

# Pension Fund Accounts and Explanatory Notes

## FUND ACCOUNT

2014/15	Notes	2015/16
£'000		£'000
<b>Dealings with members, employers and others directly involved in the fund</b>		
<b>Contributions</b>		
(24,717) From Employers	6	(27,244)
(8,777) From Members	6	(8,700)
(1,513) Individual Transfers in from Other Pension Funds		(2,157)
<b>(35,007)</b>		<b>(38,101)</b>
<b>Benefits</b>		
39,894 Pensions	7	41,141
5,060 Commutation, Lump Sum Retirement and Death Benefits	7	7,274
<b>Payments to and on Account of Leavers</b>		
2,049 Individual Transfers Out to Other Pension Funds		2,962
4,243 Bulk transfers		-
43 Refunds to Members Leaving Service		96
<b>51,289</b>		<b>51,473</b>

## Pension Fund Accounts and Explanatory Notes (continued)

2014/15		Notes	2015/16
£'000			£'000
16,282	Net (Additions)/Withdrawals from Dealings with Members		13,372
7,047	Management Expenses	8	7,791
<b>Returns on Investments</b>			
(8,726)	Investment Income	9	(8,558)
(9)	Other Income		-
10	Taxes on Income (Irrecoverable Withholding Tax)	9	-
(8,725)			(8,558)
(117,879)	Profit and loss on disposal of investments and changes in the market value of investments	11	20,024
(126,604)	Net return on investments		11,466
(103,275)	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		32,629
(995,697)	Opening Net Assets of the Scheme		(1,098,972)
(1,098,972)	Closing Net Assets of the Scheme		(1,066,343)

# Net Assets Statement for the year ended 31 March 2016\*

2014/15		Notes	2015/16
£'000			£'000
<b>Investment assets</b>			
145,426	Fixed Interest Securities	14	157,123
-	Equities	14	-
948,674	Pooled Investment Vehicles	14	896,184
Derivative Contracts:			
318	Futures	14	101
97	Forward Foreign Exchange	14	148
Other Investment Balances:			
2,689	Income Due	14	2,440
49	Debtors	14	3
1,071	Cash Deposits	14	2,598
<b>1,098,324</b>			<b>1,058,597</b>
<b>Investment Liabilities</b>			
Derivative Contracts:			
(87)	Futures	14	(81)
(164)	Forward Foreign Exchange	14	(252)
(50)	Other investment balances	14	-
<b>(301)</b>			<b>(333)</b>

## Net Assets Statement for the year ended 31 March 2016

2014/15		Notes	2015/16
<b>£'000</b>			<b>£'000</b>
(1,107)	Amounts payable for purchases of investments	11	(329)
<b>1,096,916</b>	<b>Net Value of Investment Assets</b>		<b>1,057,935</b>
<b>3,104</b>	<b>Current Assets</b>	18	<b>9,677</b>
<b>(1,048)</b>	<b>Current Liabilities</b>	19	<b>(1,269)</b>
<b>1,098,972</b>	<b>Net Assets of the Fund Available to Fund Benefits at the Period End</b>		<b>1,066,343</b>

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

# Note 1 Description of the City of Westminster Pension Fund

## a) General

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

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

- The LGPS Regulations 2013 (as amended)
- The LGPS (transitional Provisions, Savings and Amendment) Regulations 2014 (as amended) and
- The LGPS (Management and Investment of Funds) Regulations 2009 (as amended).

## b) Funding

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and from interest and dividends on the Fund's investments. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2016. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was as at 31 March 2013. Currently employer contribution rates range from 8.1% to 27.5% of pensionable pay.

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

### c) Benefits

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

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

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

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

Westminster Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from the pension fund. The Fund has used Aegon as its appointed AVC provider for the past 14 years and Equitable Life before. AVCs are paid to the AVC providers by employers and specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

### d) Governance

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

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

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

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

### e) Investment Principles

The LGPS (Management and Investment of Funds) Regulations 2009 requires administering authorities to prepare and review from time to time a written statement recording the investment policy of the Pension Fund. The Committee approved a Statement of Investment Principles in 2015 and this is available on the Council's website at the link below. The Statement shows the Authority's compliance with the Myners principles of investment management.

<https://www.westminster.gov.uk/council-pension-fund>

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

### f) Membership

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

Organisations participating in the City of Westminster Pension Fund include:

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

The following table summarises the membership numbers of the scheme:

31 March 2015		31 March 2016
28	<b>Number of employers with active members</b>	30
4,232	Active members	4,252
5,433	Pensioners receiving benefits	5,563
6,395	Deferred Pensioners	6,306
<b>16,060</b>		<b>16,121</b>

## Note 2 Basis of Preparation of Financial Statements

The Statement of Accounts summarises the Fund's transactions for 2015/16 and its position at year end as at 31 March 2016. The accounts been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) which is based upon International Financial Reporting Standards (IFRS) as amended for the UK public sector. The accounts have been prepared on an accruals basis, apart from transfer values which have been accounted for on a cash basis (see Note 3(b) below).

The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits.



## Note 3 Summary of Significant Accounting Policies

### FUND ACCOUNT – REVENUE RECOGNITION

#### a) Contribution Income

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

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

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

#### b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the LGPS Regulations. Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

#### c) Investment Income

Dividends from quoted securities are accounted for when the security is declared ex-dividend.

Investment income is reported gross of withholding taxes which are accrued in line with the associated investment income. Investment income arising from the underlying investments of the Pooled Investment Vehicles is reinvested within the Pooled Investment Vehicles and reflected in the unit price.

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

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

Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset. Where the amount of an income distribution has not been received from an investment manager by the balance sheet date, an estimate based upon the market value of their mandate at the end of the year is used.

### FUND ACCOUNT – EXPENSE ITEMS

#### d) Benefits Payable

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

#### e) Taxation

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

### Note 3 Summary of Significant Accounting Policies (continued)

#### f) Management Expenses

The Code does not require any breakdown of pension fund administration expenses. However in the interests of greater transparency, the Council accounts for pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

#### ADMINISTRATIVE EXPENSES

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

#### OVERSIGHT AND GOVERNANCE COSTS

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

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

#### INVESTMENT MANAGEMENT EXPENSES

All investment management expenses are accounted for on an accruals basis.

The Committee has appointed external investment managers to manage the investments of the Fund. Managers are paid a fee based on the market value of the investments they manage and/or a fee based on performance. Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of the mandate as at the end of the year is used for inclusion in the fund account.

#### NET ASSETS STATEMENT

##### g) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. Quoted Securities and Pooled Investment Vehicles have been valued at the bid price and fixed interest securities are recorded at net market value based on their current yields at the balance sheet date. Quoted securities are valued by the Fund's custodian and Pooled Investment Vehicles at the published bid prices or those quoted by their managers.

##### h) Derivatives

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

Derivatives are valued at fair value on the following bases: assets at bid price, and liabilities at offer price. Changes in the fair value are included in the change in market value in the Fund Account.

### Note 3 Summary of Significant Accounting Policies (continued)

The value of open futures contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The value of forward foreign exchange contracts is based on market forward exchange rates at the year-end and determined as the gain or loss that would arise if the contract were matched at the year-end with an equal and opposite contract.

#### **i) Foreign Currency Transactions**

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

#### **j) Cash and Cash Equivalents**

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

#### **k) Financial Liabilities**

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

#### **l) Actuarial present value of promised retirement benefits**

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

#### **m) Additional Voluntary Contributions**

AVCs are not included in the accounts in accordance with Regulation 4(2)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, but are disclosed as a note only (Note 20).

#### **n) Recharges from the General Fund**

The LGPS (Management and Investment of Funds) Regulations 2009 permit the Council to charge administration costs to the Fund. A proportion of the relevant Council costs have been charged to the Fund on the basis of actual time spent on Pension Fund business. Costs incurred in the administration and the oversight and governance of the Fund are set out separately in Note 21.

## Note 4 Critical Judgements in Applying Accounting Policies

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

### **PENSION FUND LIABILITY**

The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The methodology used in the intervening years follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in Note 17. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

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

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

Item	Uncertainties	Effect if actual results differ from assumptions
<b>Actuarial present value of promised retirement benefits</b>	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £126m. A 0.2% increase in assumed earnings would increase the value of liabilities by approximately £5m, a 0.2% increase in pension increases would increase the liability by about £49m and a one year increase in life expectancy would increase the liability by about £48m.

## Note 6 Contributions receivable

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

### BY AUTHORITY

2014/15		2015/16	
£'000		£'000	
24,310	Administering Authority	26,372	
2,447	Scheduled bodies	2,417	
6,737	Admitted bodies	7,155	
<b>33,494</b>		<b>35,944</b>	

### BY TYPE

2014/15		2015/16	
£'000		£'000	
8,777	Employees' normal contributions	8,700	
	Employer's contributions:		
17,181	Normal contributions	16,811	
6,637	Deficit recovery contributions	8,040	
899	Augmentation contributions	2,393	
<b>33,494</b>		<b>35,944</b>	

## Note 7 Benefits Payable

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

### BY TYPE

2014/15		2015/16
£'000		£'000
39,894	Pensions	41,141
4,852	Commutation and lump sum retirement benefits	6,888
208	Lump sum death benefits	386
<b>44,954</b>		<b>48,415</b>

### BY AUTHORITY

2014/15		2015/16
£'000		£'000
39,710	Administering Authority	40,003
124	Scheduled Bodies	352
5,120	Admitted Bodies	8,060
<b>44,954</b>		<b>48,415</b>

## Note 8 Management Expenses

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

2014/15		2015/16
£'000		£'000
534	Administration Expenses	441
318	Oversight and Governance	282
6,195	Investment Management Expenses	7,068
<b>7,047</b>		<b>7,791</b>

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

2014/15		2015/16
£'000		£'000
2,798	Management fees	3,260
2,176	Performance fees	2,550
61	Custody fees	76
1,160	Transaction costs	1,182
<b>6,195</b>		<b>7,068</b>



## Note 9 Investment Income

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

2014/15	2015/16
£'000	£'000
6,249 Fixed interest securities	6,510
141 Equity dividends	2
932 Pooled investments - unit trust and other managed funds	2,000
838 Pooled property investments	29
566 Interest and cash deposits	17
<b>8,726 Total before taxes</b>	<b>8,558</b>
(10) Taxes on income	-
<b>8,716 Total</b>	<b>8,558</b>

## Note 10 Investment Management Arrangements

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

- UK property portfolios are split between Hermes Investment Managers and Standard Life
- Fixed income mandates are managed by Insight Investment Managers
- Equity portfolios are split between Majedie Investment Managers (active UK), Baillie Gifford (active global), Legal and General Investment Management (passive global) and Longview Partners (active global).

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

As shareholders of London LGPS CIV Ltd (the organisation set up to run pooled LGPS investments in London), the Fund has purchased £150,000 of regulatory capital. This is in the form of unlisted UK equity shares. It is anticipated that some of the existing investment portfolios will be transferred into the London Collective Investment Vehicle (CIV) in 2016/17.

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

The market value and proportion of investments managed by each fund manager at 31 March 2016 was as follows:

31 March 2015 Market Value	%	Fund Manager	Mandate	31 March 2016 Market Value	%
£'000				£'000	
256,513	23.4%	Majedie	UK Equity (Active)	241,521	22.8%
-	0.0%	London CIV	UK Equity (Passive)	150	0.0%
<b>256,513</b>	<b>23.4%</b>	<b>UK Equity</b>	<b>Sub-Total</b>	<b>241,671</b>	<b>22.8%</b>
180,729	16.5%	Baillie Gifford	Global Equity (Active)	178,427	16.9%
281,978	25.7%	LGIM	World Equity (Passive)	239,635	22.7%
109,569	10.0%	Longview	Global Equity (Active)	113,894	10.8%
<b>572,276</b>	<b>52.2%</b>	<b>Global Equity</b>	<b>Sub-Total</b>	<b>531,956</b>	<b>50.3%</b>
17,871	1.6%	Insight	Fixed Interest Gilts	18,356	1.7%
156,329	14.3%	Insight	Sterling non-Gilts	158,105	14.9%
<b>174,200</b>	<b>15.9%</b>	<b>Bonds</b>	<b>Sub-Total</b>	<b>176,461</b>	<b>16.7%</b>

**Note 10** Investment Management Arrangements (continued)

31 March 2015 Market Value	%	Fund Manager	Mandate	31 March 2016 Market Value	%
<b>£'000</b>				<b>£'000</b>	
45,712	4.2%	Hermes	Property	56,511	5.3%
47,913	4.4%	Standard Life	Property	51,150	4.8%
<b>93,625</b>	<b>8.5%</b>	<b>Property</b>	<b>Sub-Total</b>	<b>107,661</b>	<b>10.2%</b>
<b>1,096,614</b>	<b>100.0%</b>		<b>Total (exc. cash)</b>	<b>1,057,749</b>	<b>100.0%</b>
302		Other (cash deposits)		186	
<b>1,096,916</b>			<b>Total</b>	<b>1,057,935</b>	

## Note 11 Reconciliation in Movement in Investments

2015/16	Market value 1 April 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2016
	£'000	£'000	£'000	£'000	£'000
Fixed interest securities	145,426	56,492	(41,585)	(3,210)	157,123
Equities	-	-	-	-	-
Pooled equity investments	855,659	34,208	(75,801)	(23,693)	790,373
Pooled property investments	93,015	5,817	(531)	7,510	105,811
Derivatives:					
Futures	231	4	(174)	(41)	20
Forward foreign exchange	(67)	1,656	(805)	(888)	(104)
Cash Instruments	-	-	-	-	-
<b>Total</b>	<b>1,094,264</b>	<b>98,177</b>	<b>(118,896)</b>	<b>(20,322)</b>	<b>1,053,223</b>
Cash deposits	1,071	-	-	163	2,598
Amounts receivable for sales of investments	216	-	-	2	-
Investment income due	2,473	-	-	1	2,440
Spot FX contracts	(1)	-	-	132	3
Amounts payable for purchases of investments	(1,107)	-	-	-	(329)
<b>Net investment assets</b>	<b>1,096,916</b>	<b>-</b>	<b>-</b>	<b>(20,024)</b>	<b>1,057,935</b>

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

2014/15	Market value 1 April 2014	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Asset reclassification	Change in market value during the year	Market value 31 March 2015
	£'000	£'000	£'000	£'000	£'000	£'000
Fixed interest securities	128,343	67,637	(59,212)	485	8,173	145,426
Equities	208,296	182,564	(232,330)	(160,861)	2,331	-
Pooled equity investments	585,990	568,945	(481,080)	80,742	101,062	855,659
Pooled property investments	-	870	(438)	87,409	5,174	93,015
Derivatives:						
Futures	137	421	(859)	-	532	231
Forward foreign exchange	90	735	(1,640)	-	748	(67)
Cash Instruments	23,979	33,441	(49,379)	(8,041)	-	-
<b>Total</b>	<b>946,835</b>	<b>854,613</b>	<b>(824,938)</b>	<b>(266)</b>	<b>118,020</b>	<b>1,094,264</b>
Cash deposits	14,604	-	-	(350)	(19)	1,071
Amounts receivable for sales of investments	2,981	-	-	(1,754)	(11)	216
Investment income due	-	-	-	2,435	-	2,473
Spot FX contracts	-	-	-	-	(111)	(1)
Amounts payable for purchases of investments	-	-	-	(65)	-	(1,107)
<b>Net investment assets</b>	<b>964,420</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>117,879</b>	<b>1,096,916</b>

During the 2014/15 financial year, the Fund changed custodian which prompted a reclassification of some categories of financial instrument.

## Note 12 Investments exceeding 5% of Net Assets

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

31 March 2015		Holding	31 March 2016	
Market Value			Market Value	
£'000	% Holding		£'000	% Holding
256,511	23.4%	Majedie - Institutional Trust Class B Shares	241,518	22.8%
282,340	25.7%	L&G - World Equity Index - GBP Hedged	239,628	22.7%
180,729	16.5%	Baillie Gifford - Life Global Alpha Pension Fund	178,427	16.9%
109,569	10.0%	Longview - Conventum Asset Management	113,894	10.8%
		Hermes Property UT	54,660	5.2%
<b>829,149</b>	<b>75.6%</b>	<b>Total Top Holdings</b>	<b>828,127</b>	<b>78.3%</b>
<b>1,096,916</b>		<b>Total Value of Investments</b>	<b>1,057,935</b>	

# Note 13 Analysis of Derivatives

## OBJECTIVES AND POLICIES FOR HOLDING DERIVATIVES

The Committee has authorised the use of derivatives for efficient portfolio management purposes and to reduce certain investment risks, in particular foreign exchange risk. All uses of derivatives are outsourced to the Fund's external asset managers which must adhere to the detailed requirements set out in their investment management agreements.

### a) Liquidity

The Fund uses interest rate futures to hedge some of the non-Sterling interest rate risk, subject to the restrictions in the investment guidelines (not more than 30% of the portfolio's value may be exposed to non-Sterling bond risk).

### b) Forward foreign currency

The Fund uses forward foreign exchange contracts to reduce the foreign currency exposure from overseas bond holdings that are within the portfolio (foreign currency exposure is fully hedged into Sterling).

## FUTURES

Outstanding exchange traded futures contracts are as follows.

Economic Exposure	Market Value 31 March 2015	Type	Expires	Economic Exposure	Market Value 31 March 2016
£'000	£'000			£'000	£'000
<b>Assets</b>					
17,509	318	UK Fixed Income	less than 1 year	17,577	92
-	-	Overseas fixed income	less than 1 year	(5,870)	9
	<b>318</b>	<b>Total Assets</b>			<b>101</b>
<b>Liabilities</b>					
(11,023)	(87)	Overseas Fixed Income	less than 1 year	(15,976)	(81)
	<b>(87)</b>	<b>Total Liabilities</b>			<b>(81)</b>
	<b>231</b>	<b>Net futures</b>			<b>20</b>

**Note 13** Analysis of Derivatives (continued)**FORWARD CURRENCY CONTRACTS**

Outstanding exchange traded futures contracts are as follows:

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
		000		000	£'000	£'000
Up to one month	GBP	4,346	USD	(6,147)	72	(4)
Up to one month	GBP	7,311	EUR	(9,399)	-	(142)
One to six months	GBP	7,298	USD	(10,404)	64	(3)
One to one months	EUR	1,764	GBP	(1,386)	12	-
One to six months	GBP	5,273	EUR	(6,769)	-	(99)
Up to one month	USD	532	GBP	(374)	-	(4)
<b>Net forward currency contracts at 31 March 2016</b>					<b>148</b>	<b>(252)</b>
<b>Prior year comparative</b>						
Open forward currency contracts at 31 March 2015					97	(164)
<b>Net forward currency contracts at 31 March 2015</b>						<b>(67)</b>



## Notes 14a Classification of Financial Instruments

The following table shows the classification of the Fund's financial instruments and also shows the split by UK and overseas. All investments are quoted unless stated.

31 March 2015			31 March 2016		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial Assets</b>					
<b>Fixed interest securities</b>					
Quoted:					
26,056	-	-	25,954	-	-
59,549	-	-	64,917	-	-
804	-	-	779	-	-
59,017	-	-	65,473	-	-
<b>Equities</b>					
Unquoted:					
-	-	-	-	-	-
-	-	-	-	-	-
<b>Pooled funds - investment vehicles</b>					
719,208	-	-	659,722	-	-
93,014	-	-	105,811	-	-
136,452	-	-	130,651	-	-

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

31 March 2015			31 March 2016		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000	£'000	£'000	£'000
<b>Derivative Contracts</b>					
318	-	-	101	-	-
97	-	-	148	-	-
<b>Cash Instruments</b>					
-	-	-	-	-	-
-	-	-	-	-	-
-	1,995	-	-	8,658	-
2,689	-	-	2,440	-	-
-	1,071	-	-	2,598	-
49	1,109	-	3	1,019	-
<b>1,097,253</b>	<b>4,175</b>	<b>-</b>	<b>1,055,999</b>	<b>12,275</b>	<b>-</b>

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

31 March 2015				31 March 2016		
Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost		Fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
<b>Financial Liabilities</b>						
<b>Derivative Contracts</b>						
(87)	-	-	Futures	(81)	-	-
(164)	-	-	Forward Foreign Exchange	(252)	-	-
(50)	-	-	Other Investment Balances	-	-	-
-	(542)	(1,107)	Creditors	-	(732)	(329)
<b>(301)</b>	<b>(542)</b>	<b>(1,107)</b>		<b>(333)</b>	<b>(732)</b>	<b>(329)</b>
1,096,952	3,633	(1,107)	<b>Total</b>	1,055,666	11,543	(329)
<b>1,099,478</b>				<b>Grand Total</b>		
				<b>1,066,880</b>		

## 14b Net Gains and Losses on Financial Instruments

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

31 March 2015		31 March 2016
£'000		£'000
<b>Financial Assets</b>		
118,020	Designated at fair value through profit and loss	(20,322)
(19)	Loans and receivables	163
<b>118,001</b>		<b>(20,159)</b>
<b>Financial Liabilities</b>		
(122)	Designated at fair value through profit and loss	135
-	Financial liabilities at amortised cost	-
<b>(122)</b>		<b>135</b>
<b>117,879</b>	<b>Total</b>	<b>(20,024)</b>

## Note 14c Valuation of Financial Instruments carried at Fair Value

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

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

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

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

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

31 March 2015			31 March 2016		
Quoted market price	Using observable inputs	With significant unobservable inputs	Quoted market price	Using observable inputs	With significant unobservable inputs
Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
£'000	£'000	£'000	£'000	£'000	£'000
<b>Financial Assets</b>					
843,760	253,493	-	947,855	108,144	-
<b>Financial Liabilities</b>					
-	(301)	-	-	(333)	-
<b>843,760</b>	<b>253,192</b>	<b>-</b>	<b>947,855</b>	<b>107,811</b>	<b>-</b>
<b>1,096,952</b>			<b>Grand Total</b>		
			<b>1,055,666</b>		

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

## RISK AND RISK MANAGEMENT

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

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

### a) Market Risk

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

#### Price Risk

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

nstrument or its issuer or factors affecting all such instruments in the market.

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

The following table demonstrates the change in the net assets available to pay benefits if the market price had increased or decreased by 10%. The analysis excludes cash, debtors, creditors, other investment balances and forward foreign exchange, as these financial instruments are not subject to price risk.

Assets exposed to price risk	Value	Value on 10% price increase	Value on 10% price decrease
	£'000	£'000	£'000
As at 31 March 2015	1,094,418	1,203,860	984,976
<b>As at 31 March 2016</b>	<b>1,053,408</b>	<b>1,158,749</b>	<b>948,067</b>

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

### Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on its investments. Fixed interest securities and cash are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Committee and its investment advisors regularly monitor the Fund's interest rate risk exposure during the year. The Fund manages its interest risk exposure through the use of futures derivatives (see Note 13).

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

Assets exposed to interest rate risk	Value	Value on 1% price increase	Value on 1% price decrease
	£'000	£'000	£'000
As at 31 March 2015	148,492	149,977	147,007
<b>As at 31 March 2016</b>	<b>168,379</b>	<b>170,063</b>	<b>166,695</b>

### Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than Sterling. The Fund aims to mitigate this risk through the use of derivatives (see Note 13). The Committee recognises that a strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits.

Overseas equities, fixed interest securities and futures, cash in foreign currencies, forward foreign exchange contracts and some elements of the pooled investment vehicles are exposed to currency risk. The following table demonstrates the change in value of these assets had there been a 10% strengthening/weakening of the pound against foreign currencies.

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

Assets exposed to currency risk	Value	Value on 10% foreign exchange rate increase	Value on 10% foreign exchange rate decrease
	£'000	£'000	£'000
As at 31 March 2015	678,339	746,173	610,505
<b>As at 31 March 2016</b>	<b>666,743</b>	<b>733,417</b>	<b>600,069</b>

### b) Credit Risk

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

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

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

### c) Liquidity Risk

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

The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months, subject to normal market conditions. As at 31 March 2016, liquid assets were £961m representing 90% of total fund assets (£1,003m at 31 March 2015 representing 91% of the fund at that date). The majority of these investments can be liquidated within a matter of days.

The Fund also has an overdraft facility of £1m for short-term cash needs (up to 90 days). This facility is only for meeting timing differences on pension payments; however it was not used in the year.



## Note 16 Funding Arrangements

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

The latest full triennial valuation of the Fund was carried out by Barnett Waddingham, the Fund's actuary, as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund and Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008. The results were published in the triennial valuation report dated 28 March 2014. The report and Funding Strategy Statement are both available on the Council's website at:

<https://www.westminster.gov.uk/council-pension-fund>

The actuary's smoothed market value of the scheme's assets at 31 March 2013 was £866.9m and the Actuary assessed the present value of the funded obligation at £1,164m. This indicates a net liability of £297.3m, which equates to a funding position of 74% (2010: £238.1m and 74%).

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

Future assumed returns at 2013	Assumed returns %	Risk adjusted assumed returns %
Gilts	3.3	6
Cash	3.1	4
Bonds	3.9	13
Equities	6.9	74
Property	6.0	4

Financial assumptions	2013 %	2010 %
Discount rate - scheduled bodies	5.9	7.5
Discount rate - admitted bodies	4.9	6.3
RPI	3.5	3.8
CPI	2.7	3.3
Pension increases	2.7	3.3
Short-term pay increases	1.0	n/a
Long-term pay increases	4.5	5.3

The 2013 valuation certified an aggregate employer contribution rate of 29.8% of pensionable pay (2010: 20.4%). The contribution rate is set on the basis of the cost of future benefit accrual, increased to bring the funding level back to 100% over a period of 25 years, as set out in the Funding Strategy Statement (2010: 30 years). The common future service contribution rate for the Fund was set at 13.3% of pensionable pay (2010: 12.4%).

The triennial valuation also sets out the individual contribution rate to be paid by each employer from 1 April 2014 depending on the demographic and actuarial factors particular to each employer. Details of each employer's contribution rate are contained in the Statement to the Rates and Adjustment Certificate in the triennial valuation report.

The next actuarial revaluation of the Fund will be as at 31 March 2016 and will be published in 2017.

# Note 17 Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2016. The figures have been prepared by Barnett Waddingham, the Fund's actuary, only for the purposes of providing the information required by IAS26. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

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

31 March 2015		31 March 2016	
£'000		£'000	
(1,605,955)	Present Value of Promised Retirement Benefits	(1,562,637)	
1,089,091	Fair Value of Scheme Assets (bid value)	1,061,424	
<b>(516,864)</b>	<b>Net Liability</b>	<b>(501,213)</b>	

Present Value of Promised Retirement Benefits comprise of £1,520.8m (2014/15: £1,479.5m) and £41.817m (2014/15: £126.5m) in respect of vested benefits and non-vested benefits respectively as at 31 March 2016.

## ASSUMPTIONS

To assess the value of the Fund's liabilities at 31 March 2016, the value of Fund's liabilities calculated for the funding valuation as at 31 March 2013 have been rolled forward, using financial assumptions that comply with IAS19.

## DEMOGRAPHIC ASSUMPTIONS

The demographic assumptions used are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2013. The post retirement mortality tables adopted are the S1PA tables with a multiplier of 110%, for males and 100% for females. These base tables are then projected using the CMI 2012 Model, allowing for a long-term rate of improvement of 1.5% p.a.

Assumed life expectancy from age 65 is:

Life expectancy from age 65 years		31 March 2016	31 March 2015
Retiring today	Males	22.1	22.1
	Females	25.3	25.2
Retiring in 20 years	Males	24.4	24.2
	Females	27.7	27.6

## FINANCIAL ASSUMPTIONS

The main financial assumptions are:

	31 March 2016	31 March 2015
	%	%
RPI increases	3.2	3.1
CPI increases	2.3	2.3
Salary increases	4.1	4.1
Pension increases	2.3	2.3
Discount rate	3.5	3.2

## Note 18 Current Assets

31 March 2015	31 March 2016
£'000	£'000
Debtors:	
853	635
228	200
28	184
1,995	8,658
<b>3,104</b>	<b>9,677</b>

### ANALYSIS OF DEBTORS

31 March 2015	31 March 2016
£'000	£'000
1,109	1,019
<b>1,109</b>	<b>1,019</b>

# Note 19 Current Liabilities

## ANALYSIS OF CREDITORS

31 March 2015	31 March 2016
<b>£'000</b>	<b>£'000</b>
(1,048) Sundry creditors	(1,269)
<b>(1,048) Total</b>	<b>(1,269)</b>

31 March 2015	31 March 2016
<b>£'000</b>	<b>£'000</b>
(506) Central government bodies	(537)
(542) Other entities and individuals	(732)
<b>(1,048) Total</b>	<b>(1,269)</b>

# Note 20 Additional Voluntary Contributions

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

<b>31 March 2015</b>		<b>31 March 2016</b>
<b>Market Value</b>		<b>Market Value</b>
<b>£'000</b>		<b>£'000</b>
1,358	Aegon	1,255
474	Equitable Life	474
<b>1,832</b>	<b>Total</b>	<b>1,729</b>

Additional voluntary contributions of £0.2m were paid directly to Aegon during the year (2014/15: £0.2m).

In accordance with Regulation 4(2)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2009, the contributions paid and the assets of these investments are not included in the Fund's Accounts.

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

# Note 21 Related Party Transactions

The Fund is administered by Westminster City Council. The Council incurred costs of £0.34m in the period 2015/16 (2014/15: £0.31m) in relation to the administration of the Fund and were reimbursed by the Fund for the expenses. The Fund uses the same Banking and Control Service provider as WCC and no charge is made in respect of this.

The Council has a significant interest in one employer (CityWest Homes) who are within the Pension Fund and the Fund received £2.4m in employer contributions, deficit and early retirement costs from this body (2014/15: £2.3m).

## KEY MANAGEMENT PERSONNEL REMUNERATION

The key management personnel of the Fund are the members of the Pension Fund Committee, the City Treasurer, the Tri-Borough Director of Pensions & Treasury and the Acting Director of Human Resources. Total remuneration payable to key management personnel is set out below:

31 March 2015		31 March 2016
£'000		£'000
51	Short-term benefits	43
43	Post-employment benefits	131
<b>94</b>	<b>Total</b>	<b>174</b>



