



# Annual Report

City of Westminster Pension Fund • **2020/21**





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# Preface



# Report from Chairman 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 governance of the Westminster City Council Pension Fund, including investment management and pensions administration. As the Chairman of this Committee, I am pleased to introduce the Pension Fund's Annual Report for the year 2020/21.

During the year, the value of the Fund increased by £428m to £1,751m, reflecting the complete recovery of assets from the impact of the COVID-19 pandemic shock at the end of 2019/20 and leading the fund to all time high asset valuations. Markets have stabilised across all asset classes, but the Pension Fund Committee continues to monitor the Fund closely at every meeting and challenges the officers, investment advisers and investment managers as necessary to ensure the Fund's investments are being managed effectively.

The Pension Fund was last valued by the Fund's actuary, Barnett Waddingham, at the 31 March 2019 triennial actuarial valuation. The actuary reported that the Fund has sufficient assets to cover 99% of the liabilities. Preparations are commencing for the next actuarial valuation as at 31 March 2022 with planned improvements to the Fund's membership data. The City Council's deficit recovery plan is continuing to pay enhanced deficit contributions to the Fund throughout 2021/22, with the aim of improving the overall funding level and reducing the deficit recovery period.

The Fund continues to work closely with its LGPS pool, the London Collective Investment Vehicle (LCIV), to achieve efficiencies through pooling of Pension Fund assets. The Fund continues to benefit from the lower fees negotiated by LCIV on its Legal and General Passive Equities Portfolio, as well as benefitting from lower fees in active equity and alternative investment managers. The Fund's proportion of assets pooled now is over 72%, making the City of Westminster Pension Fund one of the biggest investors within the London CIV pool.

The Pension Fund is committed to being a responsible investor and has made great strides within renewable energy infrastructure and other Environment, Governance and Social (ESG) investments in the last year. The Pension Fund has committed 6% of its total allocation to renewable infrastructure investments which, alongside the positive environmental externalities, will secure genuine diversification of portfolio risk and long term stable cash flows for the Fund.

The Fund has also reorganised its equity portfolio to reduce its carbon exposure which is a considerable long term investment risk. This has been achieved by transferring its previous active UK equity portfolio to the LCIV Global Sustain Fund managed by Morgan Stanley Investment Management, which excludes investment in fossil fuels, alcohol, firearms, weapons and tobacco. In addition, the Fund's passive equity portfolio has been reorganised to allocate more capital to companies that are better aligned to the UN sustainable development goals.

The Pension Fund launched its inaugural Responsible Investment Statement in 2021, setting out the Fund's commitment to environmental, social and governance factors as a core part of its investment decision making. Since 2018, the Fund has reduce its carbon to value invested by over 60% in its equity portfolio as part of this core investment strategy.

In addition, as the Chairman of the Westminster City Council Pension Fund, I regularly attend the Responsible Investment working group at the London CIV, where discussions on ESG and responsible investment issues with other London Borough funds are being explored further.

The Pension Fund's annual general meeting will likely be held in early 2022 as the situation allows with Covid-19 restrictions.

I would like to thank all those involved in the governance of the Westminster Pension Fund during the year during 2020/21.



Councillor Eoghain Murphy  
Chairman of the Pension Fund Committee



# Introduction

The City of Westminster Pension Fund is part of the national Local Government Pension Scheme (LGPS), 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. Contribution rates for employees and employers are set by the Fund's actuary at the actuarial valuation which is carried out every three years. The most recent revaluation, carried out as at 31 March 2019, was used to set contribution rates with effect from 1 April 2020 through to April 2023.

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.

Benefits payable from the Fund are set out in the Local Government Pension Scheme Regulations 2013, as amended, and in summary consist of:

- A pension based on career average earnings (revalued in line with the Consumer Price 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 2016. The content and format of this annual report is prescribed by the LGPS Regulations 2013.

Publication of this report gives the Council the opportunity to demonstrate the high standard of governance and financial management applied to the Fund. It brings together several separate reporting strands into one comprehensive document that enables both the public and employees to see how the Fund is managed and how well it is performing.

It is in the interest of both employees and the public that the Fund is well managed and continues to provide high returns and excellent value for money.

Detailed guidance on the accounting and disclosure requirements for LGPS financial statements and annual report is published by CIPFA annually and can be found online. This guidance includes a Code disclosure checklist, listed by must, should and may, which the City of Westminster has applied in the preparation of the annual report and accounts.



## Introduction (continued)

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** for the year ended 31 March 2021
- **Asset Pools** and their governance structure including costs
- **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
  - Investment Strategy Statement
  - Communication Policy
  - Funding Strategy Statement
- Further information about the Local Government Pension Scheme can be found at <https://www.westminster.gov.uk/about-council/city-westminster-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 are set out in Appendix 1 as part of the Governance Compliance Statement.

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

The current membership of the Pension Fund Committee is:

- Councillor Eoghain Murphy (Chairman)
- Councillor Barbara Arzymanow
- Councillor Angela Harvey
- Councillor Patricia McAllister

Councillors may be contacted at 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 on the Pension Fund website at:

<https://www.westminster.gov.uk/media/document/terms-of-reference-city-of-westminster-pension-board>

The Board comprises six members – three from the Council representing employers and three employee representatives. The Chairman is elected by the Board.

The Board membership during 2020/21 was as follows:

- Councillor Tim Mitchell (Chairman)
- Councillor Guthrie McKie (Vice-Chairman)
- Terry Neville (Member Representative)
- Marie Holmes (Employer Representative)
- Christopher Smith (Member Representative)
- Chris Walker (Member Representative)

## CONFLICTS OF INTEREST

The Pension Fund is governed by elected members acting as trustees and the Code of Conduct for elected members sets out how any conflicts of interests should be addressed. A copy is available from Legal and Democratic Services at 64 Victoria Street, London, SW1E 6QP or by telephone: 020 7641 3160.

The Code includes general provisions on ethics and standards of behaviour which require elected members to treat others with respect and not to bully, intimidate or do anything to compromise the impartiality of those who work for or on behalf of the Council. The Code also contains rules about "disclosable pecuniary interests" and sets out the 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 LGPS Regulations 2013 require Pension Funds to prepare, publish and maintain a governance compliance statement; and to measure the governance arrangements in place 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 in Section 9.

# Scheme Management and Advisors

## EXTERNAL PARTIES

Investment Adviser	Deloitte	
Investment Managers	<b>Equities (Active)</b> London LGPS CIV Ltd - Baillie Gifford Longview London LGPS CIV Ltd - Morgan Stanley <b>Equities (Passive)</b> Legal and General Investment Management <b>Infrastructure</b> Pantheon Ventures	<b>Renewable Infrastructure</b> Macquarie Asset Management Quinbrook Partners <b>Fixed Income</b> Insight Investment London LGPS CIV Ltd - CQS <b>Property</b> Hermes Investment Management Ltd* Standard Life Investments
Asset Pool	London CIV	
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	Utmost Life and Pensions

## OFFICERS

Executive Director - Finance and Resources & Section 151 Officer Director of People Services	Gerald Almeroth Lee Witham	
Tri-Borough Pensions Team	Phil Triggs Matthew Hopson Mathew Dawson Billie Emery	Julia Stevens Tim Mpofu to Jan 2021 Patrick Rowe from Feb 2021 Alastair Paton
Pensions and Payroll Officer	Sarah Hay	

Contact details are provided in Section 8 of this report. \*Hermes Investment Management Ltd was terminated during 2020/21.



# 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 objective areas of risk have been updated to reflect the CIPFA risk classifications. The Risk Register is managed by the Tri-Borough Director of Pensions and Treasury.

The key risks identified within the Pension Fund risk register, as updated on 5 May 2021, are:

Objective area at risk	Risk	Risk rating	Mitigating actions
Asset and Investment Risk	The global outbreak of COVID-19 poses economic uncertainty across the global investment markets.	High	TREAT 1) Officers will continue to monitor the impact lockdown measures have on the Funds' investments. 2) The Fund holds a diversified portfolio, which should reduce the impact of stock market movements. 3) Asset allocation was reviewed during June 2020, a new strategy was agreed in light of COVID-19 with ESG focused equity and renewable infrastructure mandates agreed. 4) Pension Fund Officers in frequent contact with Fund Managers and the Fund's investment advisor.
Asset and Investment Risk	Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty. Increased risk to global economic stability.	High	TREAT 1) Continued dialogue with investment managers re management of political risk in global developed markets. 2) Investment strategy involving portfolio diversification and risk control. 3) Investment strategy review took place during June 2020 and a new strategic asset allocation was agreed.
Administrative and Communicative Risk	Failure to successfully transition the pensions administration service to Hampshire County Council by 1 December 2021, following termination of Surrey contract. Alongside this the administration software is to be moved from Heywood's Altair to Civica.	High	TREAT 1) The Pension Fund is moving the pensions administration service to Hampshire CC following termination of the Surrey contract. 2) Officers maintain regular contact with Surrey CC and Hampshire CC administration team during this time. 3) Project manager to join Westminster City Council on 25 February 2021, to lead the pensions administration transfer project including administration software.

## Risk Management (continued)

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

The Funding Strategy Statement (at Appendix 4) 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.

Objective area at risk	Risk	Risk rating	Mitigating actions
Administrative and Communicative Risk	Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints. There is a concern regarding the high level of senior management departures.	Medium	TREAT 1) Surrey CC administers pensions for Surrey, East Sussex, LB Hillingdon and the Tri-Borough. All Tri-Borough Pension Funds are transitioning their pensions administration from Surrey CC. 2) Officers will continue to monitor ongoing staffing changes at Surrey CC. 3) Ongoing monitoring of contract and KPIs.
Asset and Investment Risk	Investment managers fail to achieve benchmark/ outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.7m. Following COVID-19, there was some concern around Fund Managers outperforming their benchmarks.	Medium	TREAT 1) The Investment Management Agreements (IMAs) clearly state WCC's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be achieved. 4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.
Liability Risk	Scheme members live longer than expected leading to higher than expected liabilities.	Medium	TOLERATE 1) The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.
Liability Risk	Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 0.47%.	Medium	TREAT 1) Actuarial valuation results show an increase in the CPI assumption of 0.2% from the 2016 valuation. 2) The fund holds investment in index-linked bonds RPI protection which is higher than CPI and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection.



## 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 independent internal controls assurance reports from the reporting accountants to the relevant service providers. These independent reports are prepared 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 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 covered by this process as and when the audits take place.

**Periods covered by the above reports are typically not aligned with the Pension Fund's financial year. The following bridging statements have been provided:**

<sup>1</sup> Aberdeen Standard – "With reference to the Aberdeen Standard Investments Internal Controls Report for the period ended 30 September 2020; to the best of my knowledge there have been no material changes in the operation of the internal controls covered within the report that would be likely to impact the auditors' opinion for the period 1 October 2020 to 31 March 2021."

<sup>2</sup> Baillie Gifford – "We confirm that since 30 April 2020 the controls in operation continue to be designed effectively in order to meet the control objectives and we are not aware of any significant weaknesses identified

The results of these reviews are summarised below and cover 100% of investment holdings at 31 March 2021.

Fund manager	Type of assurance	Control framework	Compliance with controls	Reporting accountant
Aberdeen Standard <sup>1</sup>	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Baillie Gifford (LCIV) <sup>2</sup>	ISAE3402	Reasonable assurance	Reasonable assurance	PwC LLP
CQS (LCIV) <sup>3</sup>	ISAE3402	Reasonable assurance	Reasonable assurance	Deloitte
Hermes <sup>4</sup>	ISAE3402	Reasonable assurance	Reasonable assurance	EY LLP
Insight <sup>5</sup>	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
LGIM	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Longview	ISAE3000	Reasonable assurance	Reasonable assurance	EY LLP
Macquarie	ISAE3402	Reasonable assurance	Reasonable assurance	PwC LLP
Morgan Stanley (LCIV) <sup>6</sup>	ISAE3402	Reasonable assurance	Reasonable assurance	Deloitte
Pantheon Ventures	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Quinbrook <sup>7</sup>	ISAE3402	Reasonable assurance	Reasonable assurance	BDO
<b>Custodian</b>				
Northern Trust	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP

within our internal control environment, which would result in a qualified opinion within the Report for the year to 30 April 2021."

<sup>3</sup> CQS – "On behalf of CQS, we note that we do not believe there have been any changes to the procedures and controls described in that report for the period 1 January 2020 to 31 March 2021 that would result in a change in results of the assurance report."

<sup>4</sup> Hermes – "To the best of my knowledge, the ISAE 3402 Report for the year to 31 December 2019 continues to provide a substantially accurate description of the internal controls environment within Hermes Fund Managers Limited for the period 1 January 2020 to 31 March 2021."

<sup>5</sup> Insight – "To the best of our knowledge there have been no material adverse changes to the control environment and/or objectives, and the control environment continued to operate substantially in accordance with the objectives, policies and procedures as stated and tested in the latest available report, between 1st October 2020 and 28th February 2021."

<sup>6</sup> Morgan Stanley – "To the best of our knowledge, the internal control environment covered in the SSAE18 report provided has not changed materially through the period of July 1, 2020 to March 31, 2021."

<sup>7</sup> Quinbrook – "can confirm that there were no significant changes in the policy, procedures and control environment from 1st October 2019 to 31st March 2021."

Risk Management (continued)

INTERNAL AUDIT TESTING

The Council’s Internal Audit function provides a level of assurance over the Pension Fund’s activities, including investment records, financial and performance reporting, pensions administration, systems and controls and organisational and management requirements. The most recent internal audit of the Pension Fund investment process took place during March 2018 and was followed up in April 2019, whereby the Fund was awarded a satisfactory audit opinion.

ASSURANCE OPINION

	Nil	Limited	Satisfactory	Substantial
Audit Opinion			☑	

RECOMMENDATIONS SUMMARY

Area of Scope	Frequency	Adequacy	Effectiveness
Regulatory, Organisational and Management Requirements	Every 2-3 years		
Pension Fund Investment Transactions and Records	Every 2-3 years		
Financial and Performance Management Reporting	Every 2-3 years		
Controls over Systems and Records	Every 2-3 years		

A number of audit recommendations were raised following the internal audit, as of 31 March 2021 all recommendations have been fully or partially implemented.



# Financial Performance

The Fund asset value increased by £428m to £1,752bn as at 31 March 2021 from £1,324bn as at 31 March 2020. This was largely as a result of exceptional performance within the equity funds, following the COVID-19 outbreak during the first quarter of 2020.

The most recent triennial valuation took place as at 31 March 2019, this will cover the three financial years from 2020/21. The funding level has increased greater than anticipated during the 2019 valuation to a 99% funding level as at 31 March 2019, up 19% from the 2016 valuation. However, funding levels for different employers vary significantly.

## ANALYTICAL REVIEW

	2017/18	2018/19	2019/20	2020/21
<b>Fund Account</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Dealings with members				
Contributions	(58,868)	(61,242)	(72,616)	(61,192)
Pensions	57,350	58,189	63,697	64,076
<b>Net (additions)/withdrawals from dealings with members</b>	<b>(1,518)</b>	<b>(3,053)</b>	<b>(8,920)</b>	<b>2,884</b>
Management expense	5,734	5,823	6,834	10,087
Net investment returns	(15,785)	(12,242)	(17,975)	(8,665)
Change in market value	(56,708)	(72,883)	114,858	(432,486)
<b>Net (increase)/decrease in the Fund</b>	<b>(68,277)</b>	<b>(82,356)</b>	<b>94,798</b>	<b>(428,181)</b>

Over the four-year period, contributions received have exceeded pensions paid by £10.6m. This is due to the increased level of deficit recovery contributions to bring the funding level to 100% as at 31 March 2019.

Net investment returns in 2020/21 have decreased from 2019/20, this is due to switching part of the equity holdings into accumulation funds, whereby distributions are reinvested.

During 2020/21, the net increase in Fund value was £428m, compared to a decrease in value of £94m during the 2019/20. This is due to equities performing exceptionally well during the year.

Both officers and the Pension Fund Committee monitor investment performance closely and refer to independent investment advisers as necessary to ensure the Fund's investments are being managed effectively.

## Financial Performance (continued)

	2017/18	2018/19	2019/20	2020/21
<b>Net Asset Statement</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fixed Interest Securities	183,879	-	-	-
Equities	150	150	150	150
Pooled Investment Vehicles	1,129,276	1,402,288	1,300,427	1,684,306
Cash Deposits	10,321	5,802	19,044	62,788
Other	6,453	120	119	109
<b>Total Investment Assets</b>	<b>1,330,079</b>	<b>1,408,360</b>	<b>1,319,740</b>	<b>1,747,353</b>
Current assets	6,728	11,293	4,640	5,198
Current Liabilities	(831)	(1,321)	(846)	(836)
<b>Total Net Assets available to fund benefits</b>	<b>1,335,976</b>	<b>1,418,332</b>	<b>1,323,534</b>	<b>1,751,715</b>

The points to note are:

- 73% of pooled investment vehicles comprise of global equity shareholdings, 20% within fixed income funds, 4% in property pooled funds while the remaining 3% is invested in Infrastructure (65% within equity pooled funds, 23% in fixed income, 10% within property pooled funds and 2% in infrastructure in 2019/20).
- The overall value of pooled investment vehicles increased by £384m (30%) during the year.
- Cash deposits increased by £44m due to the sale of the Hermes Property Fund during the year.
- The Fund no longer holds direct investments within fixed interest securities.

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

## Financial Performance (continued)

### ANALYSIS OF DEALINGS WITH SCHEME MEMBERS

	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
<b>Contributions receivable</b>				
- Members	(8,894)	(8,982)	(10,105)	(10,854)
- Employers	(44,982)	(45,363)	(54,244)	(46,660)
- Transfers in	(4,992)	(6,897)	(8,267)	(3,678)
<b>Total Income</b>	<b>(58,868)</b>	<b>(61,242)</b>	<b>(72,616)</b>	<b>(61,192)</b>
<b>Benefits/Expenses</b>				
- Pensions	43,802	45,610	47,628	49,146
- Lump sum retirements and death benefits	8,674	7,464	7,092	8,677
- Transfers out	4,807	4,919	7,480	5,602
- Refunds	67	196	306	130
- Payments in respect of tax	-	-	1,190	521
<b>Total Expenditure</b>	<b>57,350</b>	<b>58,189</b>	<b>63,697</b>	<b>64,076</b>
<b>Net Dealings with Members</b>	<b>(1,158)</b>	<b>(3,053)</b>	<b>(8,920)</b>	<b>2,884</b>

The key variances were due to the following:

- Employer contributions decreased by £7.6m during 2020/21, this was due to the reduced level of deficit recovery receipts during the year.
- Transfers out decreased in 2020/21 because less members chose to transfer their benefits to another employer or remove them under the freedom of choice legislation.
- Transfers in also decreased during the year, reflecting a lower number of new starters joining the scheme and members choosing to transfer in benefits on commencement of employment.
- There were payments in respect of tax of £521k during 2020/21, this relates to VSP tax payments in respect of members' annual/lifetime allowances.



## Financial Performance (continued)

### ANALYSIS OF OPERATIONAL EXPENSES

The costs of running the pension fund are shown below.

	2018/19	2019/20	2020/21
	£'000	£'000	£'000
<b>Administration</b>			
Employees	184	352	308
Supplies and services	363	398	673
	<b>546</b>	<b>750</b>	<b>981</b>
<b>Governance and Oversight</b>			
Employees	240	183	236
Investment advisory services	100	78	92
Governance and compliance	44	73	43
External audit	16	16	25
Actuarial fees	36	72	32
	<b>437</b>	<b>423</b>	<b>428</b>
<b>Investment Management</b>			
Management fees	4,572	4,779	6,211
Performance fees	0	85	45
Custodian fees	38	31	54
Transaction Costs	230	768	2,368
	<b>4,840</b>	<b>5,662</b>	<b>8,678</b>
<b>Total</b>	<b>5,823</b>	<b>6,834</b>	<b>10,087</b>

The key variances were due to the following:

- Increased costs for administrative services in 2020/21 from 2019/20, due to an increase in the Surrey County Council administration contract fees, along with payment of the 5-year license fee for the administration software, Altair.
- Governance and oversight costs during 2020/21 have remained in line with 2019/20. However, employee costs have increased due to changes in the recharge split within the Tri-Borough S113 agreement.
- The increase in investment management costs in 2020/21 reflects the increased market value of the assets. Additionally, the cost transparency code has led to greater disclosure of transaction costs, as well as investment within more complex asset classes, which carry a higher management charge.

# Administration Management Performance

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

## PERFORMANCE INDICATORS

The contract with Surrey County Council includes a number of 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		
		2018/19	2019/20	2020/21
Letter detailing transfer in quote	30 days	100%	100%	100%
Letter detailing transfer out quote	30 days	99%	98%	99%
Process refund and issue payment voucher	14 days	96%	100%	100%
Letter notifying estimate of retirement benefit	5 days	99%	91%	91%
Letter notifying actual retirement benefit	5 days	99%	100%	96%
Letter acknowledging death of member	5 days	95%	100%	98%
Letter notifying amount of dependant's benefits	5 days	98%	100%	100%
Calculate and notify deferred benefits	30 days	98%	100%	100%

The performance indicators for 2020/21 show performance is broadly in line with 2019/20 and still an improvement from 2018/19.

A switch to working from home, following the outbreak of COVID-19, had a slightly negative impact on the performance indicators including notifying of actual retirement benefits and letters acknowledging the death of a member. However, there have been no delays in processing pension payments and no impact on the accuracy of final calculations made.

Looking forward, the pensions administration service will be transitioned from Surrey County Council to Hampshire County Council from 1 December 2021. This includes a change in administration software from Heywood's Altair to Civica.

## ORBIS

The Pension Fund uses the ORBIS on-line pension system, which enables members to:

- Update personal details
- Check membership records and calculate pension projections
- View payslips and P60s
- Nominate beneficiaries

Scheme employers can use the new system to:

- Submit starter and leaver details and other changes online
- View and update employee details
- Run benefit calculations, e.g. early retirements

## 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 section 4)

There have been three stage 1 IDRP cases during 2020/21.

Of those cases:

- one accepted compensation
- the second was offered compensation but elected to go to the Ombudsman, however no decision has yet been made

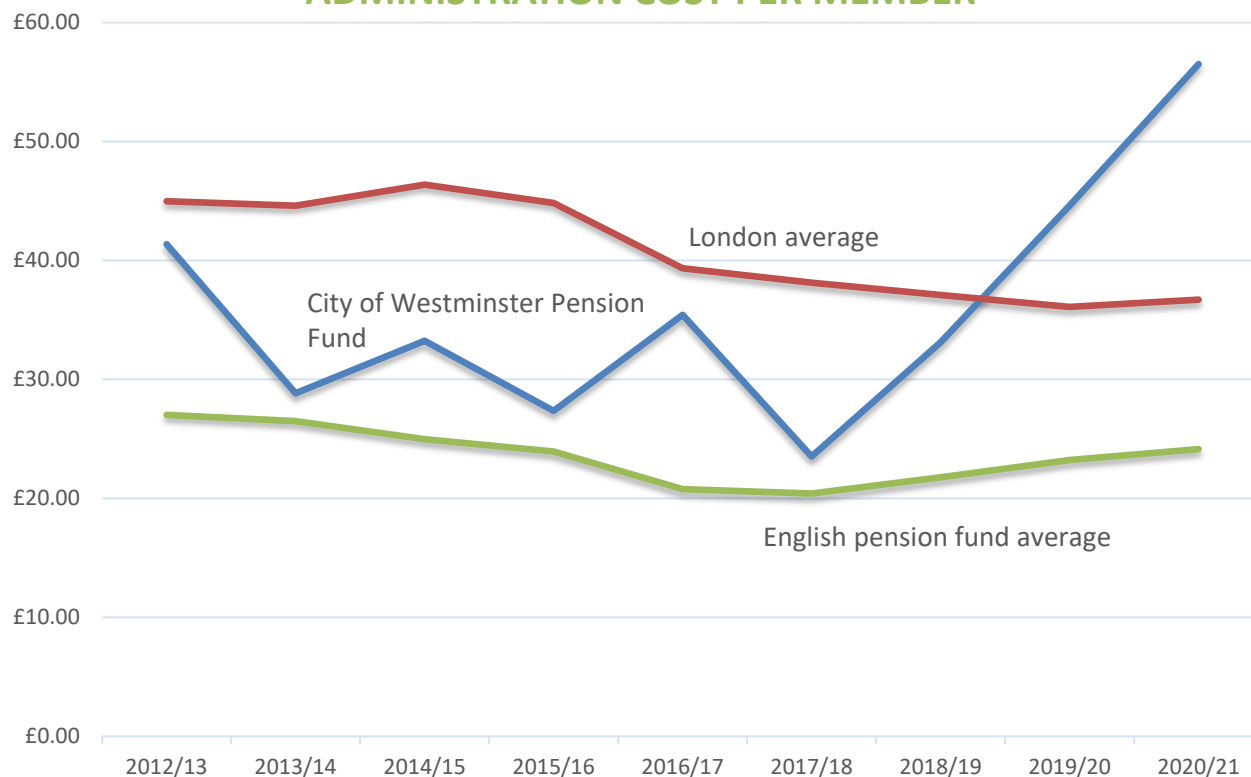
- the third case was rejected and there is a stage 2 IDRP case ongoing, but this is not yet completed.

There has also been one additional stage 2 IDRP, a compensation offer was made, and the case is now closed.

In addition, there was one Ombudsman case where the members complaint was partially upheld, and a compensation payment made.

# Administration Management Performance (continued)

## ADMINISTRATION COST PER MEMBER



## 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
- 4.45 fte Westminster HR staff to deal with internal administration.
- 2.2 fte Westminster Finance staff, assigned to the oversight and governance of the Pension Fund.

The contract for administering the Fund was tendered in 2014 resulting in Surrey County Council being appointed. Costs rose slightly in 2014/15 as a result of the changeover of administrator, and again in 2016/17 reflecting the implementation of the ORBIS online portal. Although this reduced in 2017/18, this has increased in the years to 2020/21 due to ad hoc administration works in relation to data cleansing, GMP reconciliation, microfiche retrieval works and an increase in the Surrey annual administration charge. In addition to this the number of FTE Westminster HR personnel has increased from 2.5 FTE in 2018/19 to 4.45 FTE in 2020/21.

During 2019/20, costs increased above the average for London borough pension funds. This was largely due to the increased size of the HR administration function following the end of the BT finance contract and works relating to data cleansing. This rose again significantly during 2020/21, this relates to an increase in the annual administration charge, as well as payment relating to the administration software 5-year license fee.



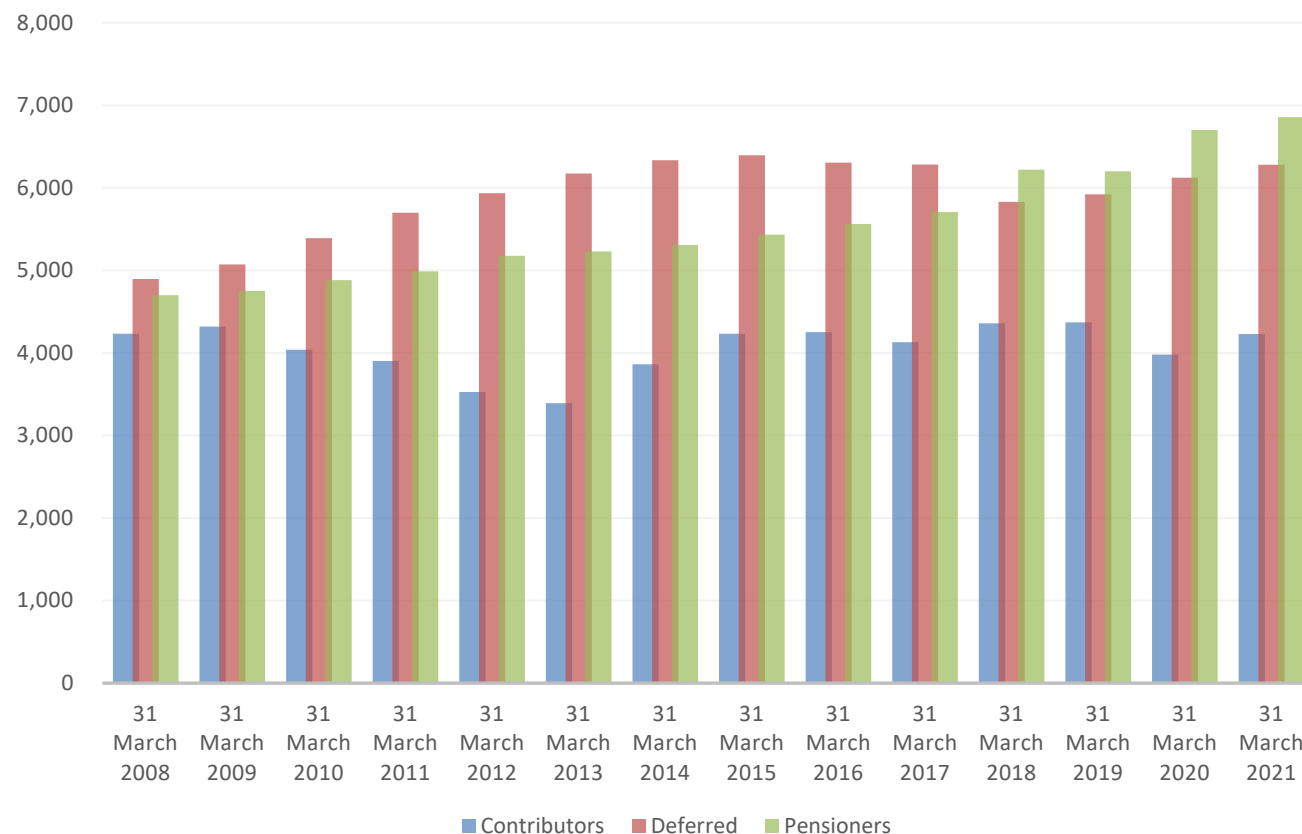
## Administration Management Performance (continued)

### MEMBERSHIP NUMBERS AND TRENDS

Overall membership has increased 25.6% over the past 14 years from 13,827 to 17,364.

However, over this period, the number of contributing members to the Pension Fund has declined steadily from 2008/09 to 2012/13 and again during 2016/17 and 2019/20, as shown in the chart below. The introduction of auto-enrolment in 2013 and the increase in employers admitted into the Scheme has reversed this trend somewhat. 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.

### FUND MEMBERSHIP



## 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. This has decreased significantly year on year to 31 March 2021.

Reason for Leaving	2017/18	2018/19	2019/20	2020/21
Ill Health Retirement	5	1	1	2
Early Retirement	39	23	15	10
<b>Total</b>	<b>44</b>	<b>24</b>	<b>16</b>	<b>12</b>

## Administration Management Performance (continued)

### CONTRIBUTING EMPLOYERS AND CONTRIBUTIONS RECEIVED

Below is a list of the current active contributing employers and the contributions received for 2020/21 (figures include early retirement and deficit funding contributions).

	Employees Contributions	Employers Contributions	Total Contributions
	£'000	£'000	£'000
<b>Administering Authority Employers</b>			
Westminster City Council	(8,040)	(37,678)	(45,718)
All Souls	(14)	(57)	(70)
Barrow Hill Junior	(19)	(66)	(85)
Burdett Coutts	(12)	(51)	(63)
Christ Church Bentinck Primary	(17)	(69)	(86)
College Park	(37)	(139)	(176)
Dorothy Gardner Centre	(27)	(137)	(165)
Edward Wilson	(21)	(81)	(101)
Essendine Primary	(31)	(122)	(153)
George Eliot	(23)	(165)	(188)
Hallfield	(43)	(169)	(212)
Hampden Gurney Primary	(12)	(50)	(62)
Mary Paterson Nursery School	(16)	(66)	(82)
Our Lady of Dolours Primary School	(22)	(86)	(108)
Portman Early Childhood Centre	(43)	(169)	(212)
Queen Elizabeth 11	(35)	(149)	(184)
Queen's Park	(16)	(63)	(79)
Robinsfield	(12)	(41)	(53)
Soho Parish	(22)	(90)	(112)

	Employees Contributions	Employers Contributions	Total Contributions
St Augustine's High School	(78)	(310)	(388)
St. Augustine's Primary School	(15)	(63)	(78)
St Barnabas	(7)	(29)	(36)
St Clement Danes	(15)	(60)	(75)
St Gabriel's	(12)	(46)	(58)
St George Hanover Square	(7)	(29)	(36)
St James & St Michaels	(9)	(37)	(46)
St Joseph's RC Primary School	(19)	(81)	(100)
St Lukes	(8)	(33)	(41)
St Mary Bryanston Square	(12)	(52)	(64)
St Mary Magdalene	(17)	(65)	(82)
St Mary of the Angels	(27)	(111)	(138)
St Matthew's	(15)	(58)	(73)
St Peters CE	(16)	(64)	(80)
St Peters Eaton Square	(13)	(54)	(68)
St. Edward's RC Primary School	(20)	(79)	(99)
St. Saviours	(28)	(114)	(142)
St Vincent De Paul Primary School	(10)	(42)	(51)
St. Vincent's RC Primary School	(11)	(49)	(61)
St Stephens CE primary School	(11)	(45)	(56)
Tachbrook Nursery	(13)	(50)	(63)
Westminster Cathedral	(17)	(73)	(90)
<b>Total Contributions from Administering Authority</b>	<b>(8,841)</b>	<b>(40,992)</b>	<b>(49,833)</b>

## Administration Management Performance (continued)

### SCHEDULED BODIES

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 a statutory right to be a member of the Local Government Pension Scheme under the regulations e.g. academy schools.

	Employees Contribution	Employers' Contributions	Total Contributions
<b>Scheduled Bodies</b>			
Ark Atwood Primary Academy	(24)	(72)	(96)
Beachcroft Academy	(19)	(39)	(58)
Churchill Gardens Academy	(12)	(44)	(56)
Gateway Academy	(26)	(85)	(111)
Grey Coat Hospital Academy	(70)	(203)	(273)
Harris Westminster Free School	(20)	(45)	(64)
Harris Academy St Johns Wood	(61)	(164)	(225)
King Solomon Academy	(212)	(610)	(822)
Marylebone Boys School	(32)	(90)	(122)
Millbank Primary Academy	(15)	(46)	(60)
Paddington Academy	(77)	(203)	(280)
Pimlico Academy	(158)	(365)	(523)
Pimlico Free School	(13)	(29)	(42)

	Employees Contribution	Employers' Contributions	Total Contributions
<b>Scheduled Bodies</b>			
Sir Simon Milton University Technical College	(7)	(17)	(23)
St Georges Maida Vale Academy	(50)	(143)	(194)
St Marylebone Academy	(68)	(177)	(245)
St Marylebone Bridge School	(22)	(63)	(85)
Westminster Academy	(54)	(129)	(183)
Westminster City School	(49)	(124)	(172)
Wilberforce Academy	(11)	(35)	(46)
<b>Total Contributions from Scheduled Bodies</b>	<b>(1,000)</b>	<b>(2,679)</b>	<b>(3,679)</b>



## Administration Management Performance (continued)

### ADMITTED BODIES

Admitted bodies participate in the pension scheme via an admission agreement made between the Council and the employing organisation. Examples of admitted bodies are not for profit organisations linked to the Council and contractors who have taken on delivery of services with Council staff also transferred to third parties.

	Employees Contribution	Employers Contributions	Total Contributions
<b>Admitted Bodies</b>			
Accent Catering	(1)	(7)	(8)
Bouygues	(2)	(11)	(13)
BT	(5)	(28)	(33)
Continental Landscapes Ltd	(4)	(19)	(23)
Creative Education Trust	(141)	(241)	(382)
Gold Care Homes	(4)	(24)	(28)
Hatsgroup	0	0	0
Housing and Communities Agency	(254)	(550)	(804)
Independent Housing Ombudsman	(258)	(958)	(1,216)
Pinnacle Housing	(1)	(8)	(9)
Regulator for Social Housing	(342)	(1,142)	(1,485)
Sanctuary Housing	(0)	(2)	(2)
<b>Total Contributions from Admitted Bodies</b>	<b>(1,014)</b>	<b>(2,988)</b>	<b>(4,002)</b>
<b>Grand Total</b>	<b>(10,855)</b>	<b>(46,659)</b>	<b>(57,514)</b>

### 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 pensions liabilities).

	Active	Ceased	Total
Administering Authority	1	0	1
Scheduled Body	20	0	20
Admitted Body	11	1	12
<b>Total</b>	<b>32</b>	<b>1</b>	<b>33</b>



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 Investment Strategy Statement (ISS). The ISS has been updated following the asset allocation strategy review during 2020 and can be found within section 9 (appendices).

The ISS sets out responsibilities relating to the overall investment policy of the Fund including:

- asset allocations
- restrictions on investment types
- methods of investment management
- performance monitoring.

The ISS also sets out the Fund's approach to responsible investment and corporate governance issues, and how the Fund demonstrates compliance with the "Myners Principles". These Principles are a set of recommendations relating to the investment of pension funds originally prepared by Lord Myners in 2001 and subsequently endorsed by Government. The current version of the Myners Principles covers the following areas:

- Effective decision making;
- Clear objectives;
- Risk & liabilities;
- Performance Measurement;
- Responsible ownership;
- Transparency and reporting.

For 2020/21, the LGPS (Management and Investment of Funds) Regulations 2016, requires the Fund to publish an Investment Strategy Statement (ISS), which replaces the Statement of Investment Principles.

The ISS addresses each of the objectives included in the 2016 Regulations, namely:

- The administering requirement to invest fund money in a wide range of instruments
- The administering authority's assessment of the suitability of particular investments and types of investment
- The administering authority's approach to risk, including the ways in which risks are to be measured and managed
- The administering authority's approach to pooling investments, including the use of collective investment vehicles
- The administering authority's policy on how social, environmental and governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.

The ISS can be obtained from:

Pension Fund Team, 16th Floor, 64 Victoria Street,  
London, SW1E 6QP

Email: [pensionfund@westminster.gov.uk](mailto:pensionfund@westminster.gov.uk)

# 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 2021 was as follows:

Asset Class	Target Allocation %
Global Equities (active)	42.5
Global Equities (passive)	22.5
Fixed Income	19.0
Property	5.0
Infrastructure	11.0
<b>TOTAL</b>	<b>100.0</b>

The Pension Fund Committee holds Fund Managers accountable for decisions on asset allocation within the Fund mandate under which they operate. In order to follow the Myners Principles, fund managers are challenged formally about asset allocation decisions.

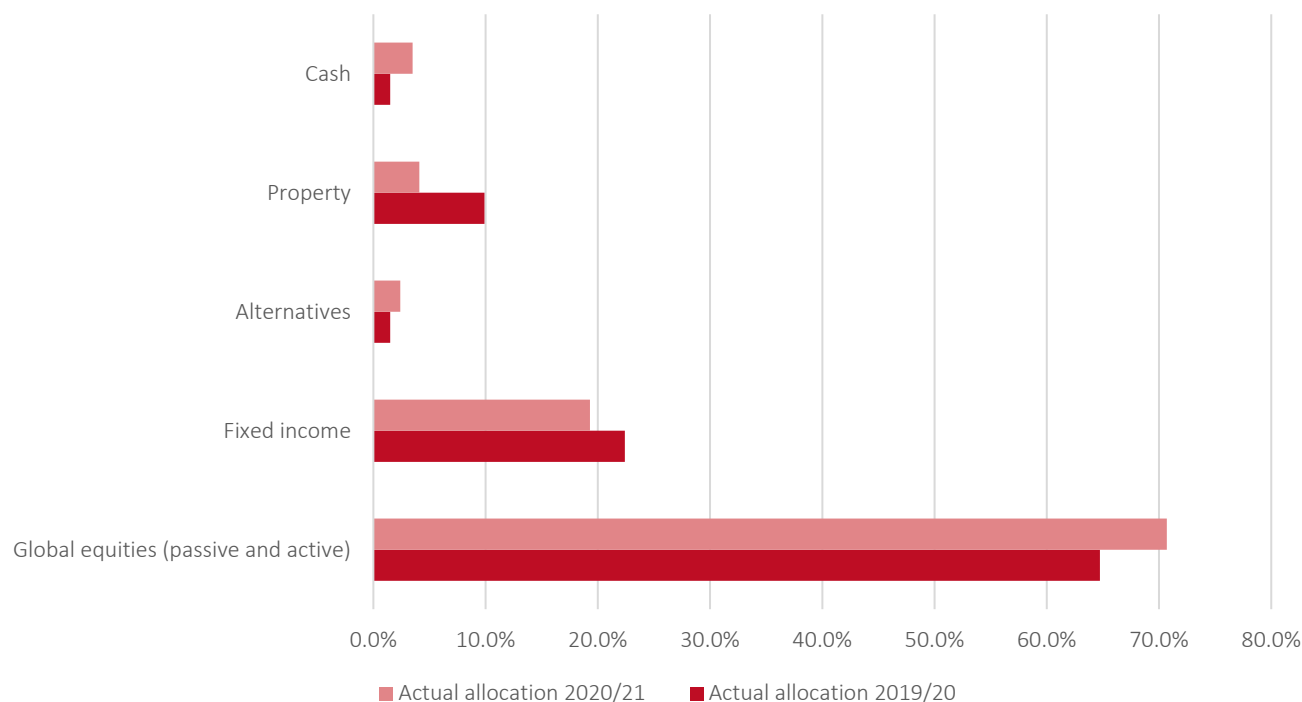
Investment portfolios are reviewed at each Committee meeting in discussion with the investment adviser and officers, and fund managers are called to a Committee meeting if there are issues that need to be addressed. Officers meet fund managers regularly and advice is taken from the investment adviser 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 ISS.

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

During the year, the Committee elected to transition global passive equities into the LGIM Future World Fund and Morgan Stanley Global Sustain Fund. Alongside this, the Committee agreed to terminate the Hermes Property mandate and transition into renewable infrastructure, with Macquarie and Quinbrook each allocated c.£50m. The Hermes sale proceeds are currently being held with the Custodian, Northern Trust, whilst the infrastructure managers draw down.





## Asset Allocation (continued)

### LGPS AVERAGE ASSET ALLOCATION

The Pensions and Investments Research Consultants (PIRC), report annually on the average asset allocation across the LGPS Universe. As at 31 March 2021, the City of Westminster Pension Fund had 14% more allocated to equities compared to the LGPS average, whereas the Fund had 11% less allocated to alternatives. It should be noted that when comparing asset allocation to performance, factors such as funding level and manager selection should also be taken into consideration.

	Equity	Bonds	Alternatives	Property	Cash	Diversified Growth	Other
<b>Universe Average*</b>	<b>51</b>	<b>21</b>	<b>13</b>	<b>9</b>	<b>2</b>	<b>3</b>	<b>1</b>
<b>City of Westminster</b>	<b>65</b>	<b>22</b>	<b>2</b>	<b>10</b>	<b>1</b>	<b>0</b>	<b>0</b>
<b>Variance</b>	<b>-14</b>	<b>-1</b>	<b>11</b>	<b>-1</b>	<b>1</b>	<b>3</b>	<b>1</b>

\*At the 31 March 2021 the Universe was comprised of 63 funds

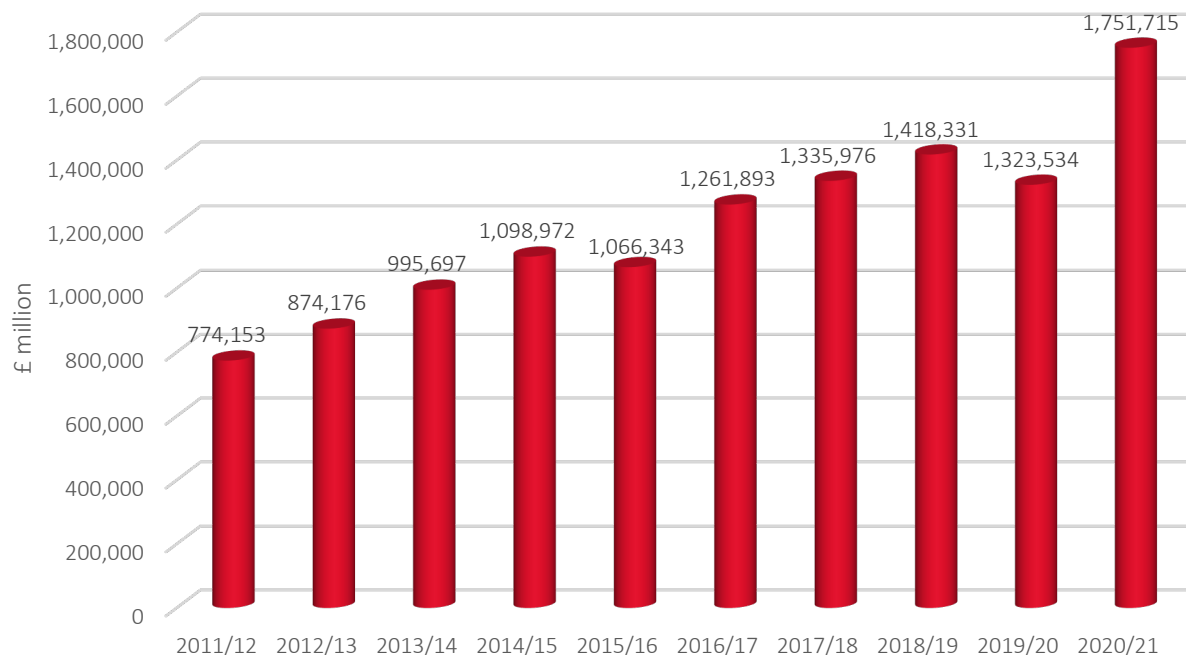
This data has been extracted from the PIRC 2019/20 Local Authority Fund Statistics.

### FUND VALUE

The value of the Fund has more than doubled over the past ten years. The slight fall in value in 2015/16 reflected uncertainty around the strength of the global economy and China in particular, but the Fund recovered well and continued to make gains up to 2018/19. The Fund value fell during 2019/20, due to the COVID-19 outbreak impacting global markets during Q4 of 2019/20. However, the Fund recovered well during 2020/21 with an increase in asset value of £428m, largely due to exceptional performance within the equity mandates.

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 and do not necessarily indicate the underlying health of the Fund.

### FUND ASSETS

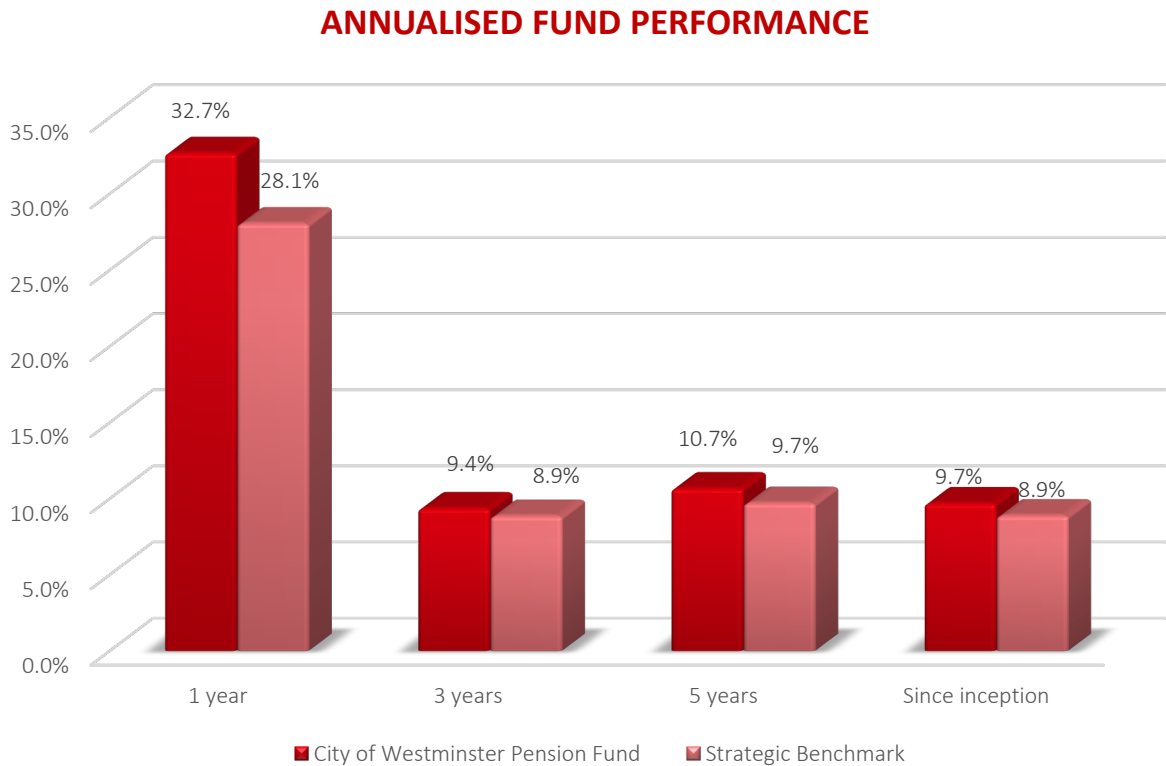


# Investment Performance

The Fund’s overall performance in 2020/21 outperformed its benchmark for the year by 4.6% gross of fees, as shown below. This was largely as a result of exceptional performance within the equity portfolios. Alongside this, annualised performance has exceeded the benchmark since inception and over the past three and five-years gross of fees.

Performance of the Fund is measured against an overall strategic benchmark. Below this, each fund manager is given individual performance targets which are linked to index returns for the assets they manage. Details of these targets can be found in the ISS.

Performance of fund managers is reviewed quarterly by the Pension Fund Committee, which is supported by the Fund’s independent investment advisor, Deloitte.



## 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.

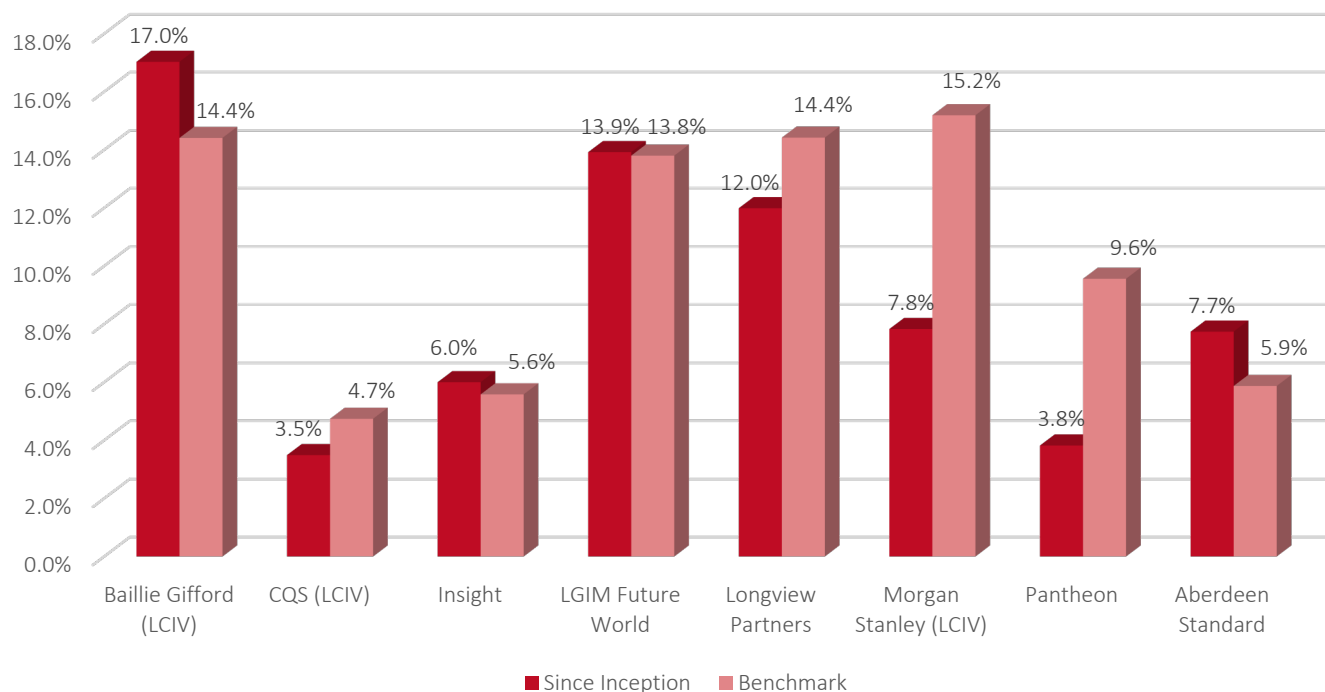
All managers have provided a positive return since inception. Baillie Gifford, LGIM, Insight and Aberdeen Standard have outperformed their benchmarks since inception. The Fund transitioned into four new mandates (LGIM Future World, Morgan Stanley, Quinbrook and Macquarie) during the year, therefore it is too early to assess the performance of the renewable infrastructure funds. The Hermes property fund was exited during the year, with funds to be transitioned to the Macquarie and Quinbrook renewable infrastructure funds. The Longview equity mandate is in the process of being transitioned into the Pantheon Global Infrastructure Fund.

The portfolio is a mixture of active and passively managed asset classes:

- Targets for active fund mandates are set to outperform the benchmark by a set percentage through active stock selection and asset allocation. Fund managers with active fund mandates are Baillie Gifford (LCIV), CQS (LCIV), Insight, Longview, Macquarie, Morgan Stanley (LCIV), Pantheon and Quinbrook.

Targets for passive funds are set to achieve the benchmark through investment in a stable portfolio. Fund managers with passive fund mandates are Aberdeen Standard and LGIM.

### FUND MANAGER PERFORMANCE



## Investment Performance (continued)

Annually the Pensions and Investments Research Consultants (PIRC) compile a list of Local Authority pension performance analytics, ranking each Fund according to their performance in the 1-year to 30-year time periods. In the wider LGPS Universe, the average 1-year Fund return to 31 March 2021 was 22.70% compared to a 10-year average return of 6.9% p.a. As at 31 March 2020 the Universe comprised of 63 funds with a total value of £180bn.

The City of Westminster Pension Fund placed in the bottom quartile of fund returns for the 1-year period, this was largely due to negative performance within the equity and fixed income mandates. However, over the longer 10-year period the Fund placed in the top quartile of pension fund performance. The table below shows the LGPS Universe average returns compared to the Fund over the 1-year to 30-year period, along with average LGPS returns by asset class over the same time periods.

### LGPS AVERAGE PERFORMANCE

	1 Year	3 Yrs (5 p.a.)	5 Yrs (% p.a.)	10 Yrs (% p.a.)	20 Yrs (% p.a.)	30 Yrs (% p.a.)
<b>Universe Average</b>	-4.8	1.9	5.2	6.9	5.5	7.9
<i>City of Westminster*</i>	-7.0	1.3	4.3	7.2	-	-
<b>Total Equity</b>	-12.5	-0.7	4.3	6.9	5.1	8.0
<b>Total Bonds</b>	1.7	2.2	3.7	5.6	5.9	7.7
<b>Alternatives</b>	7.4	7.8	9.5	8.4	7.4	-
<b>Diversified Growth</b>	-5.2	-1.1	0.2	-	-	-
<b>Property</b>	1.7	5.8	6.8	7.8	7.0	7.3

\*The City of Westminster Pension Fund has performance data up to the 10-year period.

This data has been extracted from the PIRC 2019/20 Local Authority Fund Statistics.



# Corporate Governance

## RESPONSIBLE INVESTMENT AND ENVIRONMENTAL, SOCIAL AND GOVERNANCE POLICIES

The Pension Fund has a paramount fiduciary duty to obtain the best possible financial return on Fund investments without exposing assets to unnecessary risk. It believes that following 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 a company and will improve investment returns to its shareholders.

The Fund 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 undertaking the acquisition, retention or realisation of investments for the Fund.

The Fund's investment managers have adopted socially responsible investment policies which are subject to regular review both by officers and by the Council's Pension Committee.

The Pension Fund recognises that the neglect of corporate social responsibility and poor attention paid to environmental, social and governance (ESG) issues may lead to poor or reduced shareholder returns. This presents a significant responsibility for the Pension Fund Committee (the Committee). The ESG approach has become integral to the Fund's overall investment strategy.

The Fund's policies on environmental, social and governance (ESG) issues and responsible investment can be found within the Investment Strategy Statement (ISS). In addition to this, the Fund has a Responsible Investment Statement which is reviewed annually and can be found within section 9.

## PROFESSIONAL BODIES

The Council is a member of the CIPFA Pensions Network which provides a central coordination point for all LGPS funds and 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 (PLSA) as well as the Local Authority Pension Fund Forum (LAPFF), it does not subscribe to nor is it a member of UK Sustainable Investment & Finance Association or the Institutional Investors Group on Climate change or any other bodies.

## VOTING

Fund managers have the delegated authority to vote at shareholder meetings in accordance with their own guidelines, which have been discussed and agreed with the Pensions Committee. The Officers keep under close review the various voting reports that it receives from Fund managers. Equity proxy voting for 2020/21 can be found within the table on page 37.

## COLLABORATIVE VENTURES

The Fund has been working closely with other London LGPS funds in the London 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.

Following FCA approval in 2016, the LCIV has continued to trade and the City of Westminster Pension Fund transferred the Baillie Gifford mandate (valued at £178m) into the LCIV in April 2016. This was followed by transferring the Majedie portfolio in May 2017 (valued at £308m), the CQS multi asset credit fund in November 2018 (valued at £91m). In addition to this this, the Fund transitioned proceeds from the Majedie sale into the LCIV Morgan Stanley Global Sustain fund during November 2020 (valued at £328m).

## FUNDING STRATEGY STATEMENT

The Funding Strategy Statement (Section 9) 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;

## Corporate Governance (continued)

- To take a prudent longer-term view of funding those liabilities.

### SEPARATION OF RESPONSIBILITIES

The Fund employs a global custodian (Northern Trust), independent to the investment managers, to be responsible for the safekeeping of all of the Fund's investments. Northern Trust is 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 is responsible for assessing the long-term financial position of the pension fund and issues a Rates and Adjustments Certificate following 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.

### STEWARDSHIP CODE

The Pensions Committee 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.

The Pension Fund Committee 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 Pension Fund Committee encourages fund managers to consider a range of factors before making investment decisions, 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. Such considerations may also be linked to voting choices at company AGMs.

The Pension Fund Committee's role is not to micro-manage companies but provide perspective and share with boards and management our priorities for investment and approach to corporate governance. The ultimate aim is to work with management, shareholders and stakeholders to bring about changes that enhance long-term performance.

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, investee companies and pension fund members and can be accessed via the pension fund website on

<https://www.westminster.gov.uk/media/document/stewardship-policy>



### CODE OF TRANSPARENCY

Following the shift towards investment management fee transparency and consistency within the LGPS, the Scheme Advisory Board (SAB) has developed a voluntary Code of Transparency for LGPS asset managers. Transparency is also a target for the revised CIPFA accounting standard issued for inclusion in the statutory annual report and accounts and is included in the government's investment reform guidance and criteria for LGPS pooling.

The Code is voluntary and details the provision of transparent and consistent investment cost and fee information between investment managers and administering authorities. Signatories to the code are required to complete a template which details management expenses associated with the running of the fund, including direct and indirect costs.

Asset managers which sign up to the code are required to put systems in place within 12 months of signing up to allow the automatic submission of the templates to each Administering Authority. The SAB reserves the right to remove any signatory which is reported by an Administering Authority to be in breach of the code.

The Fund uses the templates completed by the asset managers to compile the management expenses of the Pension Fund at a detailed level. This data is used to inform investment decisions, including manager selection, risk management and holding managers to account in regard to performance fees.

## Corporate Governance (continued)

### PROXY VOTING 2020/21

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 Fund through its participation in the London CIV will work closely with other LGPS Funds in London to enhance the level of engagement both with external managers and the underlying companies in which invests.

Additionally, the Fund is a member of the Pension and Lifetime Savings Association (PLSA) and the Local Authority Pension Fund Forum (LAPFF) and in this way joins with other investors to magnify its voice and maximise the influence of investors as asset owners.

Our equity manager proxy voting for 2020/21 is shown in the below table.

Asset Manager	Number of resolutions	For	Against	Other
Billie Gifford (LCIV)	1,270	1,149	35	86
Morgan Stanley (LCIV)	156	137	16	3
Legal & General	50,998	42,731	8,022	245
Longview	435	403	25	7
<b>TOTAL</b>	<b>52,859</b>	<b>44,420</b>	<b>8,098</b>	<b>341</b>





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# Scheme Administration

THE  
NATIONAL  
GALLERY

FREE  
ADMISSION



# 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 32 employers (a list of employers is provided in section 2). 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 20. 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 within section 9. 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.

Please see page 20 for details of all IDRP and Pensions Ombudsman cases during 2020/21.

Both TPAS and the Pensions Ombudsman can be contacted at:

10 South Colonnade  
Canary Wharf  
E14 4PU

Tel: 0800 917 4487



## Scheme Administration (continued)

### DATA QUALITY

The City of Westminster Pension Fund undertook a detailed review of our data quality following the reporting of our common (77%) and scheme specific (71%) data scores as at 31st of March 2018 in November 2018.

A data improvement plan was developed, and a series of data cleansing projects have been planned and carried out.

The Pension Fund common (89.9%) and scheme specific data (93.1%) scores improved as at 31st of March 2019 and demonstrated the success of data cleansing work specifically in relation to the Fund's active members.

### ADMINISTRATION UPDATE

This year was difficult for everyone and the pension administration team had been a primarily office based, team up to March 2020 when the pandemic hit. The administration had to adapt to home working and did so quickly and overall, the KPI data was very good. We asked the team to concentrate on three key areas including death cases, retirements and refunds.

The pension administration function was run for the majority of the year from the administration team based in East Sussex offices in Lewes as part of the Orbis combined pension administration service. The pension administration service moved from the East Sussex team to the Kingston team in April when the Orbis pension service disbanded on the 1st of April. The handover of work at the end of March may have contributed to a few late cases in that month where the KPI had previously been at 100%

The Westminster fund is now engaged with the Hampshire Pension Service (HPS) to move the administration service to them in November 2021 and the focus will be on maintaining a high level of service for members whilst ensuring a seamless transfer to the new provider.





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PER · SANGUINEM · TUUM · SALVA · NOS

5.

# 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 2019 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 30 March 2020.

## ASSET VALUE AND FUNDING LEVEL

At 31 March 2019, the smoothed value of assets was £1,410.6m which was 99% of the liabilities valued on an ongoing basis. The corresponding funding level at the previous valuation as at 31 March 2016 was 80%.

## CONTRIBUTION RATES

The contribution rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when they fall due, known as the "primary rate";
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date' known as the secondary rate.

The 2019 valuation certified a total primary rate of 17.9% p.a. of pensionable pay. Each employer body participating in the Fund has to pay a contribution rate consisting of the employer's individual primary rate and a secondary rate reflecting the employer's particular circumstances and funding position within the Fund.

Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

## ASSUMPTIONS

The assumptions used to value the liabilities at 31 March 2019 are summarised below:

Assumptions	Assumptions used for 2019 Valuation
CPI Inflation	2.6% p.a.
Salary increases	3.6% p.a.
Discount Rate:	
Scheduled bodies	4.8% p.a.
Admitted bodies	3.3% p.a.
Post retirement mortality (member) – base table	S3PA tables with a multiplier of 110% for males and 105% for females
Allowance for improvements in life expectancy	2018 CMI Model with a smoothing parameter of 7.5, an initial addition to improvements of 0.5% p.a., and a long-term rate of improvement of 1.25%
Retirement age	For each tranche of benefit the "tranche retirement age" is the earliest age a member could retire with unreduced benefits. Each member is assumed to retire at the weighted average of these for all tranches of benefit.
Allowance for cash commutation	Members will commute pension at retirement to provide a lump sum of 50% of the additional maximum allowed under HMRC rules and

Assumptions	Assumptions used for 2019 Valuation
	this will be at the rate of £12 lump sum for £1 pension.

## UPDATED POSITION

### Assets

Returns over the year to 31 March 2021 have been strong, more than offsetting the fall in asset values at the end of the previous year. As at 31 March 2021, in market value terms, the Fund assets were slightly more than where they were projected to be based on the previous valuation.

### Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

Please note that we have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20 year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20 year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK

Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

### ***Overall Position***


On balance, we estimate that the funding position has slightly improved when compared on a consistent basis to 31 March 2019 (but allowing for the update to the CPI inflation assumption).

The change in the real discount rate since 31 March 2019 is likely to place a higher value on the cost of future accrual which results in a higher primary contribution rate. No deficit contributions would be required as a result of the worsening in the funding position with the total contributions being overall higher.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to actual and potential reductions and suspensions of dividends.

There is also uncertainty around future benefits due to the McCloud/Sargeant cases and the cost cap process.

We will continue to monitor the funding level on a quarterly basis as requested by the administering authority.



**Barry McKay FFA**

**Partner, Barnett Waddingham LLP**





# 6. 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 Section 151 Officer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts.

## THE SECTION 151 OFFICER'S RESPONSIBILITIES

The Section 151 Officer is responsible for the preparation of the Council's Statement of Accounts and of its Pension Fund Statement of Accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in Great Britain ('the Code'), are required respectively to present fairly the financial position of the Council and 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 Section 151 Officer 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; and
- complied with the Code.

The Section 151 Officer has also:

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



**Gerald Almeroth**

Executive Director - Finance and Resources  
Section 151 Officer

## APPROVAL OF STATEMENT OF ACCOUNTS

The Statement of Accounts was approved by the Westminster City Council Audit and Performance Committee.



**Councillor Ian Rowley**

Chairman of the Audit and Performance Committee

# Independent Auditors Report

**Independent auditor's report to the members of Westminster City Council on the pension fund financial statements of Westminster included in the Pension Fund Annual Report**

## OPINION

The pension fund financial statements of City of Westminster Pension Fund (the 'pension fund') administered by City of Westminster Council (the "Authority") for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2020 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 and applicable law.

## PENSION FUND ANNUAL REPORT – PENSION FUND FINANCIAL STATEMENTS

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon

is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

## THE AUDITED FINANCIAL STATEMENTS AND OUR REPORT THEREON

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 24 November 2020.

That report also includes an emphasis of matter - effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As, disclosed in note 5 to the financial statements, the ongoing impact of the Covid-19 pandemic has created uncertainty surrounding illiquid asset values. As such, the Pension Fund property and infrastructure allocations as at 31 March 2020 are difficult to value according to preferred accounting policy. Professional Valuers have not been actively valuing many similar sized assets in the market due to the current lockdown environment, as such values have been rolled over from Period 11 with an adjustment and may be inaccurate to the true 31 March position. A material valuation uncertainty was therefore disclosed in the pension fund's property and infrastructure valuation reports. As stated in our report dated 24 November, our opinion is not modified in respect of this matter.

## EXECUTIVE DIRECTOR – FINANCE AND RESOURCE'S RESPONSIBILITIES FOR THE PENSION FUND FINANCIAL STATEMENTS IN THE PENSION FUND ANNUAL REPORT

Under the Local Government Pension Scheme Regulations 2013 the Executive Director – Finance and resources of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

## Independent Auditors Report (continued)

### USE OF OUR REPORT

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 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 Authority's 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.

*Paul Dossett*

Paul Dossett, Key Audit Partner

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

London

24 November 2020

# Pension Fund Accounts and Explanatory Notes

## FUND ACCOUNT

2019/20	Notes	202/21
£'000		£'000
Dealings with members, employers and others directly involved in the fund		
Contributions		
(54,244) From Employers	6	(46,660)
(10,105) From Members	6	(10,854)
(8,267) Individual Transfers in from Other Pension Funds		(3,678)
(72,616)		(61,192)
Benefits		
47,628 Pensions	7	49,146
7,092 Commutation, Lump Sum Retirement and Death Benefits	7	8,677
1,190 Payments in respect of tax		521
Payments to and on Account of Leavers		
7,480 Individual Transfers Out to Other Pension Funds		5,602
306 Refunds to Members Leaving Service		130
63,696		64,076

## Pension Fund Accounts and Explanatory Notes (continued)

2020/21		Notes	2020/21
£'000			£'000
(8,920)	Net (Additions)/Withdrawals from Dealings with Members		2,884
6,834	Management Expenses	8	10,087
(2,086)	Net (additions)/withdrawals including management expenses		12,971
<b>Returns on Investments</b>			
(16,259)	Investment Income	9	(8,656)
(1,716)	Other Income	-	(9)
(17,975)			(8,665)
114,859	(Profit) and loss on disposal of investments and changes in the market value of investments	11	(432,487)
96,884	Net return on investments		(441,152)
94,798	Net (Increase)/Decrease in the Net Assets Available for Benefits During the Year		(428,181)
(1,418,332)	Opening Net Assets of the Scheme		(1,323,534)
(1,323,534)	Closing Net Assets of the Scheme		(1,751,715)

# Net Assets Statement for the year ended 31 March 2021\*

2019/20		Notes	2020/21
£'000			£'000
<b>Investment assets</b>			
150	Equities	11	150
1,300,427	Pooled Investment Vehicles	11	1,684,306
Other Investment Balances:			
119	Income Due	11	109
19,044	Cash Deposits	11	62,788
<b>1,319,740</b>			<b>1,747,353</b>
-	<b>Investment Liabilities</b>		-
-			-
<b>1,319,740</b>	<b>Net Value of Investment Assets</b>	10	<b>1,747,353</b>
4,640	<b>Current Assets</b>	18	5,198
(846)	<b>Current Liabilities</b>	19	(836)
<b>1,323,534</b>	<b>Net Assets of the Fund Available to Fund Benefits at the Period End</b>		<b>1,751,715</b>

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