficult to move out of without selling at a significant discount.
- **Small Company risk:** private companies are generally smaller or less developed than those listed on an exchange. Therefore, they tend to have more volatile returns and a higher risk of bankruptcy.
- **Equity risk:** private companies are exposed to the same economic conditions as their listed counterparts, and only receive profits after debtholders have been repaid.

- **Active Management opportunities:** opportunity to generate value in poorly performing companies by improving their efficiency.

- **Aligned Incentives:** private companies avoid the public shareholder pressure.

- **Leverage:** private companies typically rely more heavily on debt financing.

- **Investability:** there can be significant variation between performance of private equity funds, thus manager selection is key.

- **Equity Correlation:** historically the asset class is strongly correlated to listed equity, thus shouldn't be considered as a diversifying asset.

- **Pricing:** this is less reliable as there is no listed market price for comparison.

3.5 Within Appendix 1, Isio sets out how ESG can be integrated into the private equity asset class, with a particular focus on impact investment. Investments are typically aligned with UN Sustainable Development Goals (SDGs), and have focus on stewardship priorities and Key Performance Indicators (KPIs) linked to ESG objectives. However, the number of propositions available in the market is fairly restricted, with Isio believing more attractive ESG investment opportunities are available elsewhere.

3.6 During July 2023, the LGPS Consultation was released by the Department for Levelling Up, Housing and Communities (DLUHC), seeking views on proposals relating to the investments of the LGPS. This included a proposal to allocate 10% of assets into high growth private equity schemes. There is expected to be some delay until the results of the consultation are known, and it is anticipated that there will be significant pushback against some of those proposals, including mandating a 10% private equity allocation.

4. STRATEGIC ASSET ALLOCATION AND MARKET CONDITIONS

4.1 The Pension Fund's latest actuarial valuation took place on 31 March 2022, with the funding level rising to 128% from 75% at 31 March 2013. Much of this increase in funding level has been as a result of excellent investment returns, alongside very significant deficit recovery payments made by the Council, as set out in the following table. Westminster City Council paid off its employer deficit during the financial year 2021/22, with circa £200m committed in deficit payments in the previous nine years.

4.2 Any further investment risk taken could erode into this surplus position that the Council has generated over recent years with its own cash reserves.

Date	Amount (£m)
2014/15	6.0
2015/16	7.5
2016/17	9.0
2017/18	20.5
2018/19	24.5
2019/20	28.5
2020/21	22.7
2021/22	80.0
Total	**198.7**

4.3 The Fund's most recent investment strategy review was undertaken during March 2023, with the funding level at 144% and rising to 160% at 30 September 2023. Given this strong funding position, the Fund took steps to reduce the overall risk profile of the Pension Fund, while still achieving a return in excess of the actuarial discount rate. It was agreed by the Committee to reduce the equity allocation by 5% with a 5% increase in renewable energy infrastructure, as well as appoint a UK residential housing manager to deploy the remaining 2.5% allocation to affordable housing.

4.4 At the time of the investment review, private equity was considered. However, as it did not meet the key objective of reducing investment risk and volatility, it was not included within the strategic asset allocation. It should be noted that the underlying objective of the Fund is to ensure member benefits are paid as they full due, with this key objective forming the basis of the fiduciary duty of the Pension Fund Committee. The updated investment strategy takes these key investment principles into consideration with the aim of protecting the Fund's ability to meet member benefits going forward.

4.5 Under current market conditions, capital raised within the private equity asset class has continued to soften over the previous 12 months, with investor interest cooling. In addition, pricing within the buy-out market remains elevated, and private equity buyout deal pricing has steadily drifted upwards over the last seven years. The deal volume and value has continued to trend downwards, with smaller add on deals making up an increasing proportion of the market. The exit market also remains relatively subdued, with holding periods continuing to trend upwards.

4.6 Private equity faces a more uncertain environment, with fast paced changes in interest rates having made a significant impact on the sector, with a higher cost of debt financing. Therefore, the short to medium outlook for the asset class is uncertain, with a number of challenges to navigate in generating future returns. Although private equity funds have performed well in past years, Isio does not anticipate future performance to be as strong under current market conditions.

5. RECOMMENDATIONS AND NEXT STEPS

5.1 Following this evaluation of ESG Private Equity, Isio have set out the following views and recommendations for the Committee to consider:

- Given the strong funding level of the Pension Fund, Isio does not believe the Committee needs to generate investment returns above the position formally agreed at the investment strategy review.

- Under the current market conditions and, given the limited ESG opportunities within the private equity asset class, Isio does not believe an allocation to private equity is aligned to the direction of travel of the Fund's investment strategy.

- Until there is greater clarity on the LGPS consultation outcomes, Isio would not encourage a new allocation into private equity. Any retrospective changes to the asset class may result in costly restructuring further down the line, if the Fund were to be over/under exposed.

5.2 The Committee is recommended to revisit the ESG private equity asset class, once there has been formal communication from the DLUHC on the LGPS consultation and the level of ESG integration within the market is sufficiently developed.

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: Isio ESG Private Equity Review and Considerations

City of Westminster Pension Fund

ESG Private Equity – Review and Considerations

November 2023

isio.

Introduction and Background

Introduction

- This paper has been prepared for the Pension Fund Committee (the "Committee") of the City of Westminster Pension Fund (the "Fund"). The purpose of this paper is to provide:
    - An overview of Private Equity at an asset class level including the investment characteristics;
    - A summary of how ESG can be implemented in Private Equity and how this compares to other asset classes;
    - A view on how Private Equity might fit into the Fund's strategic target asset allocation and anticipated direction of travel for investments going forward;
    - An overview of market conditions and our views on the current attractiveness of Private Equity relative to other private market asset classes; and
    - Our views and anticipated impact of the ongoing LGPS consultation.

Page 164

Background

- We presented our investment strategy review to the Committee at the 9 March 2023 Pension Fund Committee Meeting. At the meeting the Committee discussed the merits of moving 5% of the public equity allocation to fixed income, as well as a wider rebalance of the total portfolio.
- While the premise of this asset allocation change was to reduce the overall investment risk profile (and expected return) of the Fund, the Committee also discussed the merits of moving some of the listed public equity mandate to private equity over the near term to act as a balance, This would be a new area of investment for the Fund and the Committee.

Background (cont.)

- The reasoning behind this consideration by the Committee was the opposing view that the strong funding position achieved by the Fund, and the surplus built up, represented an opportunity to take on a higher level of investment risk (via asset classes such as Private Equity) and further drive returns.
- Subsequently, at the 29 June 2023 Pension Fund Committee Meeting , the Committee considered the merits of Renewable Energy Infrastructure as a "compromise" between the relatively lower risk profile of fixed income and relative higher return profile of Private Equity, with strong impact characteristics and strong cashflows and agreed to invest an additional 5% to the existing Renewable Energy Infrastructure mandate held with Quinbrook.
- At the time, it was highlighted that our recommendations were not a "set and forget" strategy, rather the Fund's strategic allocations can and should be considered on a relatively ongoing basis.
- The Committee agreed they would still like to consider the merits of Private Equity on a standalone basis further, which is the purpose of this paper.

Private Equity – Asset Class Overview

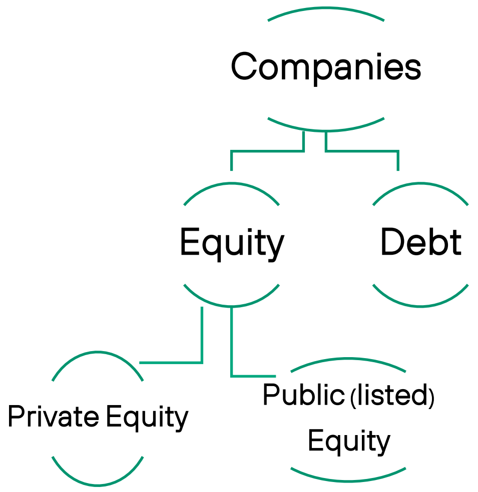
Page 165

isio.

What is Private Equity?

Private Equity As An Asset Class

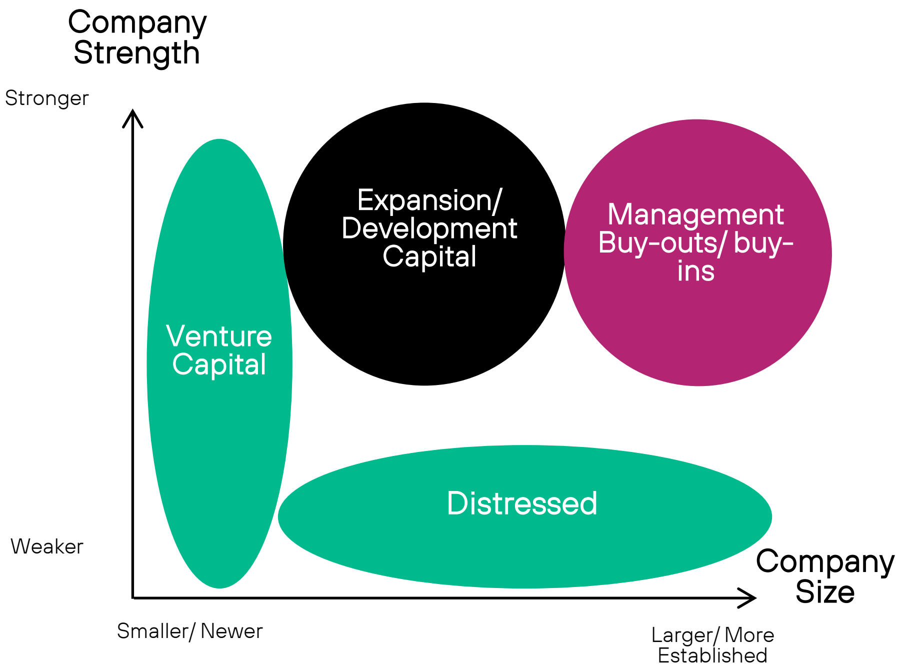
- Companies are funded by debt and equity. Profit generated by the company is first used to pay back debt, with residual profits flowing to equity holders. As such, equity returns are more variable and are considered higher risk (and have higher expected returns) when compared to debt.
- Equity can be traded on a public market, such as the London Stock Exchange, in which case the equity is 'public' (or 'listed'). If the equity of a particular company is not listed on a stock exchange, it is considered 'private' equity.
- As private equity is not frequently traded, special expertise is needed to access the equity of these private companies.
- Private equity funds will generally specialise in purchasing the equity of a particular type of private company, with different drivers of returns. These styles include:
    - Venture capital/ early stage
    - Distressed
    - Expansion/ Development Capital
    - Management buy-outs/ buy-ins
- Further information in relation to these styles is given on the next page.



Investment Styles

Investment Styles

- The indicative ‘type’ of company these different styles of private equity firms invest in (by size and strength) is shown in the chart and description below:
- **Venture capital/early stage** – venture capital/early-stage companies are usually formed around one concept which remains to be proven. They often operate in high-tech industries, and by their nature are the most risky form of private equity.
- **Distressed** – a broad category referring to investments in equity or debt securities of financially stressed companies. It could be an investor acquiring debt securities with a view to gaining control of the company’s equity following a corporate restructuring or equally the provision of debt and equity investments to companies undergoing financial or operational challenges.
- **Expansion/development capital** - expansion/development capital is provided to existing private companies to help them grow. They are often family-owned businesses that are not yet ready for flotation and cannot raise the necessary funds from their bankers. They are less risky than venture capital because they have a trading history.
- **Management buy-outs/buy-ins** - management buy-outs/buy-ins (MBOs/MBIs) usually involve separating an existing business unit away from a larger parent company. When the existing management of the company remains in place, the deal is called an MBO. An MBI involves outsiders being imported to replace the old management. MBOs and MBIs are usually the least risky type of private equity as they involve existing businesses, and often the main change is simply restructuring the ownership of the business.



Investment Characteristics

Investment Characteristics

- Generally, asset classes with a higher level of risk are expected to outperform safer asset classes over the long run, compensating investors for bearing this risk.
- Private equity is considered a high risk / high return asset class and is therefore a good fit to form part of a high growth-orientated, long term investment strategy for investors able to tolerate the illiquidity and volatility..
- We have outlined the key investment characteristics and key risks associated with the asset class below:
  - **Illiquidity risk** – given private equity is rarely traded, it is difficult to move out of a private equity investment quickly without selling at a substantial discount. In comparison to other market participants, the Fund is well placed to take illiquidity risk as it is immature and has a significant active membership, giving it a long term time horizon.
  - **Small company risk** – private companies are often smaller or less developed than their listed counterparts, particularly in the case of venture capital. Smaller companies tend to have more volatile earnings and a higher risk of bankruptcy than more established companies, and as a result of this higher risk these companies are expected to deliver higher returns in the long run (the private market counterpart to the ‘small cap premium’ seen in listed equity).
  - **Equity risk** – although private equity is not listed and, as such, is not directly exposed to market movements, the underlying companies will be operating in the same economic conditions and industries as their listed counterparts. Additionally, given the equity of these companies will receive profits only after debtholders have been repaid, returns to equity holders will be volatile. As a result, over the long run equity returns are expected to be higher than the less variable debt returns to compensate for this risk.

Investment Characteristics (cont.)

- **Active management opportunities** – private equity funds have experience in working with private companies, and in some cases look to generate value by restructuring poorly performing companies to improve their efficiency.
- **Aligned incentives** – private companies avoid public shareholder pressure, which could lead to principal-agent problems and a focus on quarterly performance over long term sustainable growth.

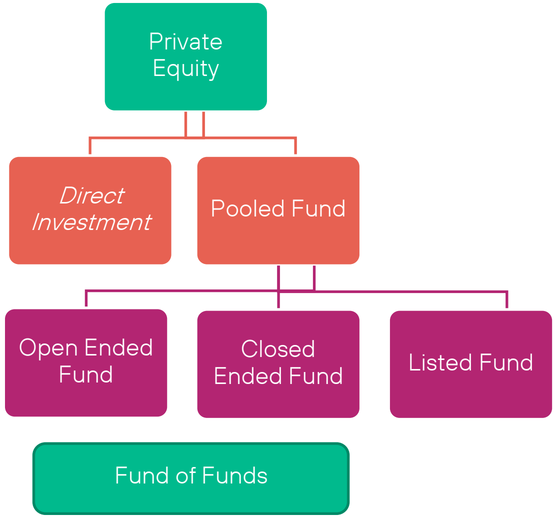
Further Considerations

- **Leverage** – private companies typically rely more heavily on debt financing, increasing the variability of private equity returns and the potential for bankruptcy. Symmetrically, this use of leverage will magnify equity returns when the underlying company performs strongly.
- **Investability** – there is significant variation between the performance of private equity funds set up in different years (different ‘vintages’) and within the same year. As such, it is very important to pick the right manager, and conversely, choosing a weak manager will have a long-term detrimental impact on returns even if private equity performs well as a whole.
- **Equity correlation** – historically, private equity has been strongly correlated with listed equity. As such, they should not be considered a diversifying asset within a portfolio containing listed equity.
- **Pricing** – given there is no listed market price for private equity, pricing will be less reliable and more subjective in comparison to listed companies.

Asset Class Access (1)

Accessing Private Equity

- Investing in private equity can either be as a direct investment, or through a pooled fund, as shown in the chart below. The Fund (as with the vast majority of pension schemes) does not have the scale or governance budget to meaningfully invest directly. As such, we will focus on the different types of pooled investments the Fund could utilise.



Page 169

Open-Ended Fund

- The equity fund manager will create or redeem units in a private equity fund as demand to buy or sell units fluctuates. These units are then bought or sold at the unit price (offer for purchasers or bid for sellers) at the time of the transaction. This allows investors to enter and exit the fund over the course of the fund cycle, although this process can take a number of months, this delay would become more pronounced in periods of market stress.

Closed-Ended Fund

- Initially, this fund will raise commitments from investors for the entire duration of the fund cycle, and will then draw down on these commitments over time to purchase assets. As the fund matures, cash will be redistributed to the original investors.
- This approach avoids dilution of the returns of profitable investments, but commits investors to the full lifecycle of the fund (typically c. 10 years). Additionally, commitments will only be invested for a portion of the time capital is committed due to the delay in drawing down funds.

Listed Fund

- Listed private equity funds are publicly owned companies that invest in private ones – they are a subset of closed ended funds. It is therefore possible for schemes to invest in these listed companies to gain exposure to the private equity market.
- The key drawback of this approach is that by being listed on the stock markets, the market value of such funds tend to take on an even greater correlation to other listed equities than is already the case for private equity. This can make such funds far less attractive as an investment to sit alongside a traditional equity investment portfolio.

Fund of Funds

- This approach will look to circumvent the risk of picking a weak private equity manager by diversifying across a range of different funds. This has the advantage of delegating fund selection choice to a manager with specific expertise in the sector, which can lead to a better overall exposure. The key drawback of the approach is the multiple layer of fees, paid first to the underlying private equity managers and then to the fund-of-funds manager.

Asset Class Access (2)

- In the table below we provide a comparison of the key benefits and drawbacks of the various access routes for the asset class.

Access	Key benefits	Key drawbacks
Open-ended Fund	Better liquidity Faster route to investment	Portfolio diluted as more units created Potential for other investors to exit early
Closed-ended Fund	Exposure to PE lifecycle Other investors can't leave early	Less liquid Not fully invested throughout cycle
Listed Private Equity	Potential better liquidity Regulation	Higher costs Equity correlation
Fund of Funds	Diversifies the risk of poor investment management choices Usually open ended	Additional layer of fees

ESG Implementation in Private Equity

Page 171

What does ‘good in ESG’ look like across Equity Investment?

Asset Class	Investment Approach/Framework	Risk Management	Voting & Engagement	Reporting	Collaboration
Private Equity	– As is the case for other actively managed asset classes, ESG integration into the investment approach of private equity managers is crucial. – Positive traits would typically include: use of an ESG scorecard, integrating quantitative KPIs and objectives, integration into due diligence; and clear evidence of ESG factors directly impacting decision making.	– Integration of strong ESG processes into risk management is as important in private as in public markets. – Positive characteristics include: use of multiple data providers with raw data that feeds into scoring and risk management; and using scenario analysis as part of a risk management framework (including climate)	– Voting is typically not applicable (unlike public equity). – Active ownership is crucial to managing ESG risks; managers will often own a majority stake in the firm (with control of the board) and are very well placed to drive positive change, relative to public asset holders (who are typically minority shareholders).	– Private equity firms are not mandated to report; as a result data quality and transparency is expected to be lower than public markets. – Active ownership required to fully understand ESG risks within the portfolio and encourage reporting where possible, while using multiple data providers and proxies to fill gaps.	– Similar to other asset classes; we believe managers should demonstrate collaboration with industry bodies and initiatives specifically focussed on alternative asset classes (including private equity).
Impact Private Equity	– Typically, investments are aligned to UN SDGs or impact objectives (for example Net Zero) – such as investing directly in solution providers. – Quantitative KPIs are generally set at deal level.	– Same as above	– Same as above, however there is more focus on alignment of impact objectives with stewardship priorities.	– Reporting is against set objectives and KPIs. – Investor fees can be linked to impact KPIs, to generate incentives which are aligned to funds’ ESG objectives.	– Same as above
Active Public Equity	– We look for similar integration into the investment process; however, there is expected to be more reliance on publicly reported data and information.	– There is less need for multiple data providers as data is publicly available and provided from source (albeit divergence between providers remains common).	- Managers can influence companies via voting and engagement; albeit the scope for change is smaller than in private markets. - Managers should utilise proxy voting providers, and should engage with firms on their stewardship priorities.	– There is typically higher data quality / transparency given firms are required to publicly disclose more information.	- Same as above

Key Characteristics of Impact Private Equity

Summary

- Private Equity is well placed to generate 'impact', given its detailed active approach to bottom-up deal due diligence, as well as the ownership structure of most PE investments (i.e., funds will typically hold majority stakes in underlying companies, with control of the board allowing significant influence over the direction of the underlying business including decisions in relation to ESG). Majority stakes are much less common in earlier stage PE (i.e., Venture or Growth investing); however, ownership share remains significantly higher than what is typical in public markets. Furthermore, PE funds are typically smaller than public market equivalents, allowing managers the scope to be truly 'active owners'.
- There are different approaches to Impact PE: some managers have a clear focus on climate or Net Zero; whereas others have adopted a broader impact approach (typically using the UN SDGs as a framework). Typically, managers can categorise an impact-suitable firm using proportion of revenue attributed to providing a solution or product that achieves a particular goal/s (see below).
- These approaches integrate specific environmental and/or social impact objectives alongside more traditional financial (risk/return) objectives, in equal importance, with quantitative KPIs set and monitored against at fund and deal levels. We have also seen a number of managers link a portion of incentive fee to meeting impact-based KPIs.

Broad Impact Private Equity Approach

- This approach looks to identify businesses which provide products and / or solutions which are aligned (from a revenue perspective) to a number of UN SDGs (both social and environmental) which are key priority areas for the fund, with the objective of aiding in achieving one or more of these global goals. For example, social housing, infrastructure, healthcare and financial inclusion.

Net Zero / Climate Transition Private Equity Approach

- We have seen a few impact private equity approaches with a specific focus on climate transition; these funds invest in firms providing solutions to the climate emergency (including technologies and projects) and which aid in the Net Zero transition, across both mitigation and adaptation. For example, renewables, afforestation projects, and climate technologies.

Sustainable Development Goals ('SDGs')

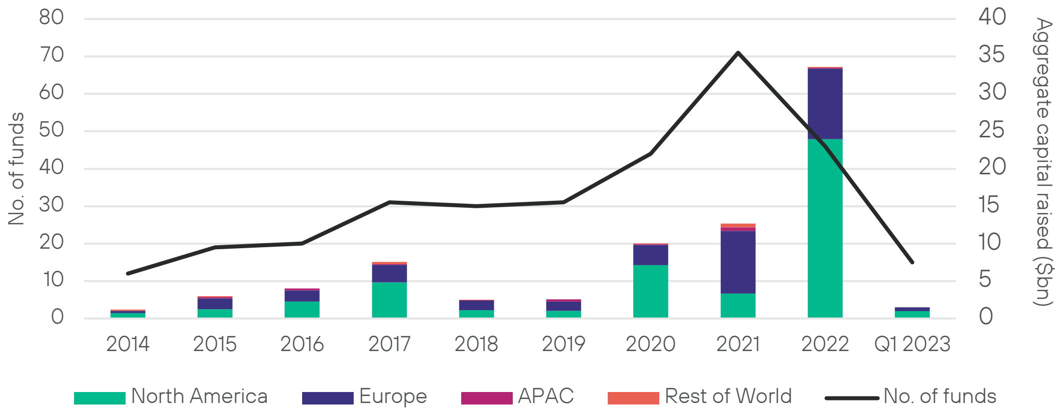
Investing in private firms that provide solutions to one or several of the United Nations' SDGs.

Net Zero

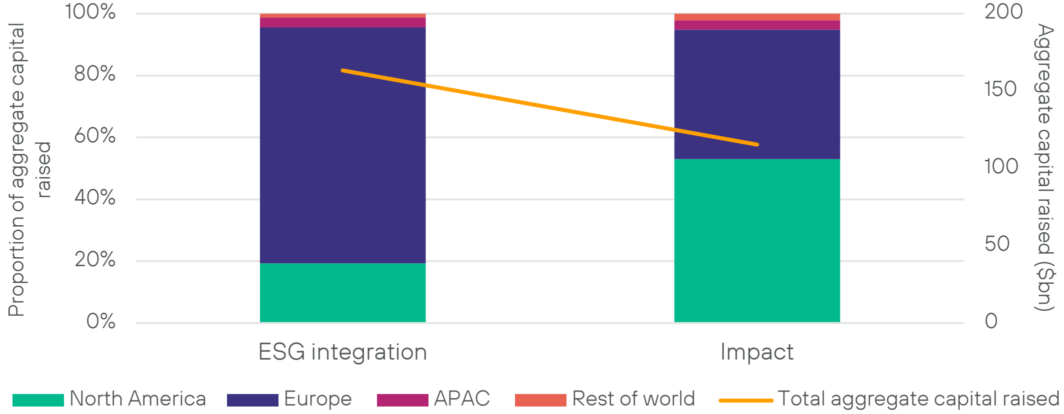
Investing in private firms that provide products and solutions (e.g. technology) which aid in the Net Zero transition (mitigation as well as adaptation).

Impact Private Markets

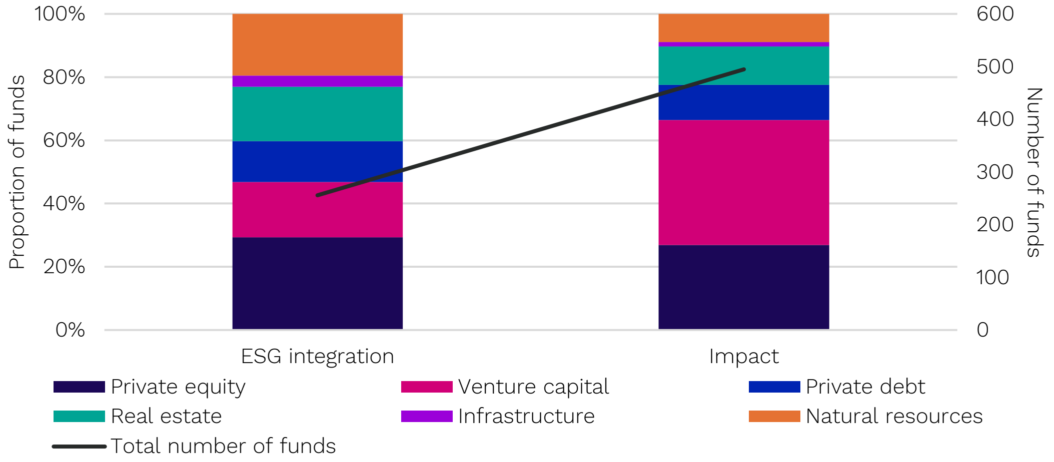
Impact fundraising by region and year



Impact vs ESG funds closed by region, vintages 2013-2023



Impact vs ESG funds closed by asset class, vintages 2013-23



- Private market impact fund volume has trended upwards over recent years, with capital raised spiking in 2022, as several large funds closed. Private market impact investing remains North America and Europe-centric.
- Impact funds skew to venture capital (and private equity), while funds with broader and less stringent ESG integration are more dispersed across alternatives. Venture Capital lends itself well to impact investing, given its focus on small, fast-growing companies, which often offer a new or innovative product or service relative to the market.
- The impact market remains very small compared to the private market universe, with global PE fundraising alone topping $625bn in 2022. The opportunity set for impact investing is clearly much smaller than that of traditional PE funds; however, this is also reflected in fewer managers competing for deals. Whilst still early days, and current options remain limited, we expect that the scale of private market impact investing will continue to grow, with tailwinds from institutional investors and regulation.

Data source: Preqin; data as of May 2023

Strategic Asset Allocation

Page 175

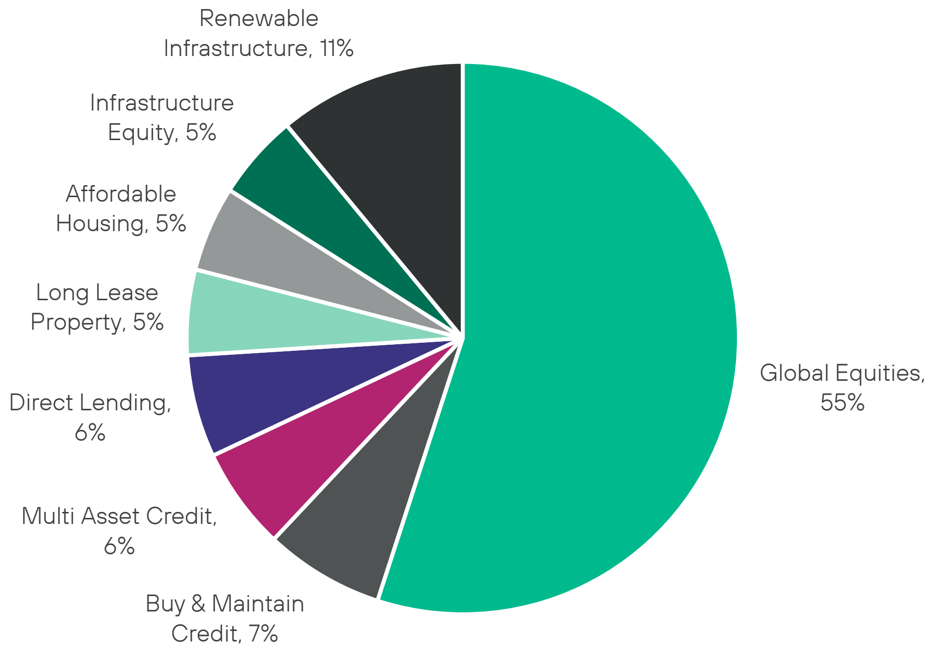
Strategic Asset Allocation (1)

Funding Position

- The Fund recently undertook a formal investment strategy review. This was concluded in March 2023 following the results of the actuarial valuation, which indicated a very strong funding position of c. 144% had been achieved as at 31 March 2023. Given market conditions since then we anticipate that the funding position will have improved further, standing at c. 161% as at 30 June 2023.

Results of Investment Strategy Review

- In the context of this strong funding position, the results of the investment strategy indicated there was scope to reduce the risk profile of the Fund whilst still targeting sufficient return to satisfy the actuarial basis set at the 2022 valuation point. As such, we presented and discussed with the Committee a range of investment strategies which slightly reduced investment risk. These options were cognisant of the fact the Fund remains open to accrual and new members, operates with a long-term investment horizon, and is looking to balance the ongoing costs of the Fund with investment returns.
- The Committee discussed the investment strategy analysis and agreed to target an updated asset allocation which, compared to the current target, reduced the equity allocation by 5% and increased the allocation to renewable energy infrastructure by 5%. The target strategy also required an additional 2.5% deployment into UK Residential Housing to bring this allocation up to target.
- Our analysis showed that the impact of these strategic changes would maintain the overall return of the Fund's portfolio (estimated to be 6.8% p.a. at the time of the analysis) whilst lowering the investment risk profile of the assets by c. 7% (based on expected volatility of returns).
- The agreed target asset allocation is shown to the right.



Strategic Asset Allocation (2)

Current and Agreed Strategic Allocation to Private Equity

- Neither the current asset allocation, nor the agreed target have an allocation to Private Equity as an asset class. An investment strategy with an allocation to Private Equity was considered at the time of the review, but was discounted primarily as it was shown to increase overall investment risk and therefore does not align with the primary objective of reducing projected funding level volatility. As such the Fund does not currently have a target allocation to the asset class.

Strategic Characteristics of Private Equity

- While the Fund's current public equity allocation invests in a portfolio of listed exchange-traded companies, as noted earlier in this report, private equity funds invest in private or unquoted companies that are not subject to the same rigorous rules and regulations of an exchange. Private equity funds are therefore expected to deliver returns that are relatively uncorrelated with traditional equity markets (although have similar underlying return drivers but are valued differently and so the return profiles of the two asset classes differ).
- **However, private equity managers are actively taking on increased investment risk in search of higher investment returns, relative to public markets. This is contrary to the agreed direction of travel of the investment strategy review, whereby it was agreed to seek a reduced level of expected investment return in return for a reduction in the investment portfolio's risk position and, correspondingly, a reduction in projected funding level volatility.**
- Finally, our approach to investment philosophy places an emphasis of asset classes which have increased certainty and stability in their return profile (for example asset classes which offer contractual income over appreciation). **This would lead us to prefer asset classes such as infrastructure equity or private debt ahead of private equity given the investment characteristics they offer. We believe the current market environment dynamics are also supportive of our philosophy with attractive risk adjusted returns currently available in these asset classes. These views are aligned to the recent allocations made by the Fund.**

Page 177

Reminder: Why De-Risk?

- The ultimate objective of the Fund is to ensure all members' benefits are secure and can be met as they fall due. This forms the basis of the fiduciary duty of the Pension Fund Committee.
- Typically, in the case where a pension fund is not fully funded, this requires an investment strategy to take sufficient risk in order to target an investment return to help repair the deficit. As the funding position improves, pension funds will typically reduce risk from the investment strategy by reducing the allocation to volatile asset classes to increase the security of the funding position and reduce the likelihood of a deficit opening up again via adverse market conditions.
- For pension funds that are still open to new members such as the Fund, there needs to be a certain level of return (and therefore risk) maintained to align with the newer active members' accrual, while still being conscious of maintaining a positive funding position as this is effectively the measure that shows the Fund is able to meet members' benefits. This can be achieved by ensuring that the investment portfolio targets an expected return with a suitable margin over the Actuary's required return, but with investment risk managed to reduce the funding level volatility. Seeking to increase overall investment risk at this stage would run counter to this approach and act to increase the likelihood that the funding gains and corresponding surplus achieved over recent years could be wiped out should investment markets move against the Fund.
- The updated strategic asset allocation following our investment strategy review took into account these key investment principles and is expected to act to protect the Fund and its ability to meet members' benefits going forward.

Current Market Environment

Current Market Conditions (1)

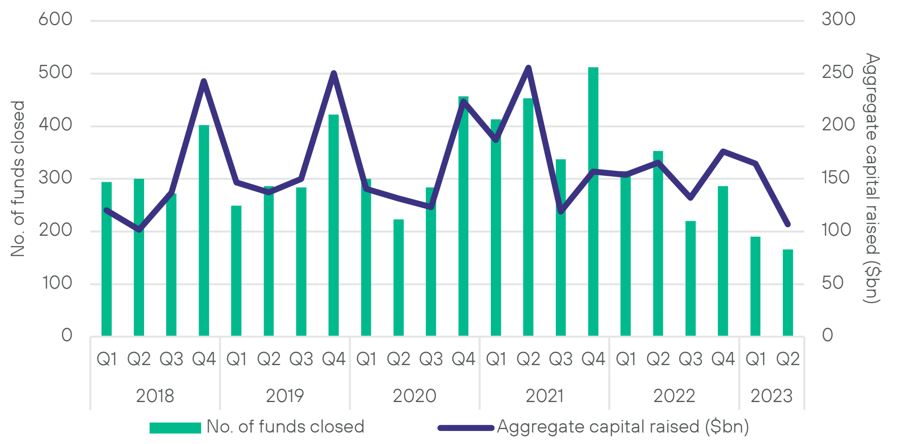
In this section we discuss the current Private Equity market environment.

Capital raised has continued to fall over recent quarters, with LP interest in the asset class cooling.

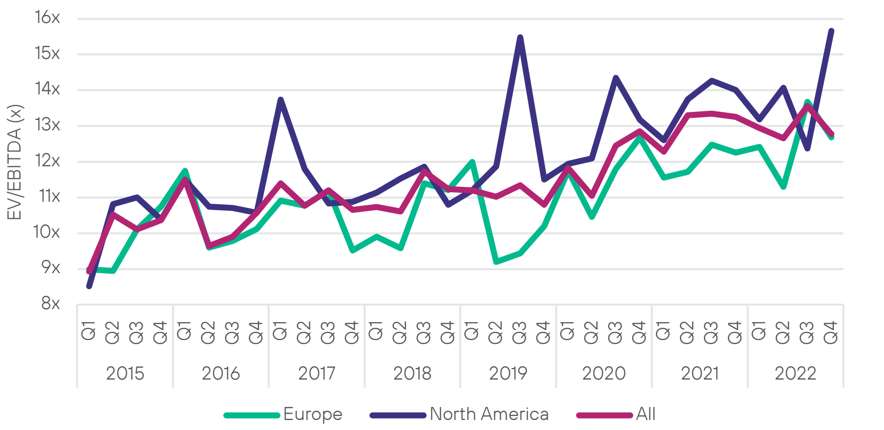
Buyout deal pricing remains elevated relative to historical data, particularly in North America.

Page 179

PE Fundraising[1]



PE Buyout Deal Multiples[1]



Fundraising

- PE fundraising has softened over the last 12 months, with $107bn raised and 166 funds closed in Q2, down from $165bn and 353 respectively a year earlier. The fundraising decline has been particularly prevalent in North America, with $72bn raised in Q2, a fall from $133bn in Q2 2022; as a result, Europe ($29bn) and APAC ($6bn) fundraising proportionally rose to c. 33% of the global market [1].
- We believe investor decisions continue to be driven by the 'denominator effect', with equity markets languishing below their 2022 highs and rising gilt yields continuing to push fixed income values down. Additionally, concerns appear to be growing around the short to medium term prospects for PE, with GPs having to deal with a high interest rate environment which is very different from the post-financial crisis era. With that in mind, investors may be increasingly pausing to observe how the market develops in the short term.

Pricing

- As shown above, PE buyout deal pricing has steadily drifted upwards over the last 7 years, albeit having remained broadly flat over the last 12 months; while quarter-on-quarter spikes should be ignored, given the outsized impact of particularly large mega deals on average, it is possible that the ongoing significant supply of private capital has underpinned the medium term upward trend [1] (though it should be noted that public market valuations have also trended upwards over the last decade). Deals in North America continue to command a premium relative to those in Europe, primarily due to the higher proportion of fast-growing technology firms in the region [1].
- As dry powder starts to tick down, and private markets begin to adjust to the new interest rate environment, we might expect to see multiples moderate over the short to medium term.

Source 1: Preqin

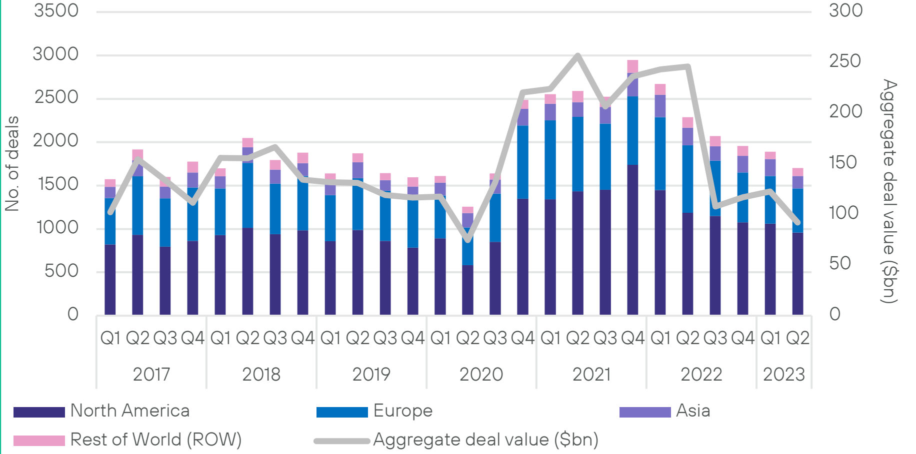
Current Market Conditions (2)

Deal activity continued to trend downwards, with smaller add-on deals making up an increasing proportion of the market.

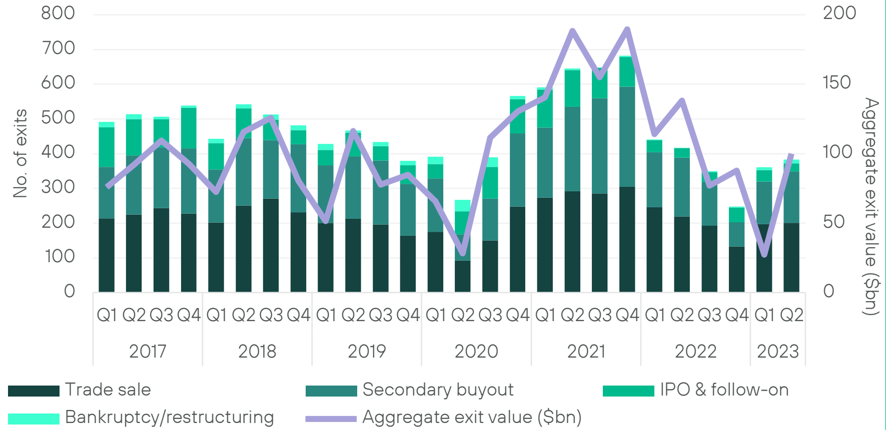
Exit activity remains extremely subdued relative to history, as holding periods continue to tick upwards.

Page 180

Number and value of Buyout Deals[1]



Exit activity by type of sale[1]



Deal activity

- Deal volume and value has continued to trend downwards, in what has been a consistent theme across all regions, as inflation remains entrenched, monetary conditions remain tight relative to recent history, and the immediate prospects for PE continue to be uncertain.
- Pitchbook note that the average debt to enterprise value ratio on US leveraged buyout deals was 43% through the first half of 2023; this compares to 51% in 2022, and a five-year average of 52%. With dealmakers increasingly focussed on interest coverage ratios, in a high-rate environment, it is unsurprising that headline level leverage levels have begun to fall [2].
- In what is a difficult environment, GPs have increasingly turned to smaller 'add-on' deals, which can often be financed using old credit facilities and / or Net Asset Value financing. The proportion of add-ons grew to nearly 80% of all US buyouts over the period [2].

Exits

- The exit market activity remains muted, with six consecutive quarters of volume and value below 2021's equivalent figures; however, Q2 saw initial signs of an uptick, with the $100bn in exit value up significantly from Q1's $27bn. This may be partly driven by the impact of the public markets which, while still below highs, have stabilised in 2023.
- The US exit / investment ratio fell to 0.32x in Q2 2023 [2]; this compares to a relatively steady ratio of between 0.50x and 0.55x between 2013 and 2018. Average holding periods continue to grow, with GPs unable or unwilling to sell holdings at current exit market valuations.
- US exits to corporate buyers accounted for a record 65% of exit value in Q2, and are on track for an all-time high annual proportion [2]. There was particularly notable activity in the energy sector, with industry participants pushing consolidation, and continuing drive towards the green energy transition [2].

Source 1: Q2 2023 Preqin Private Equity Update;
Source 2: Q2 2023 PitchBook US PE Breakdown

Current Market Conditions (3)

Outlook

- Having enjoyed a buoyant environment for fundraising, dealmaking and fund returns through the post-financial crisis decade, PE now faces a more uncertain environment. Rising short and long-term interest rates have had a significant impact on the industry, with higher cost of debt financing eroding the financial positions of existing portfolio companies, and also reducing prospective fund-level returns looking forward.
- In light of the 2022 sell-off in public markets, PE firms have increasingly struggled to raise capital, with LPs continuing to be impacted by the 'denominator effect'. This has been compounded by a fall in distributions from existing holdings, as General partners ('GPs') are either unable or unwilling to realise investments at current market valuations. As such, availability of capital for GPs has fallen, and is expected to continue to do so in the near future.
- To combat this environment, we have seen GPs adopt several relatively alternative tactics. These include: turning to NAV financing to support or grow portfolios; having portfolio companies increasingly utilise 'payment-in-kind' debt which defers interest payments into the future; and using 'continuation funds' to maintain ownership of strongly performing assets.
- Against this backdrop, the short to medium term outlook for the asset class is uncertain, with GPs having to navigate a number of potential headwinds to future returns. In this environment, we believe that GPs who have abundant access to capital, are selective with deals, and have the expertise to generate operational improvements, are well placed to outperform in this market.

DLUCH LGPS Consultation – Next Steps on Investment

isio.

DLUCH Consultation Considerations

DLUCH LGPS Consultation

- In July 2023, via the Mansion House speech, the UK government indicated its intention to implement a series of reforms targeted at the LGPS and also the broader pensions market. Subsequently, a consultation was launched by DLUCH to gather the views of key stakeholders who would be impacted by the proposed changes. This consultation period is now closed and we are awaiting the results.
- The consultation sought views in five key areas:
    - Proposals to accelerate and expand asset pooling;
    - An allocation of 5% of assets to support levelling up in the UK;
    - **An allocation of 10% of assets into high growth private equity companies in the UK;**
    - An amendment to the LGPS regulations to implement a requirement for pension funds to assess their investment consultants as laid out by the Competition and Markets Authority order; and
    - A technical change to the definitions of investment in the LGPS regulations.
- This introduces significant uncertainty to the regulatory environment the Fund could soon be operating in.

Page 183

Private Equity in the Consultation

- As noted above the allocation to private equity is a key aspect of the ongoing consultation. We expect there to be some delay until the results of the consultation are known and significant push back on certain aspects of the consultation can be expected, including the UK Private Equity allocation given the strong overall funding position of LGPS funds and current market dynamics.
- If the government proposals are legislated, LGPS funds will be required to allocate 10% of total assets to private equity, and within that, a subset of the market with a significant bias to the UK. It remains unclear exactly what the outcome and impact of this will be.
- **As such, all else being equal, we would not advocate any new allocations to private equity until there is greater clarity on the regulatory environment. This would avoid any duplication of exposure, over exposure, or the need for potentially costly restructuring further down the line.**

Summary and Next Steps

Page 184

Summary, Isio View and Next Steps

Summary

- This paper provides an overview of Private Equity, its investment and ESG characteristics, and a summary of where it could fit in the portfolio. The key elements of this overview show:
    - Private Equity can be expected to be a high return and high risk allocation;
    - Implementation routes are typically more expensive and opaque compared to other asset classes the Fund invests in – this is reflective of the higher expected return profile but also the underlying structure of the market;
    - Although there are a number of "ESG Impact" Private Equity propositions available in the market, with an expectation more will develop in the coming years, we believe a focus on ESG implementation in the asset class could overly restrict implementation, and more attractive ESG characteristics are currently available elsewhere e.g. Renewable Energy Infrastructure and UK Affordable Housing.
    - Private Equity funds have performed very strongly in recent years, in tandem with strong returns of public market equities. We do not anticipate future performance to be as strong, given current macroeconomic and fund raising conditions, and we also believe current market dynamics favour other areas of private market investments e.g. infrastructure and private credit.
    - The live DLUCH LGPS Consultation has increased uncertainty surrounding the future investment environment for LGPS, with Private Equity specifically addressed in the consultation, with the potential for LGPS to be required to allocate 10% of their total assets in UK Private Equity at some point in the future.

Page 185

Isio View

- Given the strong Funding position of the Fund we do not believe the Committee needs to drive investment returns beyond the position agreed upon earlier this year when the investment strategy was formally reviewed, and updated strategic asset allocation agreed.
- This, combined with the specific investment characteristics of Private Equity, limited ESG impact of the asset class and current market conditions means we do not see an allocation to Private Equity naturally aligned to the "direction of travel" of the investment strategy.
- The DLUCH LGPS Consultation may mandate an allocation to the asset class in future but to what extent and the timing of any required allocation is unclear. We believe it would be sensible to observe how this develops ahead of making any allocations to the asset class at this time.
- **On balance, we do not believe this should be a priority for the Committee now, but propose a further assessment of the suitability of an allocation once there is further clarity on the consultation and once the level of ESG integration in the market has developed further.**

Disclaimers

- This report has been prepared for the sole benefit of the City of Westminster Pension Fund and based on their specific facts and circumstances and pursuant to the terms of Isio Group Limited/Isio Services Limited's Services Contract. It should not be relied upon by any other person. Any person who chooses to rely on this report does so at their own risk. To the fullest extent permitted by law, Isio Group Limited/Isio Services Limited accepts no responsibility or liability to that party in connection with the Services.
- Please note that Isio may have an ongoing relationship with various investment management organisations, some of which may be clients of Isio. This may include the City of Westminster Pension Fund's existing investment managers. Where this is the case, it does not impact on our objectivity in reviewing and recommending investment managers to our clients. We would be happy to discuss this further if required.
- In the United Kingdom, this report is intended solely for distribution to Professional Clients as defined by the Financial Conduct Authority's Conduct of Business Sourcebook. This report has not therefore been approved as a financial promotion under Section 21 of the Financial Services and Markets Act 2000 by an authorized person.
- The information contained within the report is available only to relevant persons, and any invitation, offer or agreement to purchase or otherwise acquire investments referred to within the report will be engaged in only with relevant persons. Any other person to whom this communication is directed, must not act upon it.
- Isio Service Limited is authorised and regulated by the Financial Conduct Authority FRN 922376.

Andrew Singh
Associate Director
+44 (0)131 202 3916
andrew.singh@isio.com

Jonny Moore
Assistant Manager
+44 (0)131 222 2469
jonny.moore@isio.com

Craig Campbell
Consultant
+44 (0) 141 739 9141
craig.campbell@isio.com

isio.

This page is intentionally left blank