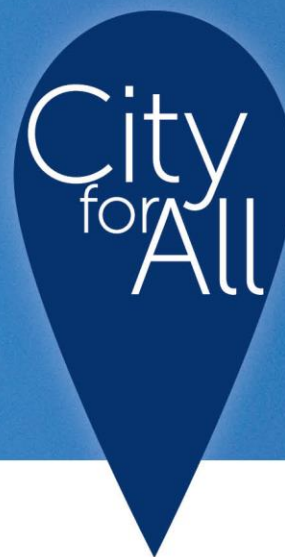




Annual Report
Westminster City Council

2015/16



City of Westminster

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Preface

Report from the Chair of the Pension Fund Committee

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

The Pension Fund Committee is responsible for overseeing the management of the City of Westminster Pension Fund including investment management and pension administration issues. As the Chairman of this Committee, I am pleased to introduce the Pension Fund's Annual Report for the year 2015/16.

During the year, the value of the Fund reduced by £33m reflecting the uncertainty in the global economy and China in particular. The Committee has continued to monitor the Fund closely at every meeting and challenged the investment advisers as necessary to ensure the Fund's investments are being managed effectively.

Whilst we continue to keep the asset allocation of the Fund under review, during the year the Government announced plans to encourage local authority pension funds to pool assets into large investment pools of £25-30m. Consequently the Fund has invested £150,000

regulatory capital as a founder shareholder in the recently launched London Collective Investment Vehicle (the London CIV). By pooling assets, the Fund expects to see reductions in management fees and transaction costs. A number of London pension funds have begun to transfer assets to the CIV in 2015/16. City of Westminster Pension Fund transferred £178m of assets comprising the Baillie Gifford portfolio in April 2016.

The Fund had its third Annual General Meeting in October 2015, which was well attended by members of the Fund. There were presentations from the actuaries, Barnett Waddingham, Surrey County Council as administration provider, and Aegon the Fund's Additional Voluntary Contributions provider. There were a range of questions from members, and I am pleased that this form of engagement with Fund members continues to be popular.

I would like to thank all those involved in the management of the Pension Fund during the year.



Councillor Suhail Rahuja
Chairman of Pension Fund Committee

Introduction

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

The Fund is financed by contributions from employees, the Council, the admitted and scheduled bodies and returns from the Fund's investments. The contributions are set by the Fund's actuary at the actuarial valuation which is carried out every three years. The next such valuation has commenced as at 31 March 2016 and will take effect from 1 April 2017.

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

The revised benefits payable from the Fund are set out in the Local Government Pension Scheme Regulations 2013, as amended, and in summary are:

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

The Fund is governed by the Public Service Pensions Act 2013 and the LGPS Regulations 2013 (as amended) and the LGPS (Management and Investment of Funds) Regulations 2009 (as amended). The content and detail within the pension fund annual report is prescribed by the LGPS Regulations 2013. The publication of this report gives the Council the opportunity to demonstrate the standard of governance and supervision of the fund. It also brings together a number of separate reporting strands into one comprehensive document that enables both the public and employees to see how the Fund is managed and how it is performing. It is in the interest of both employees and the public that the Fund is well managed and shows high returns to provide value for money for both employer and employee.

This annual report comprises the following sections:

- Management and Financial Performance which explains the governance and management arrangements for the Fund, as well as summarising the financial position and the approach to risk management.
- Investment Policy and Performance detailing the Fund's investment strategy, arrangements and performance.
- Scheme Administration which sets out how the Scheme's benefits and membership are administered.
- The funding position of the Fund with a statement from the Fund's actuary.
- The Fund's annual accounts.
- List of contacts and a glossary of some of the more technical terms
- Appendices setting out the various regulatory policy statements of the Fund:
 - Governance Compliance Statement
 - Statement of Investment Principles
 - Communication Policy
 - Funding Strategy Statement

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



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Management and Financial Performance

Governance Arrangements

PENSION FUND COMMITTEE

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

Terms of Reference for the Pension Fund Committee can be found at Appendix 1 (page 92)

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

The current membership of the Pension Fund Committee is:

- Councillor Suhail Rahuja (Chairman)
- Councillor Antonia Cox
- Councillor Patricia McAllister
- Councillor Ian Rowley

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

LOCAL PENSION BOARD

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

Terms of Reference for the Local Pension Board can be found at Appendix 1 (page 94).

The Board comprises an independent chair and four members – two from the Council representing employers and two employee representatives.

CONFLICTS OF INTEREST

The Pension Fund is governed by elected members acting as trustees and accordingly the Code of Conduct for elected members' sets out how any conflicts of interests involving elected members acting as trustees should be addressed. This is available at Legal and Democratic Services, 15th Floor, City Hall, 64 Victoria Street, Victoria, SW1E 6QP or by telephone: 020 7641 3160.

The Code includes provisions dealing with an elected member's general obligations to treat others with respect and not to bully, intimidate or do anything that compromises the impartiality of those who work for or on behalf of the Council.

The Code also contains rules about "disclosable pecuniary interests" and action an elected member must take when they have such an interest in Council

business, for instance withdrawing from the room or chamber when the matter is discussed and decided in committee, unless dispensation has been obtained from the Council's Monitoring Officer.

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

GOVERNANCE COMPLIANCE STATEMENT

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

The key issues covered by the best practice principles are:

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

The Fund's Governance Compliance statement can be found at Appendix 1 (page 91).

Scheme Management and Advisers

There were relatively few changes for management and advice to the Fund during the year: Grant Thornton replaced KPMG as external auditors in August 2015 and the Fund became a shareholder in the London CIV.

EXTERNAL PARTIES

Investment Adviser	Deloitte	
Investment Managers	Equities (Active) Baillie Gifford & Co Longview Majedie Asset Management Equities (Passive) Legal and General Investment Management	Fixed Income Insight Investment Property Hermes Investment Management Ltd Standard Life Investments
Custodian	Northern Trust	
Banker	Lloyds Bank	
Actuary	Barnett Waddingham	
Auditor	Grant Thornton UK LLP	
Legal Adviser	Eversheds	
Scheme Administrators	Surrey County Council	
AVC Providers	Aegon	Equitable Life Assurance Society

OFFICERS

City Treasurer and Section 151 Officer	Steven Mair	
Tri-Borough Pensions Team	Jonathan Hunt to May 2015 George Bruce from March 2016 Nikki Parsons	Alex Robertson Nicola Webb
Pensions and Payroll Officer	Sarah Hay	

Contact details are provided in Section 7 of this document.

Risk Management

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

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

In order to manage risks a Pension Fund Risk Register is maintained and reviewed quarterly. Risks identified have been reduced through planned actions. The Risk Register is managed by the Tri-Borough Director of Pensions and Treasury and risks have been assigned to "Risk Owners".

The key risks identified within the Pension Fund risk register are:

Objective area at risk	Risk	Risk rating	Responsible officer	Mitigating actions
Administration	Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible	High 16	City Treasurer	<p>Contract in place with BT to provide service enabling smooth processing of supplier payments</p> <p>Process in place for Surrey CC to generate lump sum payments to members as they are due.</p> <p>Officers undertaking additional testing and reconciliation work to verify accounting transactions</p>
Funding	The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities	Medium 12	City Treasurer	<p>Review at each triennial valuation and challenge actuary as required.</p> <p>Growth assets and inflation linked assets in the portfolio should rise as inflation rises</p>

Risk Management (continued)

Objective area at risk	Risk	Risk rating	Responsible officer	Mitigating actions
Regulation	Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration	Medium 12	City Treasurer	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.
Regulation	Introduction of European Directive MiFID II results in a restriction of Fund's investment options and an increase in costs	Medium 12	City Treasurer	Officers are engaging with Fund Managers to understand the position better Knowledge and Skills Policy in place for Officers and Members of the Committee Maintain links with central government and national bodies to keep abreast of national issues
Administration	BT unable to provide monthly or end of year interface files in a format suitable for Surrey CC to update service records and undertake day to day operations. Inaccuracies in service records held on the pensions administration system may impact on the triennial funding valuation at March 2016 and notifications to starters and leavers	Medium 12	Acting Director of HR	Issue has been escalated by the Chief Executive for high level resolution with BT Test files are currently with SCC Actuary undertakes data cleansing on the service records and is confident this will mitigate the inaccuracies in service records

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

The Funding Strategy Statement (at page 114) sets out the key risks, including demographic, regulatory, governance, to not achieving full funding in line with the strategy. The actuary reports on these risks at each triennial valuation or more frequently if required.

Risk Management (continued)

THIRD PARTY RISKS

The Council has outsourced the following functions of the Fund:

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

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

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

The results of these reviews are summarised below:

Fund manager	Type of assurance	Control framework	Compliance with controls	Reporting accountant
Baillie Gifford	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Hermes	ISAE3402	Reasonable assurance	Reasonable assurance	Deloitte LLP
Insight*				
LGIM	ISAE3402	Reasonable assurance	Reasonable assurance	PwC LLP
Longview	AAF 01/06	Reasonable assurance	Reasonable assurance	Moore Stephens LLP
Majedie ¹	SOC 1 SM	Reasonable assurance	Reasonable assurance	KPMG LLP
Standard Life				
Standard Life	ISAE3402	Reasonable assurance	Reasonable assurance	PwC LLP
Custodian				
Northern Trust	SOC 1 SM	Reasonable assurance	Reasonable assurance	KPMG LLP

*Insight have provided the following bridging statement “To the best of our knowledge there have been no material changes, removal or failure of any control or test objective as stated and tested in the ISAE 3402/AAF 01/06 assurance report, covering the calendar year 2015, in the period between 1 January 2015 and 31st March 2016.”

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

¹ Majedie do not have the regulatory clearance to hold client money, so are not required to provide an assurance report. However, BNY Mellon provide fund accounting and reconciliation services to the Majedie Institutional Trust where the assets lie and do have clearance to hold client money. The results are from BNY Mellon’s internal controls review.

Financial Performance

The Fund asset value reduced by £33m from a high of £1,099m at 31 March 2015 to £1,066m at 31 March 2016. This was largely due to persistent uncertainty around the strength of the global economy, particularly China. Further details are given in the Investment Policy and Performance Section.

Over the year to 31 March 2016, the funding level of the Fund decreased from 80% at April 2015 to 73% at December 2015. The next full triennial valuation is currently underway using the Fund data at 31 March 2016. The results are due in Autumn 2016 and will determine the contribution rates for the period 2017/18 to 2019/20. In the meantime the Council's medium-term financial plan already assumes an increase in employer contributions to ensure that the funding level is improved to a more prudent and sustainable level, financial management information has recently been improved to the Committee and further work is on-going to explore other necessary improvements and options.

ANALYTICAL REVIEW

	2013/14	2014/15	2015/16
Fund Account	£'000	£'000	£'000
Dealings with members			
Contributions	(63,641)	(35,007)	(38,401)
Pensions	48,478	51,289	51,473
Net (additions)/withdrawals from dealings with members	(15,163)	16,282	13,372
Management expense	5,333	7,047	7,791
Net investment returns	(15,337)	(8,725)	(8,558)
Change in market value	(96,354)	(117,879)	20,024
Net (increase)/decrease in the Fund	(121,521)	(103,275)	32,629

The key highlights are:

- Over the three year period, pensions paid have exceeded contributions by £12-16m each year (after taking account of the £30m one-off lump sum employer contribution in 2013/14). This reflects the maturity of the Fund membership in that there are fewer contributors than beneficiaries.
- Although net investment returns have remained steady at around £8.6m in 2015/16, this was more than offset by the decrease in the market value of investments, reflecting uncertainty in the global economy impacting particularly on equities.

Financial Performance (continued)

	2013/14	2014/15	2015/16
Net Asset Statement	£'000	£'000	£'000
Fixed Interest Securities	128,343	145,426	157,123
Equities	208,296	-	-
Pooled Investment Vehicles	585,990	948,674	896,184
Cash Deposits	14,604	1,071	2,598
Other	27,187	1,745	2,030
Total Investment Assets	964,420	1,096,916	1,057,935
Current assets	32,514	3,104	9,677
Current Liabilities	(1,237)	(1,048)	(1,269)
Total Net Assets available to fund benefits	995,697	1,098,972	1,066,343

The points to note are:

- Pooled investment vehicles comprise 88% of pooled equity both domestic and overseas, while the remaining 12% is in property pooled funds
- The reduction in pooled investment vehicles reflected a decline of £65m (7%) in pooled equity funds but this was partly offset by a £12m (13%) increase in pooled property funds
- Fixed interest securities proved a steady hedge against volatility in the global equity markets increasing by £13m (8%) during the year.

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

Financial Performance (continued)

ANALYSIS OF DEALINGS WITH SCHEME MEMBERS

With the exception of 2013/14 when there was a large settlement contribution from an employer, expenditure has exceeded income.

	2014/15	2013/14	2012/13
	£'000	£'000	£'000
Contributions receivable			
- Members	(7,583)	(8,777)	(8,700)
- Employers	(52,381)	(24,717)	(27,244)
- Transfers in	(3,677)	(1,513)	(2,157)
Total Income	(63,641)	(35,007)	(38,101)
Benefits/Expenses			
- Pensions	38,244	39,895	41,141
- Lump sum retirements and death benefits	6,991	5,059	7,274
- Transfers out	3,162	6,292	2,962
- Refunds	81	43	96
- Other Expenditure	-	-	-
Total Expenditure	48,478	51,289	48,278
Net Dealings with Members	(15,163)	16,282	13,372

The key variances were due to the following:

- Retirement lump sums rose due to more members retiring than in previous years.
- Transfers out were lower because more members chose to keep their benefit entitlements in the LGPS on leaving rather than transfer to their new employer.
- Transfers in were lower reflecting fewer new starters and members who are choosing to transfer in benefits on commencement of employment.

The City Treasurer is authorised to decide whether to levy an administration charge for the cost of resolving errors such as receiving contributions late or incorrect amounts.

Financial Performance (continued)

ANALYSIS OF OPERATIONAL EXPENSES

The costs of running the pension fund are shown below.

	2014/15	2015/16
	£'000	£'000
Administration		
Employees	170	179
Supplies and services	373	228
Other costs	(9)	14
	534	441
Governance and Oversight		
Employees	140	157
Investment advisory services	86	74
Governance and compliance	44	13
External audit	21	21
Actuarial fees	27	17
	318	282
Investment Management		
Management fees	2,978	3,260
Performance fees	2,176	2,550
Transaction costs	1,160	1,182
Custodian fees	61	76
	6,195	7,068
Total	7,047	7,791

Costs as a percentage of total net assets were compared to all other local government pension funds in 2014/15 – at 0.64% of net assets costs were slightly above the national average of 0.46%, but well within the range of costs of 90% of local government pension funds.

The key variances were due to the following:

- The reduction in supplies and services reflects the one-off costs incurred in 2014/15 when pensions administration transferred to Surrey County Council. These included IT set up costs and software licence fees.
- The negative amount for “other costs” reflects the reimbursement of fees incurred by the pension fund to other employers in the scheme and a historic refund of external audit fees
- Investment management expenditure increased by £0.873m (14%) compared with 2014/15. The increase in management and performance fees largely accounts for the increase in cost and reflects that whilst the overall fund value declined by £33m managers largely outperformed their target benchmarks compared with the market.

Administration Management Performance

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

PERFORMANCE INDICATORS

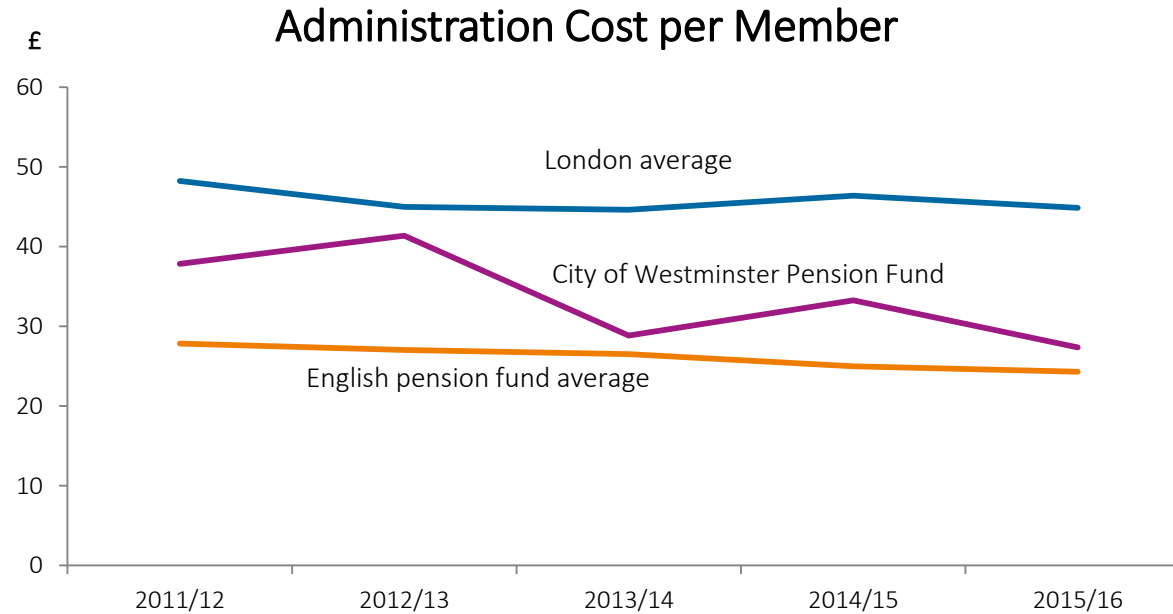
The contract with Surrey CC includes a number performance indicators included to ensure that service to members of the pension fund is effective. The targets are set out below, along with actual performance.

Performance Indicators	Target	Performance	
		2014/15	2015/16
Letter detailing transfer in quote	30 days	100%	100%
Letter detailing transfer out quote	30 days	96%	100%
Process refund and issue payment voucher	14 days	100%	100%
Letter notifying estimate of retirement benefit	-	93%	62%
Letter notifying actual retirement benefit	5 days	98%	91%
Letter acknowledging death of member	5 days	100%	100%
Letter notifying amount of dependant's benefits	5 days	100%	87%
Calculate and notify deferred benefits	30 days	90%	N/A

COMPLAINTS RECEIVED

The pension administrators occasionally deal with members of the fund who dispute an aspect of their pension benefits. These cases are dealt with by the Internal Dispute Resolution Procedure (see page 37). Specific statistics have not been kept but a handful of cases have proceeded to the pension Ombudsman in the last few years. In the majority of cases the complaints have not been upheld, however one case was upheld in the year 2014 /2015 in respect of a pensionable pay calculation.

Administration Management Performance (continued)

**STAFFING INDICATORS**

The administration of the Fund comprises:

- 3 full-time equivalent (fte) staff engaged by Surrey CC working directly on pension administration for Westminster and
- 2.25 fte Westminster HR staff to deal with internal administration.

In addition 1.98 fte Westminster Finance staff are assigned to the oversight and governance of the Pension Fund. These internal staff are charged to the Pension Fund.

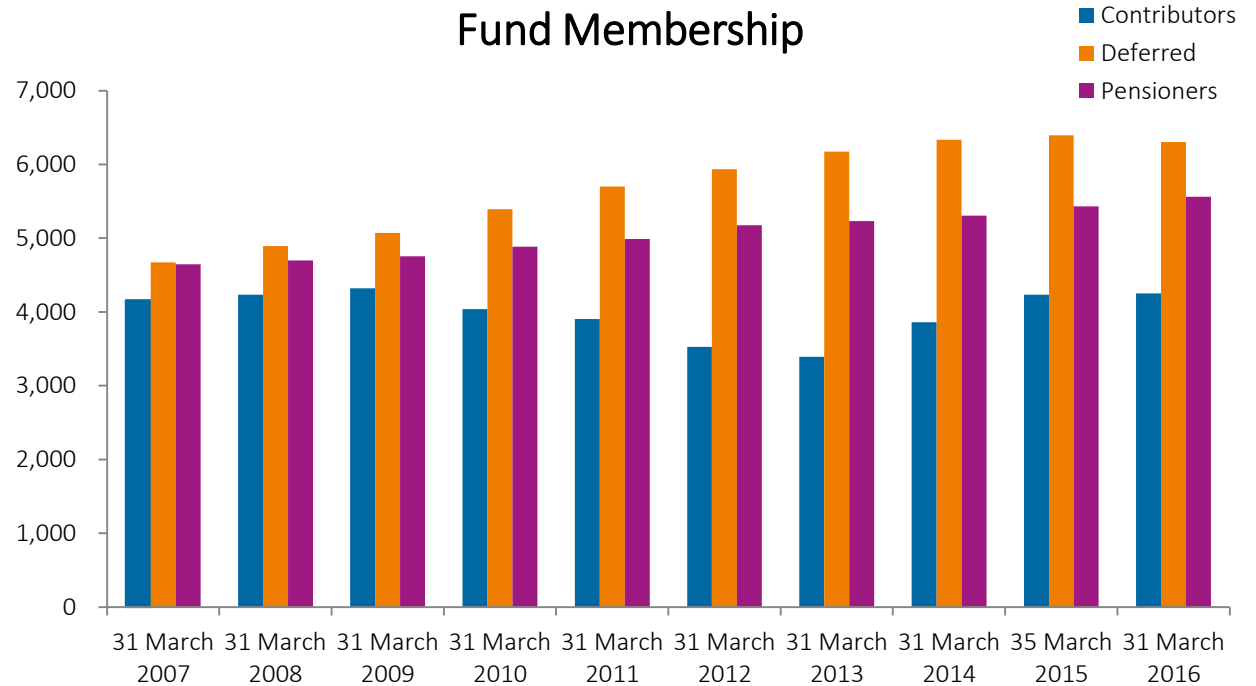
The cost of administering the pension fund is reviewed regularly. The contract for administering the Fund was tendered in 2014 resulting in Surrey CC being appointed. Costs rose slightly in 2014/15 as a result of the changeover of administrator, but are now reducing and remain below the average for London borough pension funds and close to the national average as shown in the chart.

Administration Management Performance (continued)

MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased by 20% over the past 10 years from 13,500 to 16,100.

However over this period the number of contributing members to the Pension Fund has declined steadily from 2007/08 to 2012/13 as shown in the chart below. The introduction of auto-enrolment in 2013 and the increase in employers admitted into the Scheme has started to reverse this trend. Nonetheless the number of pensioners and deferred members has continued to rise in common with other local government pension funds, reflecting the increasing maturity of the Fund.



Administration Management Performance (continued)

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

Reason for Leaving	2013/14²	2014/15	2015/16
Ill Health Retirement	4	3	6
Early Retirement	17	23	40
Total	21	27	46

² Figures based on LPFA records

Administration Management Performance (continued)

CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

The Fund provides pensions not only for employees of Westminster City Council, but also for the employees of a number of scheduled and admitted bodies. Scheduled bodies are organisations which have the right to be a member of the Local Government Pension Scheme under the regulations e.g. academies. Admitted bodies participate in the scheme via an admission agreement, which is a legal document made between the Council and the organisation. Examples of admitted bodies are not for profit organisations with a link to the Council and contractors who have taken on the Council's services and therefore staff have been transferred.

Below is a list of the current active contributing employers and the contributions received for 2014/15.

	Employees Contributions ³	Employers Contributions	Total Contributions
	£'000	£'000	£'000
Administering Authority Employers			
WESTMINSTER CITY COUNCIL	5,606	18,704	24,310
ALL SOULS SCHOOL	7	27	34
BURDETT COUTTS CE	17	67	84
COLLEGE PARK	31	117	148
EDWARD WILSON JMI SCHOOL	15	56	71
GEORGE ELLIOT	29	106	135
HALLFIELD SCHOOL	44	164	208
PADDINGTON GREEN	21	98	127

³ Includes early retirement and deficit contributions

	Employees Contributions ³	Employers Contributions	Total Contributions
PORTMAN EARLY CHILD CENTRE	29	98	127
QUEEN ELIZABETH II	31	110	141
QUEENS PARK PRIMARY	19	70	89
SOHO PARISH	6	25	31
ST AUGUSTINE'S SCHOOL	45	145	190
ST BARNABAS CE	3	11	14
ST CLEMENT DANES SCHOOL	20	74	94
ST GABRIELS CE	14	51	65
ST GEORGE HANOVER SQUARE	8	29	37
ST JAMES & ST MICHAELS SCHOOL	13	48	61
ST LUKES SCHOOL	10	38	48
ST MARY BRYANTSTON SCHOOL	15	56	71
ST MARY MAGDALENE CE	16	58	74
ST MATTHEWS	14	48	62
ST PETERS	15	54	69
ST PETERS EATON SQUARE SCHOOL	4	15	19
ST SAVIOURS SCHOOL	20	75	95
Total Contributions from Administering Authority	6,052	20,320	26,372

Administration Management Performance (continued)

	Employees Contribution ⁴	Employers Contributions	Total Contributions
Scheduled Bodies			
ARK ATWOOD PRIMARY ACADEMY	22	32	54
BEACHCROFT ACADEMY	12	39	51
CHURCHILL GARDENS ACADEMY	24	77	101
GATEWAY ACADEMY	20	44	64
GREY COAT HOSPITAL ACADEMY	70	233	303
HARRIS WESTMINSTER FREE SCHOOL	11	35	46
KING SOLOMON ACADEMY	42	54	96
MARYLEBONE BOYS SCHOOL	12	29	41
MILLBANK PRIMARY ACADEMY	19	77	96
MINERVA ACADEMY	8	17	25

	Employees Contribution ⁵	Employers Contributions	Total Contributions
PADDINGTON ACADEMY	87	176	263
PIMLICO ACADEMY	93	126	219
PIMLICO FREE SCHOOL	7	17	24
QUINTIN KYNASTON ACADEMY	74	205	279
ST GEORGES MAIDA VALE ACADEMY	33	94	127
ST MARYLEBONE SCHOOL ACADEMY	61	134	195
ST MARYLEBONE BRIDGE SCHOOL	8	13	21
WESTMINSTER ACADEMY	46	92	138
WESTMINSTER CITY ACADEMY	45	130	175
WILBERFORCE ACADEMY	24	75	99
Total Contributions From Scheduled Bodies	718	1,699	2,417

⁴ Includes early retirement and deficit contributions

⁵ Includes early retirement and deficit contributions

Administration Management Performance (continued)

	Employees Contribution ⁶	Employers Contributions	Total Contributions
Admitted Bodies			
ALLIED HEALTHCARE	1	1	2
AMEY	9	36	45
CITY WEST HOMES	910	2,380	3,290
CREATIVE EDUCATION TRUST	61	79	140
HATSGROUP	6	31	37
HOUSING 21	2	5	7
HOUSING AND COMMUNITIES AGENCY	750	1,996	2,746
INDEPENDENT HSG OMBUDSMAN	135	416	551
JPL CATERING	2	9	11
SANCTUARY HOUSING	54	272	326
Total Contributions From Admitted Bodies	1,930	5,225	7,155
Grand Total	8,700	27,244	35,944

⁶ Includes early retirement and deficit contributions

EMPLOYER ANALYSIS

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

	Active	Ceased	Total
Administering Authority	1	-	1
Scheduled Body	20	-	20
Admitted Body	10	10	20
Total	31	10	41





3

Investment Policy and Performance

Investment Policy

The Pension Fund Committee sets out a broad statement of the principles it has employed in establishing its investment and funding strategy in the Statement of Investment Principles (SIP).

The SIP sets out more detailed responsibilities relating to the overall investment policy of the Fund including the proposed asset allocation, restrictions on investment types, the type of investment management used and performance monitoring. It also states the fund's approach to responsible investment and corporate governance issues. In addition Pension Funds are required to demonstrate compliance with the "Myners Principles".

The "Myners Principles" are a set of recommendations relating to the investment of pension funds which were originally prepared by Lord Myners in 2001 at the request of the Chancellor of the Exchequer and which were subsequently endorsed by Government. The current version of the principles covers the following areas:

- Effective decision making;
- Clear objectives;
- Risk & liabilities;
- Performance Measurement;
- Responsible ownership;
- Transparency and reporting.
- The Fund's SIP can be found at page 97.

Asset Allocation

The strategic asset allocation is agreed by the Pension Fund Committee and the Fund’s advisers. The allocation effective during the year ended 31 March 2016 was as follows:

Asset Class	Target Allocation
UK Equities	22.5%
Global Equities (passive)	47.5%
Global Equities (active)	
Fixed Income	20%
Property	15%
TOTAL	100.0

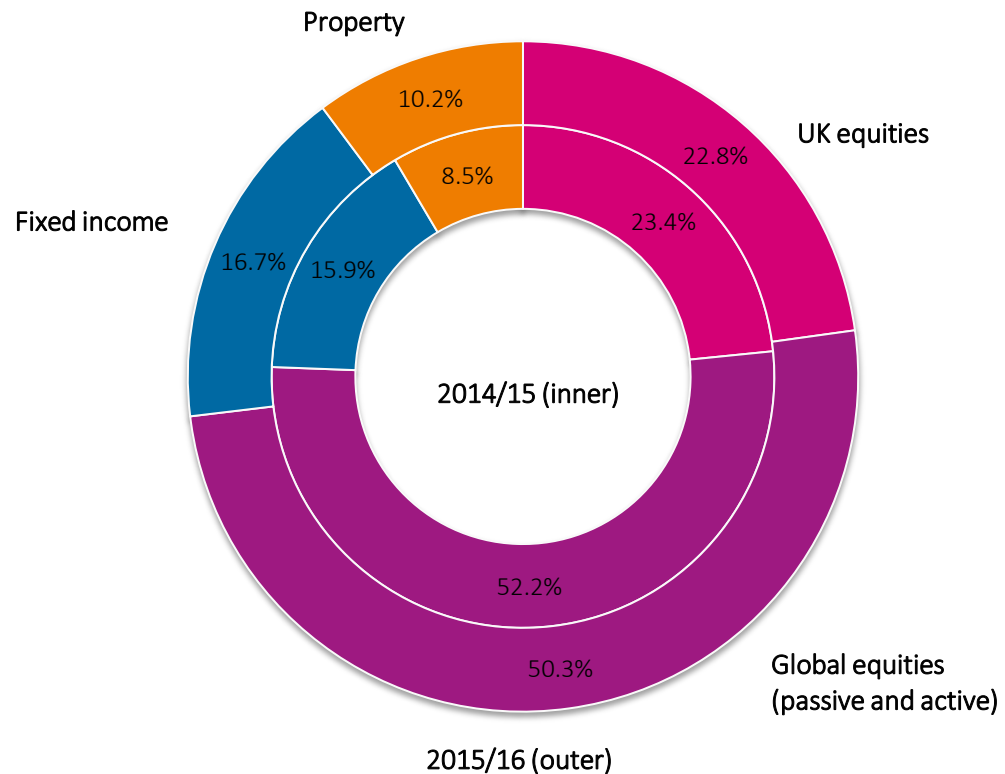
The Pension Fund Committee holds fund managers accountable for decisions on asset allocation within the benchmark that they operate under. In order to follow the Myners’ Committee recommendation, managers are challenged deliberately and formally about asset allocation proposals. Managers are reviewed at each Committee meeting in discussion with the Investment Adviser and Officers, and are called to a Committee meeting if there are issues that need to be addressed. Officers meet managers regularly and advice is taken from the Investment Adviser on matters relating to fund manager arrangement and performance.

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

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

The asset allocation of the Pension Fund at the start and end of the financial year is set out below.

The figures are based on market value and reflect the relative performance of investment markets and the impact of tactical asset allocation decisions made by the Committee.

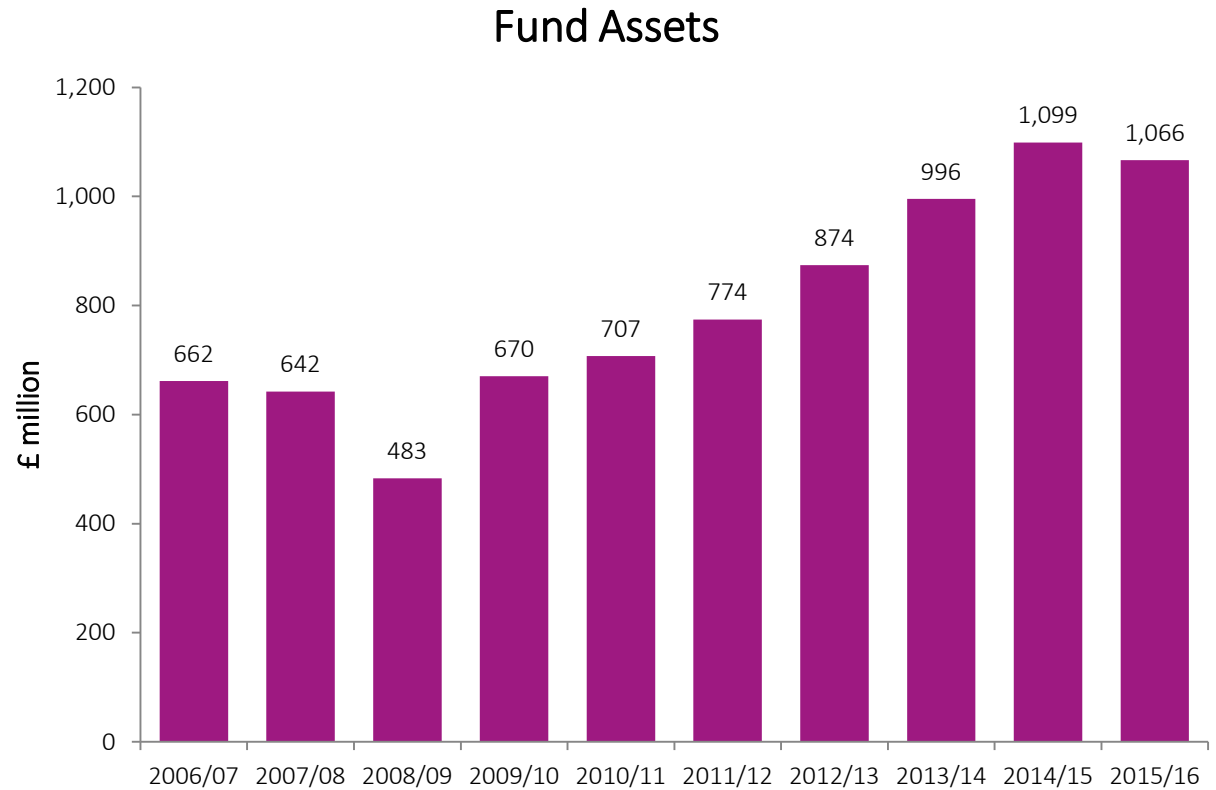


Asset Allocation (continued)

FUND VALUE

The value of the Fund has shown steady growth over the past seven years. The slight fall in value in 2015/16 reflects persistent uncertainty around the strength of the global economy and China in particular.

The Fund is invested to meet liabilities over the medium to long-term and therefore its performance should be judged over a corresponding period. Annual returns can be volatile, as seen in 2008/09 and do not necessarily indicate the underlying health of the Fund.



Investment Performance

Performance of the Fund is measured against a Fund specific benchmark with each fund manager being given individual performance benchmarks and targets which are linked to index returns for the assets they manage. Details of these can be found in the Statement of Investment Principles. Performance of fund managers is reviewed quarterly by the Pension Fund Committee supported by advice from the Fund's independent investment advisor, Deloitte.

Overall performance in 2015/16 was below benchmark for the year as shown below. The relatively modest reduction of 1.3% masks a year of volatility. For example, the Fund reported a fall in value of 4.5% in the quarter July to September 2015 which it has subsequently largely recovered.

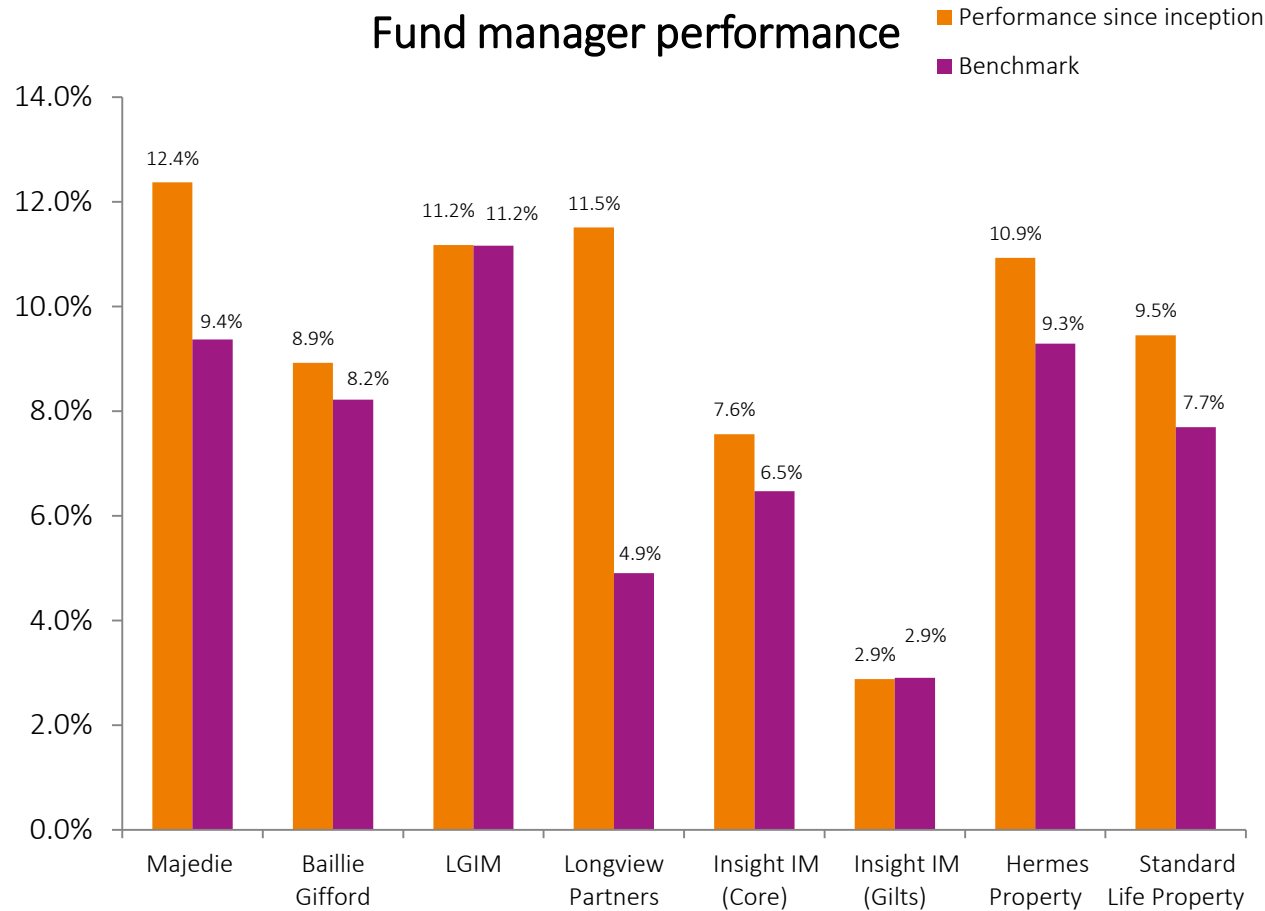
Annualised fund performance



Investment Performance (continued)

The overall performance of each manager is measured over rolling three and five year periods, as inevitably there will be short-term fluctuations in performance. Overall the fund managers have achieved benchmark.

The portfolio is a mixture of active and passively managed asset classes. All fund managers have to achieve benchmark. Targets for active managers are those where the target is to out-perform the benchmark by a set percentage through active stock picking and asset allocation. All of the fund managers with active fund mandates - Majedie, Baillie Gifford, Longview, Hermes and Standard Life - have exceeded target since inception of their mandates.



Corporate Governance

RESPONSIBLE INVESTMENT POLICY

The Council has a paramount fiduciary duty to obtain the best possible financial return on the Fund investments against a suitable degree of risk. It also considers a company's good practice in terms of social, environmental and ethical issues is generally likely to have a favourable effect on the long-term financial performance of the company and improve investment returns to its shareholders.

The investment managers, acting in the best financial interests of the Fund, are expected to consider, amongst other factors, the effects of social, environmental and ethical issues on the performance of a company when considering the acquisition, retention or realisation of investments for the Fund. In the execution of this, the Committee have considered and found it appropriate to adopt the investment managers' socially responsible investment policies. These policies will be reviewed with the investment managers regularly both by officers and the Committee.

PROFESSIONAL BODIES

The Council is a member of the CIPFA Pensions Network which provides a central coordination point relating to the LGPS funds from all local authority members. CIPFA staff and the network more generally are able to advise subscribers on all aspects of pensions and related legislation. Relevant training and seminars are also available to officers and members of participating funds.

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

VOTING

Managers have the delegated authority to vote as they have set out in their own guidelines, which have been discussed with the Committee. The Committee keeps under close review the various voting reports that it receives from the managers.

COLLABORATIVE VENTURES

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

During 2015/16 following FCA approval, the CIV has started to operate and a number of London pension funds have started to transfer assets to the CIV. The City of Westminster Pension Fund transferred the Baillie Gifford mandate (£178m) into the CIV in April 2016/17.

Corporate Governance (continued)

RESPONSIBILITIES

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

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

The actuary issues a Rates and Adjustments statement within the triennial valuation of the Pension Fund, which sets out the minimum contributions which each employer in the Scheme is obliged to pay over the following three years. The Funding Strategy Statement (page 114) sets out the aims and purpose of the pension fund and the responsibilities of the administering authority as regards funding the scheme.

Its purpose is:

- To establish a clear and transparent fund-specific strategy to identify how employers' pension liabilities are best met going forward;
- To support the regulatory requirement to maintain as nearly constant employer contribution rates as possible;
- To take a prudent longer-term view of funding those liabilities.

STEWARDSHIP CODE

The Council believes that investor stewardship is a key component of good governance, and is committed to exercising this responsibility with the support of its investment managers. In line with this approach, all of the Council's equity investment managers are signatories to the UK Stewardship Code. At the same time, the Council believes that companies should be accountable to shareholders and should be structured with appropriate checks and balances so as to safeguard shareholders' interests, and deliver long-term returns.

The Council views engagement as an essential activity in ensuring long-term value. When investment managers undertake engagements, the Council encourages investment managers to consider assessing a range of factors, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental and social issues. Engagement may also be linked to voting choices at the company's most recent AGM.

The Council believes that the goal of an engagement is not to micro-manage companies but provide companies with a perspective and share with boards and management our approach to investment and/or corporate governance. The ultimate aim is to work with management, other shareholders and stakeholders to bring about changes that can lead to enhanced long-term performance by the company.

The Stewardship Policy provides further information on the different elements of the Council's commitment to stewardship. It is intended as a guide for investment managers and a resource for investee companies.



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Scheme Administration

Service Delivery

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

The City Council administers the scheme for 41 employers (a complete list of employers is on page 22) These employers include not only the City Council, but also academy schools within the borough and a small number of organisations linked to the Council which have been “admitted” to the pension fund under agreement with the City Council.

A not-for-profit contractual arrangement is in place with Surrey CC for the provision of pension administration services. Performance of this service against targets within the contract is reported on page 22. The City Council’s Human Resources provide oversight of the administration service.

COMMUNICATION POLICY STATEMENT

The Local Government Pension Scheme Regulations 2013 require Pension Funds to prepare, publish and maintain a communication policy statement, which can be found on page 109. The Communication Policy details the overall strategy for involving stakeholders in the pension fund. A key part of this strategy is a dedicated pension fund website, which includes a great deal more information about the benefits of the pension fund and this can be accessed via the following link:

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

Internal Dispute Resolution Procedure

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

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

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

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

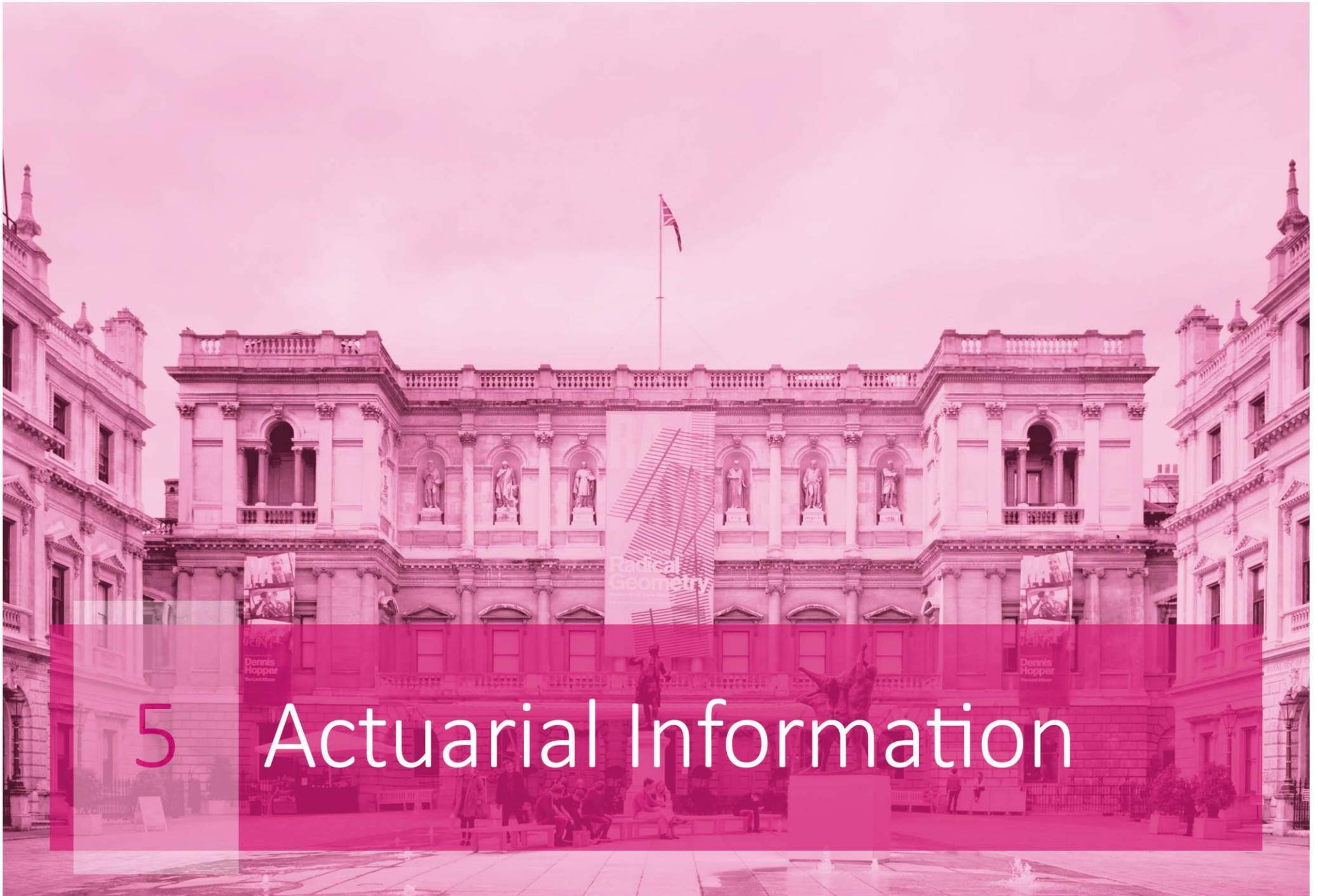
During the year there were 5 new cases:

- 2 complaints were resolved before reaching IDRP Stage 1;
- 1 complaint went to IDRP Stage 1 but was resolved;
- 1 is on-going at IDRP stage 2;
- 1 complaint has gone to the Pensions Ombudsman (IDRP Stage 3) whose initial view upholds the Council's decision but is subject to further evidence.

Both TPAS and the Pensions Ombudsman can be contacted at:

11 Belgrave Road
London
SW1V 1RB





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Actuarial Information

Report by Actuary

INTRODUCTION

The last full triennial valuation of the City of Westminster Pension Fund (“the Fund”) was carried out as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014.

This statement gives an update on the funding position as at 31 March 2016 and comments on the main factors that have led to a change since the full valuation.

2013 VALUATION

The results for the Fund at 31 March 2013 were as follows:

- The Fund as a whole had a funding level of 74% i.e. the assets were 74% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £297m which is higher than the deficit at the previous valuation in 2010.
- To cover the cost of new benefits and to also pay off the deficit over a period of 25 years, a total contribution rate of 29.8% of pensionable salaries would be needed.
- The contribution rate for each employer was set based on the annual cost of new benefits plus any adjustment required to pay for their share of the deficit.

UPDATED POSITION

Using assumptions consistent with those adopted at the 2013 valuation, we estimate that the funding position at 31 March 2016 is similar to the position as at 31 March 2013.

The next formal valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017.



Graeme Muir FFA

Partner, Barnett Waddingham LLP



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Pension Fund Accounts

Statement of Responsibilities

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

THE COUNCIL'S RESPONSIBILITIES

The Council is required to:

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

THE CITY TREASURER'S RESPONSIBILITIES

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

In preparing these Statements of Accounts, the City Treasurer has:

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

The City Treasurer has also:

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



Steven Mair

City Treasurer, Section 151 Officer.

Date: 9 April 2016

Independent Auditor's Report

Independent auditor's report to the members of the City of Westminster Council Pension Fund on the pension fund financial statements published with the pension fund annual report

We have audited the pension fund financial statements of Westminster City Council (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited.

Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

RESPECTIVE RESPONSIBILITIES OF THE CITY TREASURER AND THE AUDITOR

As explained more fully in the Statement of the City Treasurer's Responsibilities, the City Treasurer is responsible for the preparation of the Authority's Statement of Accounts, which include the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Independent Auditor's Report (continued)

SCOPE OF THE AUDIT OF THE PENSION FUND FINANCIAL STATEMENTS

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the City Treasurer; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

OPINION ON THE PENSION FUND FINANCIAL STATEMENTS

In our opinion the pension fund financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

OPINION ON OTHER MATTERS

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the pension fund financial statements.

Elizabeth Olive

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

Grant Thornton House
Melton Street
Euston Square
London
NW1 2EP

15 July 2016

Pension Fund Accounts and Explanatory Notes

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

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	7,791
	Returns on Investments	
(8,726)	Investment Income	(8,558)
(9)	Other Income	-
10	Taxes on Income (Irrecoverable Withholding Tax)	-
(8,725)		(8,558)
(117,879)	(Profit) and loss on disposal of investments and changes in the market value of investments	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
Investment assets			
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
1,098,324			1,058,597
Investment Liabilities			
Derivative Contracts:			
(87)	Futures	14	(81)
(164)	Forward Foreign Exchange	14	(252)
(50)	Other investment balances	14	-
(301)			(333)

Net Assets Statement for the year ended 31 March 2016* (continued)

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

*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 to the Pension Fund accounts

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
Pension	Each year worked is worth 1/80 x final pensionable pay	Each year worked is worth 1/60 x final pensionable pay
Lump Sum	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 & 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	Number of employers with active members	30
4,232	Active members	4,252
5,433	Pensioners receiving benefits	5,563
6,395	Deferred Pensioners	6,306
16,060		16,121

Note 2 Basis of Preparation of Financial Statements

The Statement of Accounts summarise the Fund's transactions for 2015/16 and its position at year end as at 31st 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 Issues

FUND ACCOUNT – REVENUE RECOGNITION

a) Contribution Income

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

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

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

b) Transfers to and from other schemes

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

c) Investment Income

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 Issues

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 Issues

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 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
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rates used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in assumptions can be measured. For instance, a 0.5% 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	
33,494		35,944	

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	
33,494		35,944	

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
44,954		48,415

BY AUTHORITY

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

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
7,047		7,791

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
6,195		7,068

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	29
838 Pooled property investments	2,000
566 Interest and cash deposits	17
8,726 Total before taxes	8,558
(10) Taxes on income	-
8,716 Total	8,558

Note 10 Investment Management Arrangements

As at 31 March 2016, the investment portfolio was managed by seven external managers:

- 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)	242,521	22.8%
-	-	London CIV	UK Equity (Passive)	150	-
256,513	23.4%	UK Equity	Sub-Total	241,671	22.8%
180,729	16.5%	Baillie Gifford	Global Equity (Active)	178,427	17.0%
281,978	25.7%	LGIM	World Equity (Passive)	239,635	22.7%
109,569	10.0%	Longview	Global Equity (Active)	113,894	10.8%
572,276	52.2%	Global Equity	Sub-Total	531,956	50.5%
17,871	1.6%	Insight	Fixed Interest Gilts	18,356	1.7%
156,329	14.3%	Insight	Sterling non-Gilts	158,105	14.9%
174,200	15.9%	Bonds	Sub-Total	173,832	16.6%

Note 10 Investment Management Arrangements

31 March 2015 Market Value	%	Fund Manager	Mandate	31 March 2016 Market Value	%
£'000				£'000	
45,712	4.2%	Hermes	Property	56,511	5.3%
47,913	4.3%	Standard Life	Property	51,150	4.8%
93,625	8.5%	Property	Sub-Total	107,661	10.1%
1,096,614	100.0%		Total (exc. cash)	1,057,749	100.0%
302		Other (cash deposits)		186	
1,096,916			Total	1,057,935	

Note 11 Reconciliation of 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	-	-	-	-	-
Total	1,094,264	98,177	(118,896)	(20,322)	1,053,223
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)
Net investment assets	1,096,916	-	-	(20,024)	1,057,935

Note 11 Reconciliation of Movement in Investments

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)	-	-
Total	946,835	854,613	(824,938)	(266)	118,020	1,094,264
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)
Net investment assets	964,420	-	-	-	117,879	1,096,916

During the 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%
829,149	75.6%	Total Top Holdings	828,127	78.3%
1,096,916		Total Value of Investments	1,057,935	

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
Assets					
17,509	318	UK Fixed Income	less than 1 year	17,577	92
-	-	Overseas fixed income	less than 1 year	(5,870)	9
	318	Total Assets			101
Liabilities					
(11,023)	(87)	Overseas Fixed Income	less than 1 year	(15,976)	(81)
	(87)	Total Liabilities			(81)
	231	Net futures			20

Note 13 Analysis of Derivatives

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)
Net forward currency contracts at 31 March 2016					148	(252)
Prior year comparative						
Open forward currency contracts at 31 March 2015					97	(164)
Net forward currency contracts at 31 March 2015						(67)

Note 14a Classification of Financial Instruments

The following table shows the classification of the Fund's financial instruments and also shows the split by UK and overseas. 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
Financial Assets					
Fixed interest securities					
Quoted:					
26,056	-	-	25,954	-	-
59,549	-	-	64,917	-	-
804	-	-	779	-	-
59,017	-	-	65,473	-	-
Equities					
Unquoted:					
-	-	-	-	-	-
-	-	-	-	-	-
Pooled funds - investment vehicles					
719,208	-	-	659,722	-	-
93,014	-	-	105,811	-	-
136,452	-	-	130,651	-	-

Note 14a Classification of Financial Instruments

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
Derivative Contracts					
318	-	-	101	-	-
97	-	-	148	-	-
Cash Instruments					
-	-	-	-	-	-
-	-	-	-	-	-
-	1,995	-	-	8,658	-
2,689	-	-	2,440	-	-
-	1,071	-	-	2,598	-
49	1,109	-	3	1,019	-
1,097,253	4,175	-	1,055,999	12,275	-

Note 14a Classification of Financial Instruments

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
Financial Liabilities					
Derivative Contracts					
(87)	-	-	(81)	-	-
(164)	-	-	(252)	-	-
(50)	-	-	-	-	-
-	-	(1,649)	-	-	(1,061)
(301)	-	(1,649)	(333)	-	(1,061)
1,096,952	4,175	(1,649)	1,055,666	12,275	(1,061)
		1,099,478			1,066,880

Note 14b Net Gains and Losses on Financial Instruments

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

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

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
Financial Assets					
843,760	253,493	-	949,789	106,210	-
4,175	-	-	12,275	-	-
Financial Liabilities					
-	(301)	-	-	(333)	-
(1,649)	-	-	(1,061)	-	-
846,286	253,192	-	961,003	105,877	-
1,099,478			1,066,880		
Grand Total					

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 to identify and analyse the investment risks faced by the Fund and these are regularly reviewed in the light of changing market and other conditions.

a) Market Risk

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

Price Risk

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

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

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

The 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
As at 31 March 2016	1,053,408	1,158,749	948,067

Note 15 Nature and extent of Risks arising from Financial Instruments

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
As at 31 March 2016	168,379	170,063	166,695

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

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
As at 31 March 2016	666,743	733,417	600,069

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 £927m 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	
(516,864)	Net Liability	(501,213)	

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.

The assumed life expectations from age 65 are:

Life expectancy from age 65 years		31	31
		March 2016	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	Contributions due - employers	635
228	Contributions due - employees	200
28	Sundry debtors	184
1,995	Cash balances	8,658
3,104		9,677

ANALYSIS OF DEBTORS

31 March 2015		31 March 2016
£'000		£'000
1,109	Other entities and individuals	1,109
1,109		1,109

Note 19 Current Liabilities

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

Note 20 Additional Voluntary Contributions

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

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

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 scheduled body (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
94	Total	174





7

Glossary and Contacts

Glossary of Terms

ACTIVE MEMBER:

Current employee who is contributing to a pension scheme.

ACTUARY:

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

ADDITIONALVOLUNTARY CONTRIBUTIONS (AVC):

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

ADMITTED BODY:

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

ASSET ALLOCATION:

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

BENCHMARK:

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

DEFERRED MEMBERS:

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

DEFINED BENEFIT SCHEME:

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

EMPLOYER CONTRIBUTION RATES

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

Glossary of Terms (continued)

EQUITIES:

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

FIXED INTEREST SECURITIES:

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

INDEX:

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

POOLED INVESTMENT VEHICLES:

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

RETURN:

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

SCHEDULED BODY:

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

UNREALISED GAINS/LOSSES:

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

Contact Information

TRI BOROUGH PENSIONS TEAM

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Email: pensionfund@westminster.gov.uk

PENSIONS AND PAYROLL OFFICER

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London
SW1E 6QE

PENSION ADMINISTRATION SERVICES (WCC TEAM)

Surrey County Council
Room G59
County Hall
Kingston upon Thames
Surrey
KT1 2DN
Telephone: 020 8541 9293
Email: wccpensions@surreycc.gov.uk
Website: www.wccpensionfund.co.uk

NATIONAL LOCAL GOVERNMENT PENSION SCHEME

Information website
www.lgps.org.uk

THE PENSIONS ADVISORY SERVICE (TPAS)

11 Belgrave Road
London SW1V 1RB
Telephone: 0845 601 2923
Email: www.pensionsadvisoryservice.org.uk/online-enquiry

THE OFFICE OF THE PENSIONS OMBUDSMAN

11 Belgrave Road
London, SW1V 1RB
Telephone: 020 7630 2200
Email: enquiries@pensions-ombudsman.org.uk



8 Appendices

Appendix 01 Governance Compliance Statement

BACKGROUND

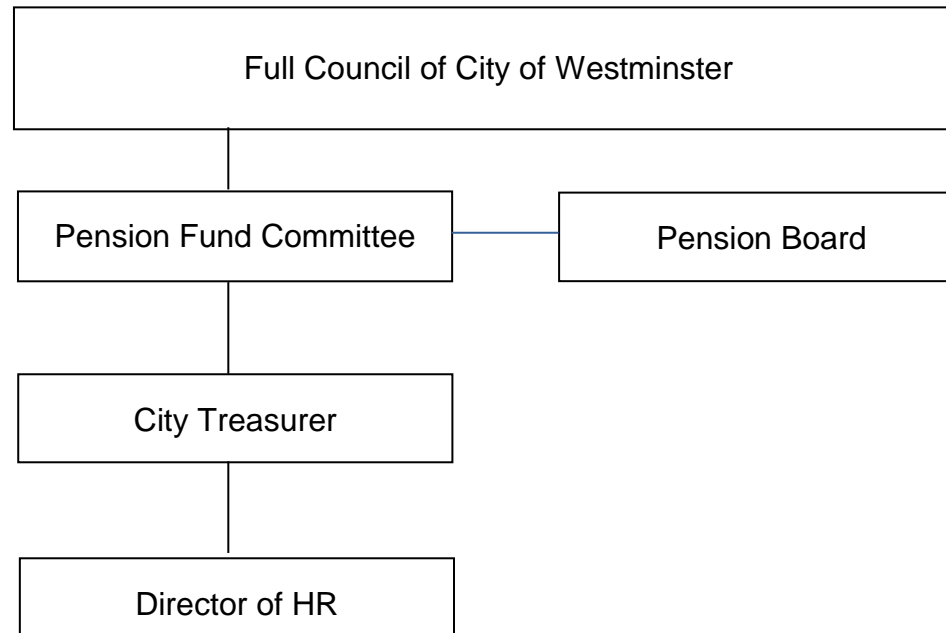
The City of Westminster is the administering authority for the City of Westminster Pension Fund (“the Fund”) and it administers the Local Government Pension Scheme on behalf of the participating employers.

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

GOVERNANCE STRUCTURE

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

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



Appendix 01

Governance Compliance Statement (continued)

PENSION FUND COMMITTEE

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

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

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

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

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

The terms of reference for the Pension Fund Committee are:

1. To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.
2. To monitor performance of the Superannuation Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable;
3. To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
4. To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
5. To approve the final statement of accounts of the Pension Fund and to approve the Annual Report.
6. To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Pension Fund.
7. To oversee and approve any changes to the administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, and allowances to beneficiaries.

Appendix 01

Governance Compliance Statement (continued)

8. To make and review an admission policy relating to admission agreements generally with any admission body.
9. To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
10. To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
11. To receive and consider the Auditor's report on the governance of the Pension Fund.
12. To determine the compensation policy on termination of employment and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
13. To determine policy on the award of additional membership of the pension fund and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
14. To determine policy on the award of additional pension and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
15. To determine policy on retirement before the age of 60 and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
16. To determine a policy on flexible retirement and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
17. To determine questions and disputes pursuant to the Internal Disputes Resolution Procedures
18. To determine any other investment or pension fund policies that may be required from time to time so as to comply with Government regulations and to make any decisions in accordance with those policies other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

Appendix 01

Governance Compliance Statement (continued)

PENSION BOARD

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

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

The membership of the Board is as follows:

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

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

COMPLIANCE WITH STATUTORY GUIDANCE

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

REVIEW OF STATEMENT

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

Appendix 01

Governance Compliance Statement (continued)

Compliance Requirement	Compliance	Notes
Structure		
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	As set out in terms of reference of the Pension Fund Committee.
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Not fully compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Pension Fund Committee.
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels	Not applicable	All Pension Fund matters are considered by the Pension Fund Committee
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel	Not applicable	All Pension Fund matters are considered by the Pension Fund Committee
Committee membership and representation		
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- <ul style="list-style-type: none"> i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an <i>ad hoc</i> basis). 	Not fully compliant	Representatives of the employers and scheme members are Pension Board members, rather than members of the Pension Fund Committee. Expert advisers attend the Committee as required
That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights	Not applicable	All Pension Fund matters are considered by the Pension Fund Committee
Selection and role		
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee	Compliant	As set out in terms of reference of the Pension Fund Committee
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Compliant	This is a standing item on the Pension Fund Committee agendas
Voting		
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Compliant	As set out in terms of reference of the Pension Fund Committee

Appendix 01

Governance Compliance Statement (continued)

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

Appendix 02 City of Westminster Pension Fund Statement of Investment Principles

BACKGROUND

Legal

Regulation 12(1) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires administering authorities, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement of the principles governing their decisions about the investment of Pension Fund money.

The Scheme

The Local Government Pension Scheme (“the Scheme”) was established in accordance with statute to provide retirement benefits for all eligible employees. The Scheme is a contributory, defined benefit occupational pension scheme. It is funded by employee contributions and by variable employer contributions, which are set every three years, following an actuarial valuation of the assets and liabilities of the scheme.

The benefits of the Scheme are defined by statute and they are inflation proofed in line with annual increases in the Consumer Price Index for September. The Scheme is operated by designated administering authorities, of which the City of Westminster is one such authority. Each administering authority maintains a Pension Fund (“the Fund”) and invests monies not required immediately to meet benefits.

Pension Fund Committee

The Council has delegated the investment arrangements of the Fund to the Pension Fund Committee. The Committee meets at least 4 times a year. Further information on the Committee can be found in the Fund’s Governance Compliance Statement and the responsibilities are set out in 2.1 below.

Advice

The Committee obtains and considers advice from the City Treasurer and Pension Fund Officers. In addition, the Fund retains the services of an external investment adviser who attends all the Committee’s meetings. The Committee also considers advice from the Fund Actuary and investment managers as necessary.

Investment Managers

All investment management of the Fund’s assets is undertaken externally. Some elements are managed on a segregated basis in accordance with investment management agreements. The remainder is invested in pooled fund products managed by external investment managers according to the terms of the funds.

INVESTMENT RESPONSIBILITIES

Pension Fund Committee

The Pension Fund Committee’s responsibilities are set out in their terms of reference and are to have responsibility for all aspects of the investment and other management activity of the Council’s Pension Fund, including, but not limited to, the following matters:

- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.
- To monitor performance of the Pension Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable.
- To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
- To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.

Appendix 02

City of Westminster Pension Fund Statement of Investment Principles

- To approve the final accounts and balance sheet of the Pension Fund and to approve the Annual Report.
- To receive actuarial valuations of the Pension Fund regarding the level of employers' contributions necessary to balance the Superannuation Fund.
- To oversee and approve any changes to the administration arrangements, material contracts and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries.
- To make and review an admission policy relating to admission agreements generally with any admission body.
- To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
- To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
- To receive and consider the Auditor's report on the governance of the Pension Fund.
- To determine the compensation policy on termination of employment and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine policy on the award of additional membership of the Pension Fund and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine policy on the award of additional pension and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine policy on retirement before the age of 60 and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine a policy on flexible retirement and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
- To determine questions and disputes pursuant to the Internal Disputes Resolution Procedures.
- To determine any other investment or pension policies that may be required from time to time so as to comply with Government regulations and to make any decisions in accordance with those policies other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

Pension Fund Officers

The Pension Fund Officers are responsible for advising the Pension Fund Committee and for the following:

- Monitoring compliance with statutory requirements and the investment principles set out in the document and reporting any breaches to the Pension Fund Committee.

Appendix 02

City of Westminster Pension Fund Statement of Investment Principles

- Ensuring this document is regularly reviewed and updated in accordance with the LGPS Regulations.
- Investment accounting, preparing the annual accounts and report of the Fund and all day to day administration.
- Ensuring proper resources are available to meet the Council's responsibilities.

Investment Managers

The investment managers are responsible for:

- The investment of the Fund's assets in compliance with prevailing legislation and the investment management agreements or terms of the pooled fund as appropriate.
- Tactical asset allocation and security selection within the parameters of the mandate set by the Fund or the terms of the pooled fund.
- Preparation of quarterly reports including a review of performance and attendance at sub-committee meetings as requested.
- Voting shares in accordance with the agreed policy.
- Reporting any breaches of their guidelines and changes in key investment personnel.

Custodian

The custodian is responsible for:

- Safe custody and settlement of all investment transactions, collection of income and administration of corporate actions for all segregated assets, independently from the investment managers.
- Providing a performance measurement service of all the Fund's investments including those in pooled funds, against agreed benchmarks and targets.
- Providing valuations and accounting data summarising details of all investment transactions with the Fund.

Investment Adviser

The investment adviser is responsible for:

- Advising the Committee on the investment strategy of the Fund and the implementation of it.
- Advising the Committee on the appointment and termination of appointment of the investment managers and custodian.

- Assisting the Committee and Pension Fund officers in the on-going review of the investment managers and the suitability of the investment products used.
- Providing advice, education and training on all investment related matters as required.

Fund Actuary

The Fund Actuary is responsible for:

- Undertaking triennial valuations of the Fund's assets and liabilities to measure funding level and set employer contribution rates.
- Providing regular updates between triennial valuations on the funding level of the Fund.
- Providing advice on the admission and withdrawal of employers to the scheme, including external employers following externalisation of services.

Appendix 02

City of Westminster Pension Fund Statement of Investment Principles

PENSION FUND LIABILITIES

Overview

The City of Westminster Pension Fund is broadly similar to other funds of comparable size in terms of its maturity. The Fund Actuary determined that the funding level was 74% at the 31st March 2013 valuation. It has agreed that the Council should make additional employer contributions over a period of 25 years to bring the funding level back to 100%.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities. The Fund's liabilities are sensitive to inflation via pension and pay increases, to interest rates and to mortality rates. The assets that would most closely match the liabilities are a combination of index-linked gilts as the liabilities move in accordance with changes in the relevant gilt yields.

The investment strategy set for the Fund, as detailed later in this document, recognises the need to mitigate the risks set out above, but also balances this with the need to generate additional return to return the Fund to a 100% funding level.

Scheme Benefits

The LGPS is a defined benefit scheme, which provides benefits related to final salary for its members to 31 March 2014 and on a career average basis thereafter. Each member's pension is specified according to a formula based on salary and service and is unaffected by the investment return achieved by the fund. Full details of the benefits are set out in the LGPS regulations.

Funding the Benefits

Active members are required to make pension contributions where the rate will, depend on the level of their salaries. The Council and other employers participating in the Fund are responsible for meeting the remainder of the costs necessary to finance the benefits payable from the Fund by applying employer contribution rates, determined following the actuarial review and consultation with the Fund Actuary. The employers therefore have a direct financial interest in the investment return achieved on the Fund's assets to the extent that any funding shortfall is met from employers' contributions. The approach to funding is set out in the Funding Strategy Statement.

Actuarial Valuation

The Fund is valued every three years in accordance with the LGPS Regulations and monitored each year by the officers and the Actuary. The last valuation was as at 31 March 2013.

INVESTMENT STRATEGY

Aims and Purpose of the Fund

The aims of the Fund are to:

- Enable employer contribution rates to be kept as stable as possible and at reasonable cost to taxpayers, scheduled and admitted bodies,
- Manage employers' liabilities effectively,
- Ensure that sufficient resources are available to meet all liabilities as they fall due,
- Maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- Receive monies in respect of contributions, transfer values and investment income, and
- Pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses, as defined in the LGPS Regulations.

Appendix 02

City of Westminster Pension Fund Statement of Investment Principles

Investment Strategy

An investment strategy has been agreed having taken advice from the Fund's investment adviser. The strategy aims to balance the need to generate sufficient return to reach a fully funded position with the need to mitigate against the risks of inflation and interest rates. The strategy is also designed to achieve diversification across different asset classes. It has been decided that all investments will be managed by external fund managers.

Strategic Benchmark

The strategic benchmark of the Fund reflects the high level asset allocation and is shown in the table below:

Asset Class	Target Allocation	Benchmark
UK equities	20%	FTSE All Share
Global equities (passive)	45%	FTSE World (GBP hedged)
Global equities (active)		MSCI AC World
Fixed Income	20%	iBoxx £ Non-Gilt 1-15 Yrs Index
Property	15%	FT All Gilt index plus 2%
Total	100%	

Performance targets

Each of the fund managers and the investment products the Fund invests in has a set benchmark and target to achieve set out in the mandate. The detail of each of these is set out in Section 5.

Reporting

Quarterly reports on the Fund's investments, including activity and performance are provided by the investment managers to officers and the investment adviser. The Fund's investment performance is measured independently by the Fund's custodian. The investment adviser provides a quarterly report to the Committee summarising investment performance and other key issues affecting the investments and the fund managers.

Review

The investment strategy is reviewed periodically; at least every three years following the actuarial valuation of the Fund.

INVESTMENTS

The powers and duties of the Council to invest Fund monies are set out in the LGPS (Management and Investment of Funds) Regulations 2009. For all investments, the Administering Authority is required to take account of the need for diversification, and of advice from persons properly qualified by their ability and practical experience of financial matters to provide that advice.

The Regulations state that the Council, as Administering Authority must not invest any monies not immediately required for the payment of benefits and pensions with its own cash balances. The cash the Fund retains for the payment of benefits is therefore held in a separate bank account, in accordance with the Regulations.

Appendix 02

City of Westminster Pension Fund Statement of Investment Principles

Statutory Investment Limits

The Regulations set out limits on different types of investment – these are set out in the table below. The percentages in the second column are the maximum limits which apply to all Funds. The Regulations include a provision for Funds to be able to elect to increase certain limits within parameters set out in a schedule to the Regulations. The Committee has elected to apply certain of these increased limits from 1st April 2015 and plans to review this election by 31st March 2018, as part of the next investment strategy review. These are shown in the final column of the table.

Investment Type	Regulatory limits	Election for increased limits
Any single sub-underwriting contract	1%	-
All contributions to any single partnership	2%	5%
All contributions to partnerships	5%	30%
All loans and any deposits with local authorities or their preceptors	10%	-
All investments in unlisted securities of companies	10%	15%
Any single holding unless guaranteed by Her Majesty's Government	10%	-
All deposits with any single bank, institution or person, (other than the National Savings Bank)	10%	-
All sub-underwriting contracts	15%	-
All investments in units or other shares of the investments subject to the trusts of unit trust schemes managed by any one body	25%	35%
All investments in open ended investment companies where the collective investment schemes constituted by the companies are managed by any one body	25%	35%
All investments in units or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body	25%	35%
Any single insurance contract	25%	35%
All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements	25%	-

Appendix 02

City of Westminster Pension Fund Statement of Investment Principles

Risks

The Fund recognises there are a number of risks involved in the investment of the assets of the Fund, including:

- The risk of failing to meet the objectives – the Committee regularly takes advice and monitors the investments and funding level to mitigate this risk.
- Funding and Asset/Liability mismatch risk – this is addressed through the regular actuarial and investment reviews. The majority of the Fund's liabilities are linked to inflation.
- Underperformance risk – this is addressed through monitoring closely the performance of the investment managers and taking necessary action when this is not satisfactory.
- Country risk – the risk of an adverse influence on investment values from political intervention is reduced by diversification of the assets across many countries.
- Currency risk – the risk of a loss in the value of the Fund's assets through holding assets in a currency other than sterling. Where feasible and practical, the Committee will look to manage the overall currency exposure of the underlying assets.
- Risk of inadequate diversification or inappropriate investment – this is addressed by investing in a diversified portfolio of assets thereby avoiding concentration of assets in one particular stock, sector or geographical area. The investment management agreements and pooled fund terms where appropriate, contain restrictions to limit the risks from each individual investment and prevent unsuitable investment activity.
- Organisational risk – this is addressed through regular monitoring of the investment managers, investment adviser and custodian.
- Liquidity risk – the risk that the Fund is unable to meet cashflows out of the Fund as and when required. To manage this risk, the majority of the Fund's investments are invested in funds or assets which in a normal market environment are realisable at short notice.

The Committee maintain and regularly review a risk register including the above investment risks.

Rate of return

The investment strategy set by the Fund is expected to generate an annual investment return of 5.9% as aligned with the triennial valuation from the actuary.

Realisation of investments

The majority of the Fund's investments are readily marketable and may be easily realised if required. Some of the Fund's investments, such as property investments are less liquid, but they make up a relatively small proportion of the total Fund.

The Committee monitors cashflow at its quarterly meetings to ensure there is sufficient cash to meet the Fund's obligations as they fall due.

Stock Lending

The Fund does not engage directly in the lending of stocks or other securities.

Appendix 02

City of Westminster Pension Fund Statement of Investment Principles

Investment Managers

The investment of the Fund's investments is undertaken externally. Some elements are managed on a segregated basis by investment managers appointed by the Committee. The remainder is invested in pooled fund products managed by external investment managers according to the terms of the selected funds. The current investment management arrangements for the Fund are:

Asset Class	Investment Manager/ investment product	Segregated / Pooled	Target Allocation	Benchmark and target
UK equities	Majedie Asset Management	Pooled	20%	FTSE All Share plus 2% p.a.
Global equities (passive)	Legal & General Investment Management	Pooled	20%	FTSE AW-World Index GBP Hedged +/-0.5% p.a.
Global equities (active)	Longview	Pooled	25%	MSCI World (GBP)
	Baillie Gifford	Pooled		MSCI AW Index plus 2%
Fixed Income	Insight	Segregated	20%	iBoxx £ Non-Gilt 1-15 Yrs Index plus 0.9%
UK Property	Hermes Property Unit Trust	Pooled	5%	IPD UK PPFI Other Balanced Funds Index
Long Lease Property	Standard Life	Pooled	5%	FT All Gilt index plus 2%
Property / Infrastructure	<i>To be determined</i>		5%	

Appendix 02

City of Westminster Pension Fund Statement of Investment Principles

SOCIAL, ENVIRONMENTAL AND ETHICAL POLICY

The Fund recognises that the neglect of corporate governance and corporate social responsibility may lead to poor or reduced shareholder returns. The Committee has considered how the Fund may best implement a corporate social responsibility policy, given the current resources available to the Fund. Accordingly, the Committee has delegated social, environmental and ethical policy to the investment managers, but also approved a Governance Strategy. The Committee believes this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and there is appropriate disclosure and reporting of actions taken. To that extent, the Committee maintains a policy of non-interference with the day-to-day decision making of the investment managers.

VOTING RIGHTS

The Committee has delegated the Fund's voting rights to the investment managers, who are required, where practical, to make considered use of voting in the interests of the Fund. The Committee expects the investment managers to vote in the best interests of the Fund.

The investment managers are required to regularly report voting actions and highlight where they do not vote in accordance with their stated policy.

COMPLIANCE WITH MYNERS' PRINCIPLES OF INVESTMENT DECISION MAKING

The LGPS (Management and Investment of Funds) Regulations 2009 require Funds to state the extent to which they comply with the six principles of investment practice set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme – A Guide to the Application of the Myners' Principles" and give reasons for not complying where they do not do so.

The principles and the City of Westminster's Fund's position on compliance are set out in the table below:

Appendix 02

City of Westminster Pension Fund Statement of Investment Principles

Compliance Requirement	Compliance	Notes
Principle 1: Effective Decision Making		
Administering Authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation.	Fully compliant	Decisions are made by the Pension Fund Committee, with advice from the Fund's investment adviser, Fund Actuary and officers. The Committee members receive quarterly reports on investment performance from the Investment Adviser.
The persons and organisations involved responsible for decisions should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.	Fully compliant	The Pension Fund Committee members collectively have the necessary experience and ability to challenge the advice they receive. The declaration of conflicts of interest is the first item on the agenda at each Pension Fund Committee meeting.
Principle 2: Clear Objectives		
An overall investment objective(s) should be set for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.	Fully compliant	The objectives are set out clearly and take into account the requirement to maintain an employer contribution rate as constant as possible over the long term. These are communicated to advisers and investment managers.
Principle 3: Risk and Liabilities		
In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk	Fully compliant	The structure of the liabilities has been considered in setting an investment strategy which recognises the need to mitigate against the risk of inflation and interest rates, which drive the liabilities, as well generate sufficient investment return to assist in achieving full funding.
Principle 4: Performance Assessment		
Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.	Fully compliant	<p>The Custodian independently measures the performance of the investment managers' portfolios and a summary of investment performance is provided to the Committee by the investment adviser quarterly.</p> <p>The investment adviser and Fund Actuary are appointed on fixed term contracts following tender processes and the quality of service is assessed through contract monitoring.</p> <p>The Committee does not periodically make a formal assessment of its own effectiveness as a decision-making body. However the performance of the Fund is reported in the Annual Report published on the website.</p>
Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to the scheme members.	Partially compliant	

Appendix 02

City of Westminster Pension Fund Statement of Investment Principles

Principle 5: Responsible Ownership

Administering authorities should: recognise and ensure their partners in the investment chain adopt, the FRC's UK Stewardship Code	Fully compliant	The Fund's investment managers have adopted the FRC's UK Stewardship Code.
Include a statement of their policy on responsible ownership in their statement of investment principles	Fully compliant	See section 6 of this document
Report periodically to scheme members on the discharge of these responsibilities	Fully compliant	As this Statement of Investment Principles forms part of the Annual Report and Accounts, the statements above comply with this requirement.

Principle 6: Transparency and Reporting

Administering authorities should: act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives.	Fully compliant	The information is provided in the Pension Fund Annual Report and Accounts which is available through the website.
Provide regular communication to scheme members in the form they consider most appropriate.	Fully compliant	The published annual report and accounts are considered sufficient, since the benefits of the scheme are defined and guaranteed by statute.

Appendix 03 City of Westminster Superannuation Fund Communications Policy

BACKGROUND

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

- Scheme Members
- Members' Representatives
- Prospective members
- Employers participating in the Fund

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

GENERAL COMMUNICATIONS

Correspondence:

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

Telephone:

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

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

Briefing Sessions and Pension Surgeries:-

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

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

Pension's Intranet site:

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

It also contains:

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

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

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

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

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

Appendix 03

City of Westminster Superannuation Fund Communications Policy

PROSPECTIVE SCHEME MEMBERS

Scheme Guides:-

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

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

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

OTHER EMPLOYERS

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

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

OTHER BODIES

London Pensions Officer's Group:

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

National Association of Pension Funds (NAPF):

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

Seminars:

Representatives of the Council regularly participate at seminars and conferences.

Appendix 03

City of Westminster Superannuation Fund Communications Policy

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

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

Appendix 03

City of Westminster Superannuation Fund Communications Policy

FURTHER INFORMATION

If you need more information about the Scheme you should contact the London Pensions Fund Authority at the following address:

SURREY COUNTY COUNCIL

Pension Services (WCC Team)
Surrey County Council
Room G59, County Hall
Penrhyn Road
Kingston upon Thames
Surrey KT1 2DN
Email: wccpensions@surreycc.gov.uk

General enquiries and complaints:

Phone: 0208 541 9293

WESTMINSTER CITY COUNCIL

Trevor Webster
Senior HR Manager
Westminster City Council
Human Resources
City Hall
64 Victoria Street
London, SW1E 6QP
Tel: 0207 641 2803
Email: twebster@westminster.gov.uk

Appendix 04 City of Westminster Superannuation Fund

Funding Strategy

This is the Funding Strategy Statement of the City of Westminster Superannuation Fund, which has been prepared following consultation with the Fund's employers and advisers. It was approved by the Superannuation Committee on 18 March 2014. The next formal review will take place in conjunction with the next triennial valuation due as at 31st March 2016, but it will be updated in the interim if required.

1. PURPOSE OF THE FUNDING STRATEGY STATEMENT

1.1 This Funding Strategy Statement is prepared in accordance with regulation 35 of the Local Government Pension Scheme Administration Regulations 2008. The purpose is to explain the funding objectives of the Fund in a clear and transparent way and in particular:

- How the costs of the benefits under the Local Government Pension Scheme are met through the Fund;
- The objectives in setting employer contribution rates;
- The prudent long term funding strategy being adopted to meet the Fund's liabilities.

2. AIMS AND PURPOSE OF THE FUND

2.1 The aims of the Fund are to:

- Ensure that sufficient resources are available to meet all liabilities as they fall due;
- Maximise the returns from investments within reasonable risk parameters;
- Enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled and admitted bodies;
- Manage employers' liabilities effectively and in particular minimise irrecoverable debt when an employer ceases to participate.

2.2 The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits under the Regulations;
- Meet the costs associated in administering the Fund;
- Receive monies in respect of contributions, transfer values and investment income.

3. RESPONSIBILITIES OF KEY PARTIES

3.1 There are three key parties involved in the administration of the Fund and funding the liabilities. Their relative responsibilities are set out below:

The Administering Authority

3.2 The Administering Authority for the Superannuation Fund is the City of Westminster and the main responsibilities are:

- Collect employer and employee contributions from all employers;
- Pay benefits to scheme members;
- Ensure cash is available to meet benefit payments when they fall due;
- Invest the Fund's assets;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain a Funding Strategy Statement and Statement of Investment Principles in consultation with interested parties;
- Monitor all aspects of the Fund's performance.

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City of Westminster Superannuation Fund Funding Strategy

Individual Employers

- 3.3 In addition to the Administering Authority, various scheduled and admitted bodies participate in the Fund. The main responsibilities of all these employers including the Administering Authority in its role as an employer, are to:
- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the Administering Authority within statutory timescales;
 - Notify the Administering Authority of any new scheme members and any other membership changes promptly;
 - Exercise the discretions permitted under the regulations as appropriate;
 - Meet the costs of augmentation, early retirement strain costs and any other additional costs in accordance with agreed policies and procedures.

The Fund Actuary

- 3.4 The Pension Fund's Actuary is Barnett Waddingham LLP. Their main responsibilities are to:
- Prepare valuations, including the setting of employers' contributions rates, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement;
 - Agree a timetable for the valuation process with the Administering Authority to provide timely advice and results;
 - Prepare advice and calculations in connection with bulk transfer and individual benefit related matters.

4. FUNDING TARGET, SOLVENCY AND METHODS

- 4.1 The funding target for the Fund is to secure the solvency of the Fund by having sufficient assets in the Fund to meet all liabilities. This is measured via the funding level and with the aim of achieving a funding level of 100% over a reasonable period of time.

- 4.2 In accordance with the Local Government Pension Scheme Regulations, the Fund Actuary carries out a valuation of the Fund every three years to measure the funding level and to set employer contribution rates to achieve the funding target.
- 4.3 The last actuarial valuation was carried out as at 31st March 2013 and the actuarial method applied for open employers (those still admitting new members) was the Projected Unit Method. This considers separately the benefits in respect of service built up before the valuation date ("past service") and service expected to be completed after the valuation date ("future service"). This approach provides:
- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay for pensions in payment. A funding level in excess of 100 per cent indicates a surplus of assets over liabilities; while a funding level of less than 100 per cent indicates a deficit; and
 - The future service funding rate which is the level of contributions required from the individual employers, which in combination with employee contributions, is expected to support the cost of benefits accruing in future.

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City of Westminster Superannuation Fund Funding Strategy

4.4 For employers closed to new entrants, the funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over the remaining expected working lifetime of active members.

4.5 The introduction of the revised Local Government Pension Scheme (LGPS 2014) from 1st April 2014 was incorporated into the Fund Actuary's calculations of future service funding rates at the 2013 valuation.

5. VALUATION ASSUMPTIONS

5.1 In undertaking the actuarial valuation calculations, it is necessary to make a number of assumptions about the future. These can be categorised as:

- Financial assumptions which determine the estimates of the amount of benefits and contributions payable and their current or present value; and
- Statistical assumptions which are estimates of the likelihood of benefits and contributions being paid.

Financial Assumptions: Future Price Inflation

5.2 The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (or "RPI").

Financial Assumptions: Future Pay Inflation

5.3 Future levels of pay increases will determine the level of some of the benefits to be paid in future in respect of pre 1 April 2014 service for active members as well as the contributions that will be received by the Fund. At the 2013 valuation it has been assumed that long term pay inflation will be 1.8% above the Consumer Prices Index (CPI), but in recognition of the current economic climate, a short term assumption has been made that pay inflation will be equal to CPI for two years.

Financial Assumptions: Pension Increases

5.4 Pension increases are linked to changes in the level of the Consumer Price Index (or "CPI"). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. An adjustment is therefore made to the RPI assumption to derive the CPI assumption.

Financial Assumptions: Future Investment Returns/Discount Rate

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

5.6 The discount rate that is applied reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date.

Financial Assumptions: Value of Assets

5.7 For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

Statistical Assumptions

5.8 The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

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City of Westminster Superannuation Fund Funding Strategy

6. DEFICIT RECOVERY OR SURPLUS AMORTISATION PERIODS

6.1 Whilst the funding target for the Fund is to have sufficient assets in the Fund to meet all liabilities, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally be either in deficit or surplus.

6.2 Where the actuarial valuation discloses a deficit, the period of time over which the deficit will be funded is set – this is the deficit recovery period. The deficit recovery period varies according to the type of employer, but is never more than the period set for the overall Fund. The table overleaf describes the general approach, but the approach for each employer will be determined by their particular circumstances.

Employer	Recovery period
Administering Authority	A period equal to the overall Fund deficit recovery period reflecting the strength of covenant of the Council and its tax raising powers (currently 25 years)
Scheduled bodies and open community admission bodies)	A period no longer than the overall Fund deficit recovery period, depending on the strength of the covenant and any guarantees in place
Closed admission bodies	Generally a period no longer than the expected future working lifetime of the active scheme members, but this will depend on the strength of the covenant and any guarantees or bond in place.
Transferee admission bodies	A period no longer than the length of their current contract, depending on the strength of the covenant and any guarantees or bond in place

6.3 If the actuarial valuation shows a significant surplus, the relevant employers' contribution rates will be adjusted to amortise it over a period of time agreed with the Fund Actuary. However, if the surplus is not significant relative to the employer's liabilities or there is any concern about the strength of the covenant of the employer, then it will remain in the Fund.

7. POOLING OF EMPLOYERS

7.1 The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

7.2 However, certain groups of individual employers may be pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of scheme members is small. The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst, recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

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City of Westminster Superannuation Fund Funding Strategy

7.3 Employers can request to be considered as part of a pool and the decision to permit this will be made by the Administering Authority in conjunction with the Fund Actuary. Once an employer is part of a pool, it can only opt to exit it in exceptional circumstances.

8. ADMISSION OF NEW EMPLOYERS

8.1 The admission of new employers will be in accordance with the Regulations and will be determined as below:

Employer	Recovery period
Scheduled bodies	New bodies added to the schedule of the Local Government Pension Scheme Regulations by central government will be automatically admitted to the Fund
Community admission bodies	Bodies which have a link to the Administering Authority will only be admitted to the Fund if a bond has been provided or a guarantee from another employer in the Fund has been provided.
Transferee admission bodies	Bodies which take on a contract for the Administering Authority or a scheduled body will be admitted to the Fund providing their admission meets the requirements of the regulations and the provision of a bond or guarantee has been agreed

8.2 The Fund Actuary will assess all new employers to the Fund at the time of admission and set an appropriate employer contribution rate in accordance with the funding strategy. They will also undertake a risk assessment on behalf of the Fund to recommend the appropriate level of bond.

9. CESSATION VALUATIONS

9.1 On the cessation of an employer's participation in the Fund, the Fund Actuary will be asked to make a termination assessment, in accordance with the requirements of the Local Government Pension Scheme Regulations. If another employer in the Fund is taking over responsibility for the liabilities of the departing employer, they will be transferred to that employer on an on-going basis applying the discount rate applicable to the Fund as a whole.

9.2 If there is no employer in the Fund to take responsibility for the liabilities of a departing employer, then the Fund Actuary will adopt a discount rate based on gilt yields when calculating the termination assessment. This approach ensures that the other employers in the Fund are protected from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

10. LINKS TO THE STATEMENT OF INVESTMENT PRINCIPLES

10.1 The funding and investment strategies are inextricably linked. The investment strategy is set after taking investment advice and a prudent assessment of the expected return from the agreed strategy is used to determine the Fund's discount rate, which is a key element in the funding strategy. This process ensures consistency between the funding strategy and the investment strategy.

11. KEY RISKS AND CONTROLS

11.1 The Administering Authority is developing a risk register which is to be reviewed regularly by the relevant Committee. Below is a summary of the key risks which could impact the ability of the Fund to achieve the funding target.

Financial Risks

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

Appendix 04

City of Westminster Superannuation Fund Funding Strategy

11.3 To mitigate this risk, the Superannuation Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the investment advisers and officers on investment strategy. The Committee may also seek advice from the Fund Actuary on valuation related matters.

11.4 In addition, from 2014, the Fund Actuary will be providing regular funding updates between valuations to enable the Committee to see whether the funding strategy continues to be on track to meet the funding target.

Demographic Risks

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

11.6 The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

11.7 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements. However, the Administering Authority monitors the incidence of early retirements; and additional contributions towards the costs are collected from employers as appropriate.

Regulatory Risks

11.8 The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by central government. The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

11.9 The Administering Authority participates in the consultation process of any proposed changes in regulations to attempt to mitigate this risk and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

Governance Risks

11.10 Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; or
- An employer ceasing to exist without having fully funded their pension liabilities.

11.11 To mitigate this risk, the Administering Authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

11.12 In addition, the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

12. MONITORING

12.1 This Funding Strategy Statement is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process. However it will be updated in the interim if required.

12.2 The Administering Authority monitors the investment performance and funding level of the Fund on a quarterly basis through the Superannuation Committee and keeps the strength of covenant of the employers under continuous review.

