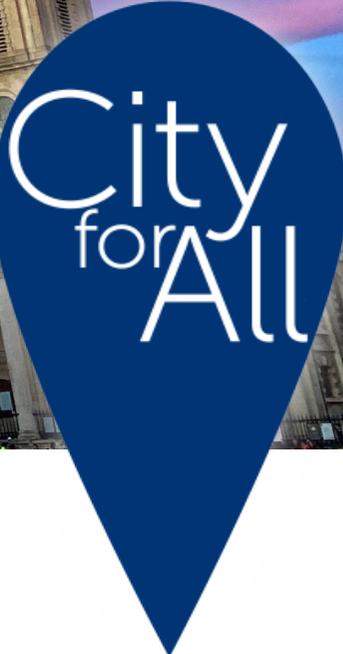




Annual Report

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





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1.

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 £0.428bn to £1.751bn, 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 reduced 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 issues 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, especially the members of the Pension Fund Committee and the Local Pension Board.



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 Westminster City 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 on our website. Please [click here](#) to be directed.

A green-tinted photograph of a city street. In the foreground, a white DPD van is driving away from the camera. To the right, a metal gate has a 'NO ENTRY' sign with a red circle and a white arrow pointing left. The background shows a row of multi-story brick buildings and trees. The entire image is overlaid with a semi-transparent green filter.

2.

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 majority 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. Please [click here](#) to be directed.

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	Equities (Active) London LGPS CIV Ltd - Baillie Gifford Longview London LGPS CIV Ltd - Morgan Stanley Equities (Passive) Legal and General Investment Management Infrastructure Pantheon Ventures	Renewable Infrastructure Macquarie Asset Management Quinbrook Partners Fixed Income Insight Investment London LGPS CIV Ltd - CQS Property 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	Gerald Almeroth	
Director of People Services	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.

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:

¹ 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."

² 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 ¹	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Baillie Gifford (LCIV) ²	ISAE3402	Reasonable assurance	Reasonable assurance	PwC LLP
CQS (LCIV) ³	ISAE3402	Reasonable assurance	Reasonable assurance	Deloitte
Hermes ⁴	ISAE3402	Reasonable assurance	Reasonable assurance	EY LLP
Insight ⁵	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) ⁶	ISAE3402	Reasonable assurance	Reasonable assurance	Deloitte
Pantheon Ventures	ISAE3402	Reasonable assurance	Reasonable assurance	KPMG LLP
Quinbrook ⁷	ISAE3402	Reasonable assurance	Reasonable assurance	BDO
Custodian				
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."

³ 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."

⁴ 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."

⁵ 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."

⁶ 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."

⁷ 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	Limited	Satisfactory
Pension Fund Investment Transactions and Records	Every 2-3 years	Satisfactory	Limited
Financial and Performance Management Reporting	Every 2-3 years	Satisfactory	Satisfactory
Controls over Systems and Records	Every 2-3 years	Satisfactory	Limited

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

Fund Account	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Dealings with members				
Contributions	(58,868)	(61,242)	(72,616)	(61,192)
Pensions	57,350	58,189	63,697	64,076
Net (additions)/withdrawals from dealings with members	(1,518)	(3,053)	(8,920)	2,884
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)
Net (increase)/decrease in the Fund	(68,277)	(82,356)	94,798	(428,181)

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)

Net Asset Statement	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
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
Total Investment Assets	1,330,079	1,408,360	1,319,740	1,747,353
Current assets	6,728	11,293	4,640	5,198
Current Liabilities	(831)	(1,321)	(846)	(836)
Total Net Assets available to fund benefits	1,335,976	1,418,332	1,323,534	1,751,715

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

Contributions Receivable	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
- 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)
Total Income	(58,868)	(61,242)	(72,616)	(61,192)
Benefits/Expenses	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
- 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
Total Expenditure	57,350	58,189	63,697	64,076
Net Dealings with Members	(1,158)	(3,053)	(8,920)	2,884

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 £0.521m 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
Administration			
Employees	184	352	308
Supplies and services	363	398	673
	546	750	981
Governance and Oversight			
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
	437	423	428
Investment Management			
Management fees	4,572	4,779	6,211
Performance fees	0	85	45
Custodian fees	38	31	54
Transaction Costs	230	768	2,368
	4,840	5,662	8,678
Total	5,823	6,834	10,087

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

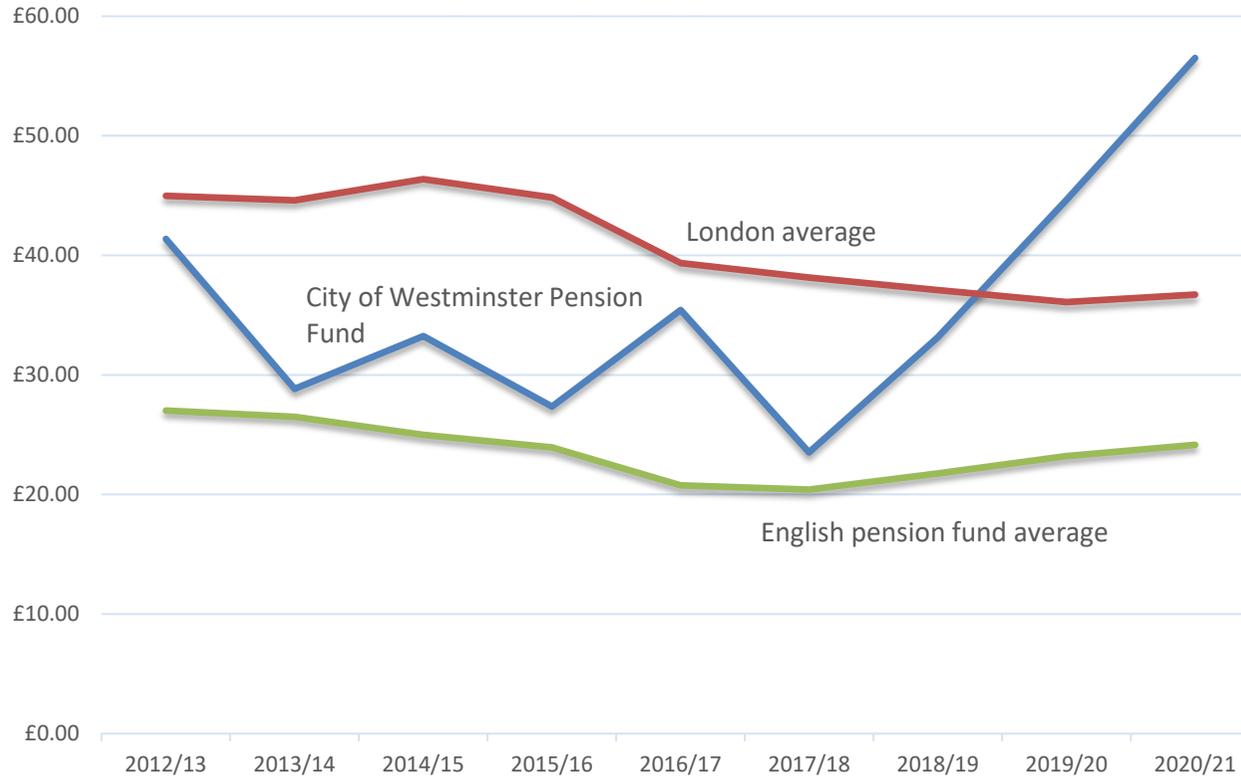
COMPLAINTS RECEIVED

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 two IDRPs during 2020/21 and one case sent to the Pensions Ombudsman.

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.

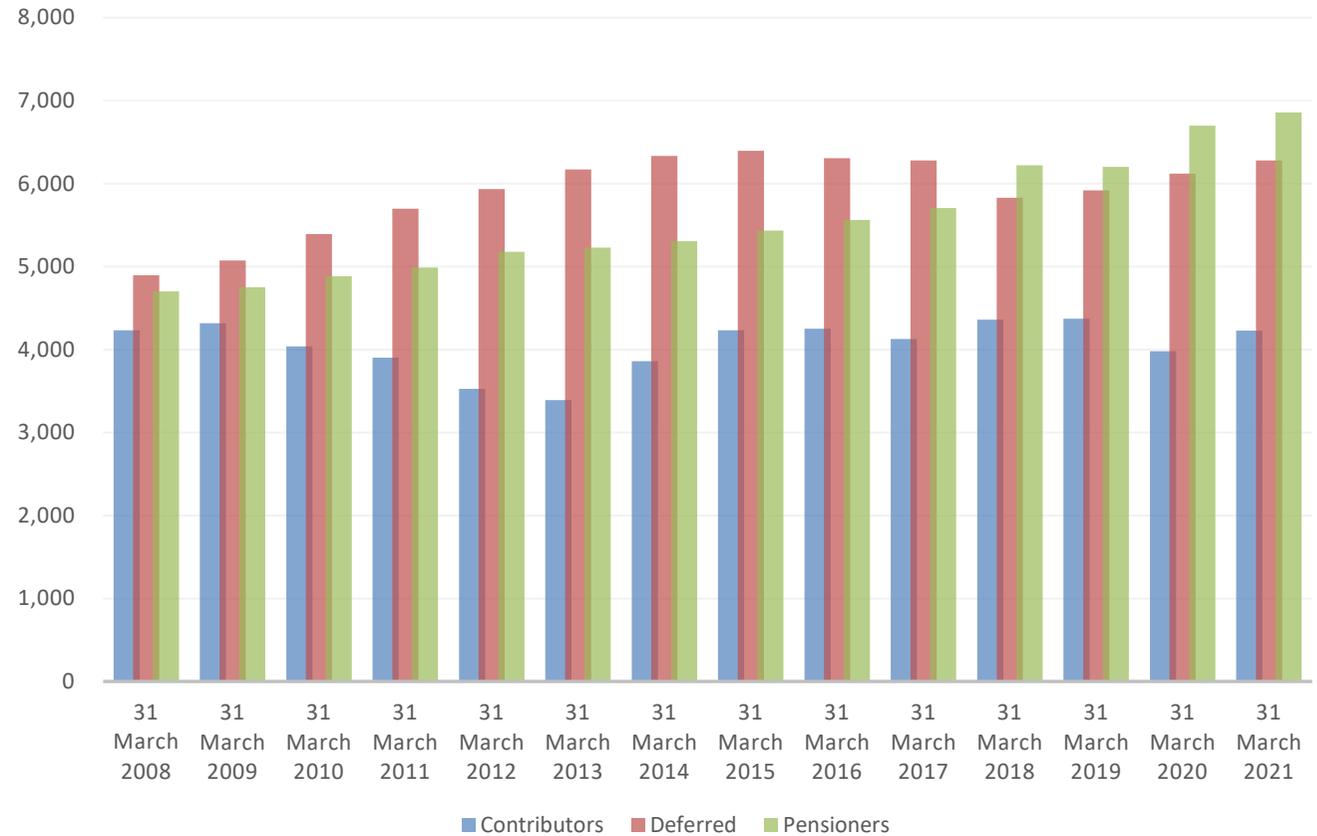
Administration Management Performance (continued)

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
Total	44	24	16	12

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).

Administering Authority	Employees Contributions	Employers Contributions	Total Contributions
	£'000	£'000	£'000
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)
St Augustine's High School	(78)	(310)	(388)

Administering Authority	Employees Contributions	Employers Contributions	Total Contributions
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)
Total Contributions from Administering Authority	(8,841)	(40,992)	(49,833)

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.

Scheduled Bodies	Employees Contribution	Employers' Contributions	Total Contributions
	£'000	£'000	£'000
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)

Scheduled Bodies	Employees Contribution	Employers' Contributions	Total Contributions
	£'000	£'000	£'000
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)
Total Contributions from Scheduled Bodies	(1,000)	(2,679)	(3,679)

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.

Admitted Bodies	Employees Contribution	Employers Contributions	Total Contributions
	£'000	£'000	£'000
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)
Hats Group	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)
Total Contributions from Admitted Bodies	(1,014)	(2,988)	(4,002)
Grand Total	(10,855)	(46,659)	(57,514)

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).

Employer Type	Active	Ceased	Total
Administering Authority	1	0	1
Scheduled Body	20	0	20
Admitted Body	11	1	12
Total	32	1	33



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

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
TOTAL	100.0

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.

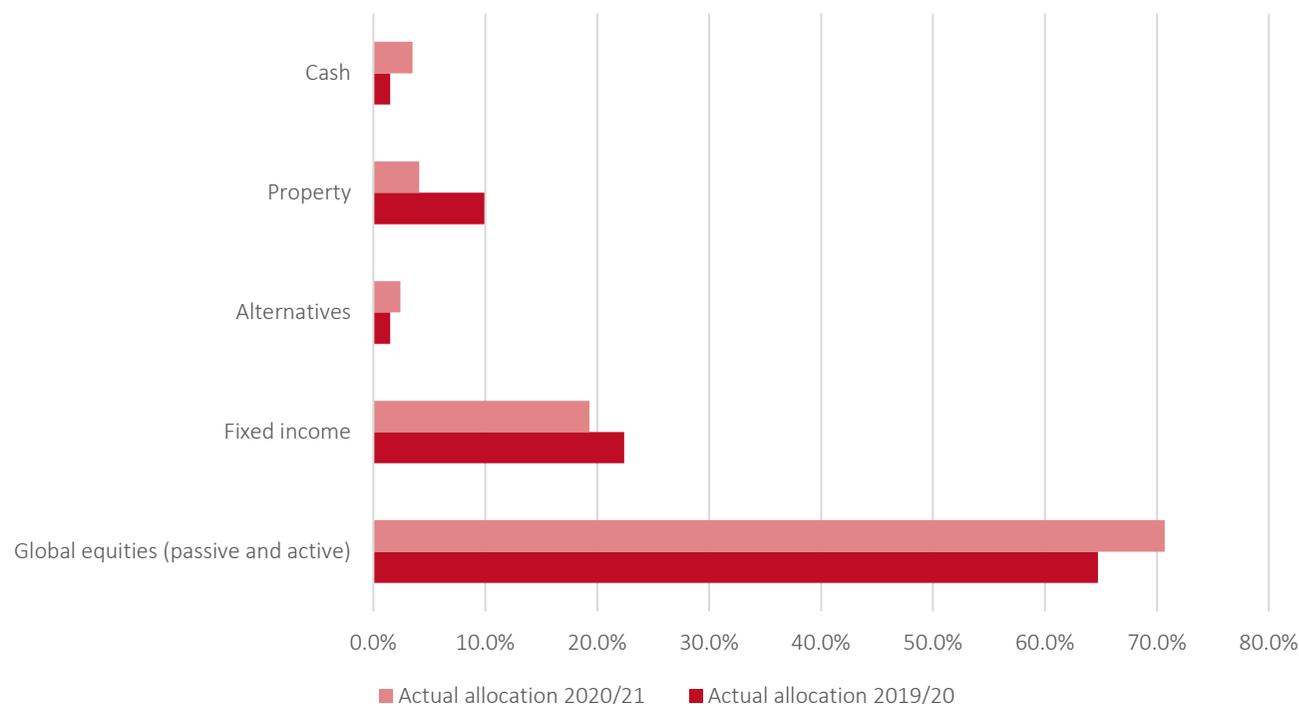
Investment portfolios are reviewed at each Committee meeting in discussion with the investment adviser and officers, and fund managers are called to a Committee meeting if there are issues that need to be addressed. Officers meet fund managers regularly and advice is taken from the investment adviser 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 15% more allocated to equities compared to the LGPS average, whereas the Fund had 12% 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.

Asset Allocation	Equity	Fixed Income	Alternatives	Property	Cash	Diversified Growth	Other
Universe Average*	56	17	14	8	2	2	1
<i>City of Westminster</i>	<i>71</i>	<i>19</i>	<i>2</i>	<i>4</i>	<i>4</i>	<i>0</i>	<i>0</i>
Variance	-15	-2	12	4	-2	2	1

*At the 31 March 2021 the Universe was comprised of 64 funds

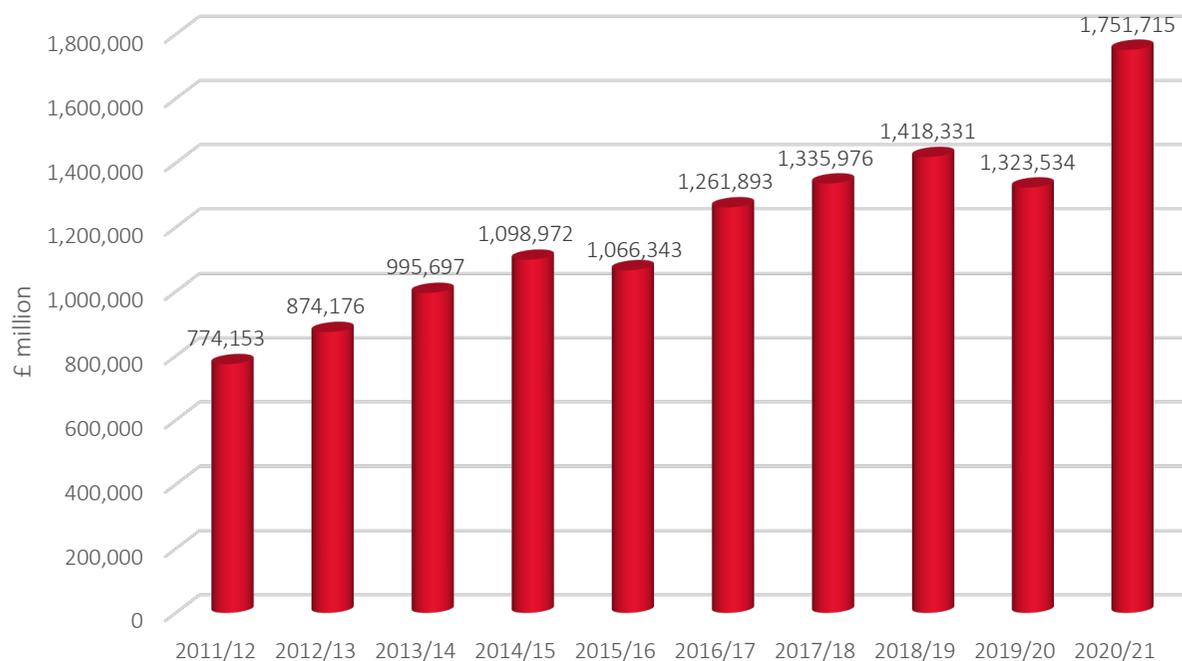
This data has been extracted from the PIRC 2020/21 Local Authority Fund Statistics.

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



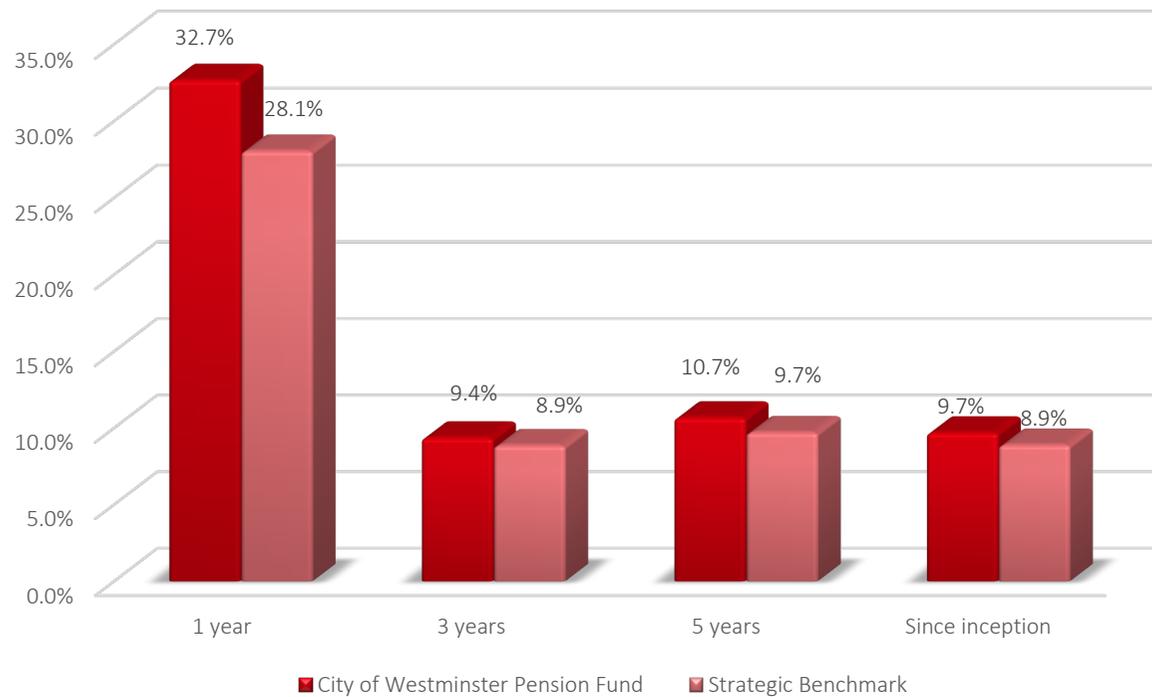
Investment Performance

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.

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.

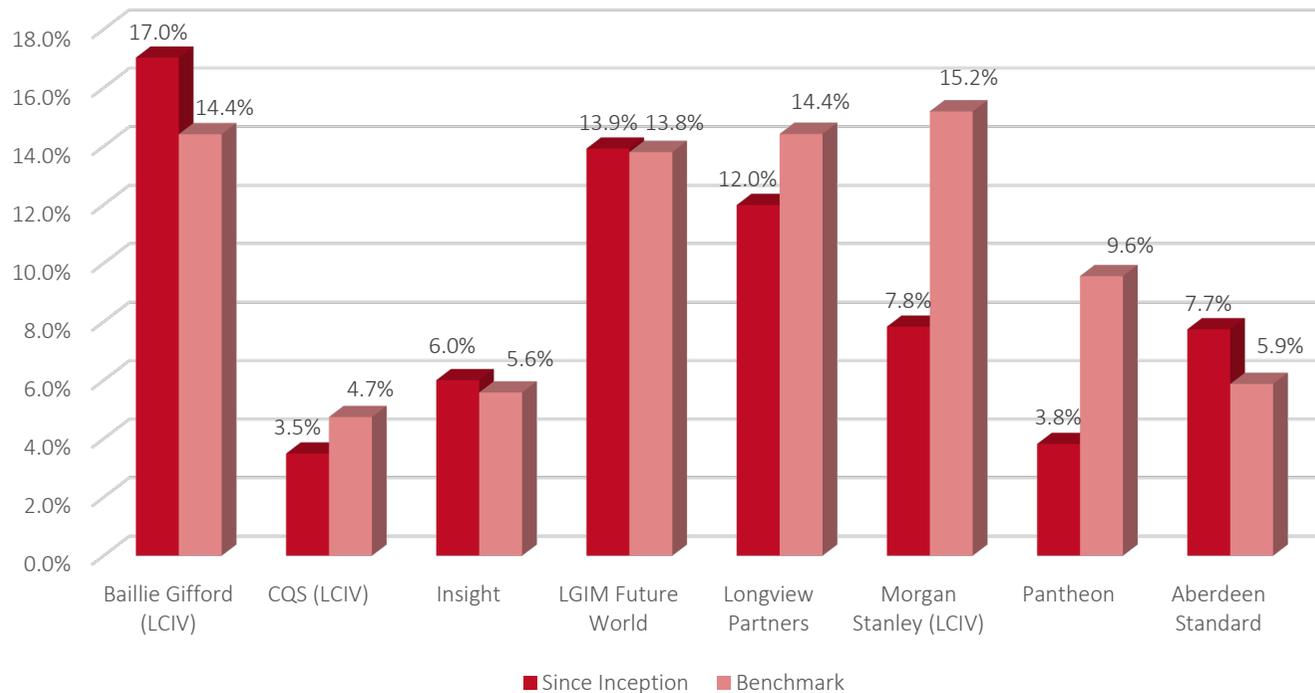
All managers have provided a positive return since inception. Baillie Gifford, LGIM, Insight and Aberdeen Standard have outperformed their benchmarks since inception. The Fund transitioned into four new mandates (LGIM Future World, Morgan Stanley, Quinbrook and Macquarie) during the year, therefore it 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 22.80% compared to a 10-year average return of 8.3% p.a. As at 31 March 2021 the Universe comprised of 64 funds with a total value of £230bn.

The City of Westminster Pension Fund placed in the top quartile of fund returns for the 1-year period, this was largely due to excellent performance within the equity mandates, following the crash in stock markets triggered by the COVID-19 pandemic. Over the longer 10-year period the Fund also 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

Performance	1 Year	3 Yrs (% p.a.)	5 Yrs (% p.a.)	10 Yrs (% p.a.)	20 Yrs (% p.a.)	30 Yrs (% p.a.)
Universe Average	22.8	7.6	9.5	8.3	6.9	8.4
<i>City of Westminster*</i>	32.7	9.4	10.7	9.5	-	-
Total Equity	39.0	10.0	12.3	9.7	7.5	9.0
Total Bonds	7.3	3.9	4.9	5.7	5.8	7.3
Alternatives	8.0	8.1	9.2	8.3	6.2	-
Diversified Growth	15.2	3.6	4.0	-	-	-
Property	0.4	2.5	4.5	6.9	6.5	7.7

*The City of Westminster Pension Fund has performance data up to the 10-year period. This data has been extracted from the PIRC 2020/21 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. Please [click here](#) to be directed.



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
TOTAL	52,859	44,420	8,098	341



4.

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 by [clicking here](#).

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)

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.



DOMINE · JESU · REX · ET · REDEMPTOR
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 consistency of the pension fund financial statements of the City of Westminster Pension Fund included in the Pension Fund Annual Report

OPINION

The pension fund financial statements of the City of Westminster Pension Fund (the 'pension fund') administered by Westminster City 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 2021 included in the Authority's Annual 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 2020/21 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 Annual Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Annual 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 Annual Accounts in our report dated 6 October 2021.

EXECUTIVE DIRECTOR OF FINANCE AND RESOURCES' RESPONSIBILITIES FOR THE PENSION FUND FINANCIAL STATEMENTS IN THE PENSION FUND ANNUAL REPORT

Under the Local Government Pension Scheme Regulations 2013 the Executive Director of 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 Annual 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 20120/21.

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 Annual Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

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.

Joanne Brown

Joanne Brown, Key Audit Partner for and on behalf of
Grant Thornton UK LLP, Local Auditor

Finsbury Square, London

6 October 2021

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
	Returns on Investments		
(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
	Investment assets		
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
1,319,740			1,747,353
-	Investment Liabilities		-
-			-
1,319,740	Net Value of Investment Assets	10	1,747,353
4,640	Current Assets	18	5,198
(846)	Current Liabilities	19	(836)
1,323,534	Net Assets of the Fund Available to Fund Benefits at the Period End		1,751,715

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

Note 1 Description of the City of Westminster Pension Fund

a) General

The Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS) and is administered by the Westminster City 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 Westminster City Council 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 2016.

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 2021. Employers also pay contributions into the Fund based on triennial funding valuations. The last such valuation was as at 31 March 2019, this covers the three financial years following 2019/20. Currently employer contribution rates range from 12.0% to 37.0% of pensionable pay, as per the 2019 valuation.

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 revalued earnings (CARE) 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 appointed Aegon and Utmost Life and Pensions as its AVC providers. 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 Council Officers including the Tri-Borough Director of Pensions and Treasury, and obtains, as necessary, advice from the Fund's appointed investment advisors, fund managers and actuary.

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

The Section 151 Officer is responsible for the preparation of the Pension Fund Statement of Accounts. The Audit and Performance Committee are responsible for approving the financial statements for publish.

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

e) Investment Principles

In accordance with the LGPS (Management and Investment of Funds) Regulations 2016 the Committee approved an Investment Strategy Statement on 11 March 2021 (available on the Council's website). The Statement shows the Authority's compliance with the Myners principles of investment management.

The Committee has delegated the management of the Fund's investments to external investment managers (see Note 10) appointed in accordance with 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 2020		31 March 2021
32	Number of employers with active members	32
3,981	Active members	4,228
6,122	Pensioners receiving benefits	6,280
6,700	Deferred Pensioners	6,856
16,803		17,364

Note 2 Basis of preparation of financial statements

The Statement of Accounts summarise the Fund's transactions for 2020/21 and its position at year end as at 31st March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (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 summarise the transactions of the Fund and report on the net assets available to pay pension benefits.

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. The Code gives administering authorities the option to disclose this information in the Net Asset Statement, in the notes to the accounts or by appending an actuarial report prepared for this purpose. The Authority has opted to disclose this information in an accompanying report to the accounts, which is disclosed in Note 17.

The Pension Fund Accounts have been prepared on a going concern basis, with the assumption that the functions of the authority will continue in operational existence for the foreseeable future. The City of Westminster Pension Fund remains a statutory open scheme, with a strong covenant from the active employers and is therefore able to take a long term outlook when considering the general investment and funding implications of external events.

Note 3 Summary of significant accounting policies

FUND ACCOUNT – REVENUE RECOGNITION

a) Contribution Income

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

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

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

b) Transfers to and from other schemes

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

c) Investment Income

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 either reinvested within the Pooled Investment Vehicles and reflected in the unit price or taken as a cash dividend to support the Fund's outgoing cash flow requirements.

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 in the net asset statement.

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.

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits and losses during the year.

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.

f) VSP, MSP and lifetime allowance

Members are entitled to request the Pension Fund pays their tax liabilities due in respect of annual allowance and lifetime allowance in exchange for a reduction in pension.

Where the Fund pays member tax liabilities direct to HMRC it is treated as an expense in the year in which the payment occurs.

Note 3 Summary of significant accounting policies (continued)

g) Management Expenses

Pension fund management expenses are accounted for in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs 2016.

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 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.

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

h) Financial Assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net asset statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the value of the asset are recognised in the Fund account.

The values of investments as shown in the net asset statement have been determined at fair value in accordance with the requirements of the Code and IFRS 13 (see Note 14).

i) Derivatives

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

j) 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.

k) Cash and Cash Equivalents

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

l) 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.

m) 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).

n) Additional Voluntary Contributions

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 20).

o) Recharges from the General Fund

The LGPS (Management and Investment of Funds) Regulations 2016 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.

There were no such critical judgements made during 2020/21.

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.

COVID-19 IMPACT

Following the uncertainty surrounding asset values as result of the COVID-19 outbreak during late 2019/20, Officers now believe asset values have stabilised in order that a materially accurate value can be applied to illiquid assets.

PENSION FUND LIABILITY

The Pension Fund liability is calculated triennially by the appointed actuary with annual updates in the intervening years. The methodology used in the intervening years follows generally agreed guidelines and is in accordance with IAS 19. These assumptions are summarised in Note 16. The estimates are sensitive to changes in the underlying assumptions underpinning the valuations.

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 judgements 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 0.1% increase in the discount rate assumption would result in a decrease in the pension liability of £42.25m. A 0.1% increase in assumed earnings would increase the value of liabilities by approximately £2.95m and a year increase in life expectancy would increase the liability by about £103.99m.

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

2019/20		2020/21	
£'000		£'000	
(56,968)	Administering Authority	(49,833)	
(3,087)	Scheduled bodies	(3,679)	
(4,294)	Admitted bodies	(4,002)	
(64,349)		(57,514)	

BY TYPE

2019/20		2020/21	
£'000		£'000	
(10,105)	Employees' normal contributions	(10,854)	
Employer's contributions:			
(21,634)	Normal contributions	(25,048)	
(31,820)	Deficit recovery contributions	(21,483)	
(790)	Augmentation contributions	(129)	
(64,349)		(57,514)	

Note 7 Benefits payable

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

BY TYPE

2019/20		2020/21
£'000		£'000
47,628	Pensions	49,146
6,686	Commutation and lump sum retirement benefits	7,375
406	Lump sum death benefits	1,302
54,720		57,823

BY AUTHORITY

2019/20		2020/21
£'000		£'000
42,709	Administering Authority	44,272
2,481	Scheduled Bodies	2,730
9,530	Admitted Bodies	10,821
54,720		57,823

Note 8 Management Expenses

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

2019/20		2020/21
£'000		£'000
750	Administration Expenses	981
422	Oversight and Governance	428
5,662	Investment Management Expenses	8,678
6,834		10,087

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

2019/20		2020/21
£'000		£'000
4,778	Management fees	6,211
85	Performance fees	45
31	Custody fees	54
768	Transaction costs	2,368
5,662		8,678

Note 9 Investment Income

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

2019/20		2020/21
£'000		£'000
13,856	Pooled investments - unit trust and other managed funds	5,658
2,070	Pooled property investments	2,406
182	Infrastructure Income	404
151	Interest and cash deposits	188
16,259	Total before taxes	8,656

Note 10 Investment Management Arrangements

As at 31 March 2021, the investment portfolio is managed by ten external managers:

- The UK property portfolio is managed by Aberdeen Standard;
- Fixed income mandates are managed by CQS (Multi Asset Credit, via the London CIV) and Insight (Bonds);
- Alternatives are managed by Pantheon (Infrastructure), Macquarie (Renewable Infrastructure) and Quinbrook (Renewable Infrastructure);
- Equity portfolios are split between Baillie Gifford (active global, managed by the London CIV), Morgan Stanley (active global, managed by the London CIV), 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.

The Fund became a shareholder in the London LGPS CIV Ltd (the organisation set up to run pooled LGPS investments in London) in 2015 and holds £150,000 of regulatory capital in the form of unlisted UK equity shares.

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 2021 was as follows:

31 March 2020	%	Fund Manager	Mandate	31 March 2021	%
£'000				£'000	
Investments managed by the London CIV asset pool:					
3	0.0%	London LGPS CIV Ltd - Majedie	UK Equity (Active)	3	0.0%
150	0.0%	London CIV	Share Capital	150	0.0%
153	0.0%		UK Equity	153	0.0%
276,397	20.9%	London LGPS CIV Ltd - Baillie Gifford	Global Equity (Active)	429,778	24.6%
0	0.0%	London LGPS CIV Ltd - Morgan Stanley	Global Equity (Active)	337,309	19.3%
523,071	39.6%	LGIM Passive	World Equity (Passive)	40	0.0%
0	0.0%	LGIM Future World	World Equity (Passive)	398,414	22.8%
799,468	60.5%		Global Equity	1,165,541	66.7%
78,765	6.0%	London LGPS CIV Ltd - CQS	Multi Asset Credit	98,641	5.6%
78,765	6.0%		Fixed Income	98,641	5.6%
878,386	66.5%		Total pooled	1,264,335	72.3%
Investments managed outside of the London CIV asset pool:					
55,353	4.2%	Longview	Global Equity (Active)	69,172	4.0%
55,353	4.2%		Global Equity	69,172	4.0%
216,088	16.4%	Insight Buy and Maintain Bond Fund	Bonds	240,140	13.7%
216,088	16.4%		Bonds	240,140	13.7%
61,478	4.7%	Hermes	Property	89	0.0%
68,592	5.2%	Standard Life	Property	71,261	4.1%
130,070	9.9%		Property	71,350	4.1%
20,639	1.6%	Pantheon Global Infrastructure	Infrastructure	29,728	1.7%
0	0.0%	Macquarie GIG Renewable Energy	Infrastructure	6,004	0.3%
0	0.0%	Quinbrook Renewables Impact Fund	Infrastructure	7,333	0.4%
20,639	1.6%		Alternatives	43,065	2.4%
422,150	32.0%		Total outside pool	423,727	24.2%
19,204	1.4%	Cash deposits		59,291	3.5%
1,319,740	100%		Total investments at 31 March 2021	1,747,353	100%

Note 11 Reconciliation in movement in investments

2019/20	Market value 1 April 2019	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 2020
	£'000	£'000	£'000	£'000	£'000
Equities	150	-	-	-	150
Pooled investments	1,260,862	20,035	(10,404)	(120,669)	1,149,824
Pooled property investments	127,023	84	(665)	3,537	129,979
Infrastructure	14,403	9,243	(5,673)	2,650	20,623
Total	1,402,438	29,362	(16,742)	(114,482)	1,300,576
Cash deposits	5,802			(367)	19,045
Amounts receivable for sales of investments	-			-	-
Investment income due	120			-	119
Spot FX contracts	-			(10)	-
Amounts payable for purchases of investments	-			-	-
Net investment assets	1,408,360			(114,859)	1,319,740

Note 11 Reconciliation in Movement in Investments (continued)

2020/21	Market value 1 April 2020	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 2021
	£'000	£'000	£'000	£'000	£'000
Equities	150	-	-	-	150
Pooled equity investments	1,149,824	9,728	(20,556)	431,013	1,570,009
Pooled property investments	129,979	64	(59,905)	1,123	71,261
Infrastructure	20,623	29,346	(7,414)	481	43,036
Total	1,300,576	39,138	(87,875)	432,617	1,684,456
Cash deposits	19,045			(100)	62,788
Amounts receivable for sales of investments	-			-	-
Investment income due	119			-	109
Spot FX contracts	-			(30)	-
Amounts payable for purchases of investments	-			-	-
Net investment assets	1,319,740			432,487	1,747,353

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 2020		Holding	31 March 2021	
Market Value			Market Value	
£'000	% Holding		£'000	% Holding
523,071	39.6%	LGIM Global Passive	-	0.0%
-	-	LGIM Future World	398,414	22.8%
-	-	London LGPS CIV Ltd - Morgan Stanley	337,309	19.3%
276,397	20.9%	London LGPS CIV Ltd - Baillie Gifford	429,622	24.6%
55,353	4.2%	Longview	-	0.0%
216,088	16.4%	Insight Buy and Maintain Bond Fund	240,140	13.7%
78,765	6.0%	London LGPS CIV Ltd - CQS	95,312	5.5%
68,592	5.2%	Aberdeen Standard	-	0.0%
1,218,266	92.3%	Total Top Holdings	1,500,797	85.9%
1,319,740		Total Value of Investments	1,747,353	

Note 13a Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques based on the characteristics of each instrument, with the overall objective of maximising the use of market-based information.

Description of asset	Valuation hierarchy 19/20	Valuation hierarchy 20/21	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled Investments - Equity Funds UK and Overseas Managed Funds	Level 2	Level 2	The NAV for each share class is calculated based on the market value of the underlying equity assets.	Evaluated price feeds	Not required
Quoted UK and Overseas Bonds	Level 2	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	Evaluated price feeds	Not required
Pooled Long Lease Property Fund	Level 2	Level 2	The Aberdeen Standard Long Lease Property Fund is priced on a Single Swinging Price.	In house evaluation of market data	Not required
Pooled Investments – Multi Asset Credit	Level 2	Level 2	Fixed income securities are priced based on evaluated prices provided by independent pricing services.	Evaluated price feeds	Not required
Pooled Investments - Infrastructure	Level 3	Level 3	Latest available fair value provided by the manager, adjusted for cash movements subsequent to that date as required.	Manager valuation statements are prepared in accordance with ECVA guidelines	Upward valuations are only considered when there is validation of the investment objectives and such progress can be demonstrated

SENSITIVITY OF ASSETS VALUED AT LEVEL 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2021.

Description of asset	Assessed Valuation Range (+/-)	Value at 31 March 2021	Value on increase	Value on decrease
		£000	£000	£000
Pantheon – Infrastructure (a)	10.0%	29,698	32,668	26,728
Quinbrook - Renewable Infrastructure (b)	9.1%	7,333	8,001	6,666
Macquarie - Renewable Infrastructure (c)	10.0%	6,004	6,605	5,404
Total		43,035	47,274	38,798

- a) The inputs used by the General Partner during valuation include, but are not limited to, prices and other relevant information generated by the market transactions, type of security, size of the position, purchase price, purchases of the same or similar securities by other investors, marketability, foreign exchange rates, degree of liquidity, restrictions on the disposition, latest round of financing data, completed or pending third-party transactions in the underlying investment or comparable issuers, current financial position and operating results among other factors.
- b) The valuation of the fund is estimated to be within a +/- 9.1% flex range based on the actual valuation range calculated. The % flex will be an implied rate based on the actual valuation range calculated, which in turn will be based on a sensitivity analysis for the current holdings.
- c) The valuation of the fund is estimated to be within a +/- 10% range and with a lower boundary on the downside i.e. not capturing any potential long-term upsides such as repowering or asset life extensions.

As at 31 March 2020:

Description of asset	Assessed Valuation Range (+/-)	Value at 31 March 2020	Value on increase	Value on decrease
		£000	£000	£000
Hermes - Property fund	1.3%	61,388	62,186	60,590
Pantheon – Infrastructure*	12.2%	20,623	23,139	18,107
Total		82,011	85,325	78,697

*Pantheon confirmed due to the valuation assumptions used and material uncertainty during the ongoing Covid-19 pandemic, the true market value could be as much as 12.2% greater or lesser than reflected in the statement of accounts

Note 13b 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 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 infrastructure, which the Fund holds assets in, 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 2020				31 March 2021		
Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3		Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3
£'000	£'000	£'000		£'000	£'000	£'000
Financial Assets						
-	1,218,415	82,161	Financial assets at fair value through profit and loss	-	1,641,271	43,185
-	-	-	Financial liabilities at fair value through profit and loss	-	-	-
-	1,218,415	82,161		-	1,641,271	43,185
1,300,576				1,684,456		

Note 13c Reconciliation of Fair Value Measurements within Level 3

2020/21	Opening balance	Transfers into Level 3	Transfers out of Level 3	Purchases	Sales	Unrealised gains/losses	Realised gains/losses	Closing balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equity	150	-	-	-	-	-	-	150
Hermes - Property fund	61,388	-	-	-	(58,904)	-	(2,484)	-
Pantheon - Infrastructure	20,623	-	-	11,760	(2,185)	(735)	235	29,698
Quinbrook - Renewable Infrastructure	-	-	-	11,157	(3,500)	(324)	-	7,333
Macquarie - Renewable Infrastructure	-	-	-	6,428	-	(424)	-	6,004
Total	82,161	-	-	29,345	(64,589)	(1,483)	(2,249)	43,185

As at 31 March 2020:

2019/20	Opening balance	Transfers into Level 3	Transfers out of Level 3	Purchases	Sales	Unrealised gains/losses	Realised gains/losses	Closing balance
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Equity	150	-	-	-	-	-	-	150
Hermes - Property fund	62,315	-	-	-	-	-	(927)	61,388
Pantheon - Infrastructure	14,403	-	-	9,243	(5,673)	-	2,650	20,623
Total	76,868	-	-	9,243	(5,673)	-	1,723	82,161

Note 14a Classification of Financial Instruments

The following table shows the classification of the Fund's financial instruments.

31-Mar-20			31-Mar-21		
Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost	Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost
£'000	£'000	£'000	£'000	£'000	£'000
Financial Assets					
Pooled funds - investment vehicles					
1,149,974		Pooled funds	1,570,159		
129,980		UK Unit Trust - Property	71,261		
20,623		Infrastructure	43,036		
	807	Cash Balances (held directly by Fund)		1,224	
	119	Other Investment Balances		109	
	19,044	Cash Deposits		62,788	
	3,833	Debtors		3,974	
1,300,577	23,803	-	1,684,456	68,095	-

Note 14a Classification of Financial Instruments (continued)

31 March 2020				31 March 2021		
Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost		Fair value through profit and loss	Financial assets at amortised cost	Financial liabilities at amortised cost
£'000	£'000	£'000		£'000	£'000	£'000
<u>Financial Liabilities</u>						
-	-	-	Other Investment Balances	-	-	-
-	-	(209)	Creditors	-	-	(223)
-	-	(209)		-	-	(223)
1,300,577	23,803	(209)	Total	1,684,456	68,095	(223)
1,324,171				1,752,328		

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 2020		31 March 2021
£'000		£'000
Financial Assets		
(114,482)	Designated at fair value through profit and loss	432,617
(367)	Loans and receivables	(100)
(114,849)		432,517
Financial Liabilities		
(10)	Financial liabilities at amortised cost	(30)
(10)		(30)
(114,859)	Total	432,487

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

Note 15 Nature and extent of risks arising from Financial Instruments

RISK AND RISK MANAGEMENT

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

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

a) Market Risk

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

Price Risk

Price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual 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 Fund has determined that a 10.9% increase or decrease in market price risk is reasonable for 2020/21. This analysis excludes debtors, creditors, other investment balances and forward foreign exchange, as these financial instruments are not subject to price risk.

Assets exposed to price risk	Price Risk	Value £bn	Value on price increase	Value on price decrease
		£'000	£'000	£'000
As at 31 March 2020	10.0%	1,319,740	1,451,714	1,187,766
As at 31 March 2021	10.9%	1,747,353	1,937,814	1,556,891

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

Interest Rate Risk

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

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	Average Duration	Value	Value on 1% increase	Value on 1% decrease
	Yrs	£'000	£'000	£'000
Fixed Income - Global Bonds	8.15	216,088	198,477	233,699
Fixed Income - Global Multi Asset Credit	1.86	78,765	77,300	80,230
As at 31 March 2020		294,853	275,776	313,930

Assets exposed to interest rate risk	Average Duration	Value	Value on 1% increase	Value on 1% decrease
	Yrs	£'000	£'000	£'000
Fixed Income - Global Bonds	8.27	240,140	220,281	260,000
Fixed Income - Global Multi Asset Credit	1.33	98,641	97,329	99,953
As at 31 March 2021		338,781	317,610	359,953

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 hedging, which is applied to the LGIM equities mandate. 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 6.44% strengthening/weakening of the pound against foreign currencies during 2020/21. This has fallen from a 10.0% currency risk as at 31 March 2020, reflecting a reduction in volatility following the UK's orderly exit from the EU.

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

Assets exposed to	Currency Risk	Value	Value on	Value on
			foreign exchange rate increase	foreign exchange rate decrease
currency risk		£'000	£'000	£'000
As at 31 March 2020	10.0%	316,823	348,505	285,140
As at 31 March 2021	6.44%	754,503	803,093	705,913

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 2021, liquid assets were £1.633bn representing 93% of total fund assets (£1.169bn at 31 March 2020 representing 89% of the Fund at that date). The majority of these investments can in fact be liquidated within a matter of days.

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 2019 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 30 March 2020, with the funding level rising to 100%. This report details the fund assumptions and employer contribution rates for the three years from 2020/21. The report and Funding Strategy Statement are both available on the Council's website.

The actuary's smoothed market value of the scheme's assets at 31 March 2019 was £1.410bn and the Actuary assessed the present value of the funded obligation at £1.430bn. This indicates a net liability of £20m, which equates to a funding position of 99% (2016: £264.1m and 80%).

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 2019	2019 Allocation %	Neutral Assumption %
Corporate Bonds	13.5	2.6
Equities	65.0	6.7
Infrastructure	5.0	6.7
Multi Asset Credit	6.5	4.8
Property	10.0	3.7

Financial assumptions	2019 %	2016 %	2013 %
Discount rate - scheduled bodies	4.8	5.1	5.9
Discount rate - admitted bodies	3.3	4.5	4.9
RPI	3.6	3.3	3.5
CPI	2.6	2.4	2.7
Pension increases	2.6	2.4	2.7
Short-term pay increases	n/a	2.4	1.0
Long-term pay increases	3.6	3.9	4.5

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 19 years, as set out in the Funding Strategy Statement (2016: 22 years). The common future service contribution rate for the Fund was set at 17.9% of pensionable pay (2016: 16.9%).

The triennial valuation also sets out the individual contribution rate to be paid by each employer from 1 April 2020 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.

Note 17 Actuarial Present Value of Promised Retirement Benefits

The table below shows the total net liability of the Fund as at 31 March 2021. 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 pension's legislation.

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

31 March 2020		31 March 2021	
£'000		£'000	
(1,860,231)	Present Value of Promised Retirement Benefits	(2,337,834)	
1,319,740	Fair Value of Scheme Assets (bid value)	1,747,353	
(540,491)	Net Liability	(590,481)	

Present Value of Promised Retirement Benefits comprise of £2,310m (2019/20: £1,839m) and £28.3m (2019/20: £21.4m) in respect of vested benefits and non-vested benefits respectively as at 31 March 2021.

ASSUMPTIONS

To assess the value of the Fund's liabilities at 31 March 2021, the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2019 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 2019. The post retirement mortality tables adopted are the S3PA tables with a multiplier of 110%, for males and 105% for females. These base tables are then projected using the CMI 2020 Model, allowing for a long-term rate of improvement of 1.25% p.a.

Assumed life expectancy from age 65 is:

Life expectancy from age 65 years		31 March 2020	31 March 2021
		Retiring today	
	Males	21.8	21.6
	Females	24.4	24.3
Retiring in 20 years			
	Males	23.2	22.9
	Females	25.8	25.7

FINANCIAL ASSUMPTIONS

The main financial assumptions are:

	31 March 2020	31 March 2021
	%	%
RPI increases	2.90	3.20
CPI increases	1.90	2.80
Salary increases	2.90	3.80
Pension increases	1.90	2.80
Discount rate	2.35	2.00

Note 18 Current Assets

31 March 2020		31 March 2021	
£'000		£'000	
Debtors:			
2,436	Contributions due - employers	2,608	
776	Contributions due - employees	826	
621	Sundry debtors	540	
807	Cash balances	1,224	
4,640	Total	5,198	

ANALYSIS OF DEBTORS

31 March 2020		31 March 2021	
£'000		£'000	
-	Central Government Bodies	1	
787	Other entities and individuals	654	
3,049	Administering Authority	3,319	
3,833	Total	3,974	

Note 19 Current Liabilities

31 March 2020		31 March 2021	
£'000		£'000	
(846)	Sundry creditors	(836)	
(846)	Total	(836)	

31 March 2020		31 March 2021	
£'000		£'000	
(637)	Central government bodies	(613)	
(209)	Other entities and individuals	(223)	
(846)	Total	(836)	

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 2020		31 March 2021	
Market Value		Market Value	
£'000		£'000	
828	Aegon	934	
214	Utmost Life and Pensions*	366	
1,042	Total	1,300	

In accordance with Regulation 4(1)(b) of the Pension Scheme (Management and Investment of Funds) Regulations 2016, 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 £0.545m in the period 2020/21 (2019/20: £0.535m) 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 Westminster City Council and no charge is made in respect of this.

KEY MANAGEMENT PERSONNEL REMUNERATION

The key management personnel of the Fund are the Members of the Pension Fund Committee, the Director of Finance and Resources, the Tri-Borough Director of Pensions and Treasury Management and the Director of People Services. There were no costs apportioned to the Pension Fund in respect of the Director of Finance and Resources post for 2019/20 and 2020/21. Total remuneration payable to key management personnel from the Pension Fund is set out below:

31 March 2020		31 March 2021	
£'000		£'000	
56	Short-term benefits	63	
253	Post-employment benefits	132	
309	Total	195	

Note 22 External audit costs

The external fee payable to the Fund's external auditors Grant Thornton UK LLP was £25k (£16k in 2019/20).

31 March 2020		31 March 2021
£'000		£'000
16	External audit fees	25
16	Total	25

Note 23 Events after the reporting period

Management have reviewed and can confirm that there are no significant events occurring after the reporting period.

Note 24 Contractual Commitments

The Fund has committed \$91.5m (£66.4m) to the Pantheon Global Infrastructure Fund III, of this commitment \$50.5m (£36.7m) was still outstanding at 31 March 2021. Alongside this, during the year the Fund committed £50m to the Quinbrook Renewables Impact Fund with £42.7m outstanding as at 31 March 2021. The Fund has also committed €55m (£46.8m) to the Macquarie Renewable Energy Fund, €47.9m (£40.8m) of which was outstanding at 31 March 2021.



7.

Asset Pools

Asset Pool Background and Governance

BACKGROUND

During 2015 the Ministry of Housing, Communities and Local Government (MHCLG) issued guidance on LGPS asset pooling (LGPS: Investment Reform Criteria and Guidance), which sets out how the government expected funds to establish asset pooling arrangements. In January 2019, the MHCLG issued a consultation and draft guidance on asset pooling within the LGPS, setting out changes to the pooling framework. This guidance will set out the requirements on administering authorities, replacing previous guidance, and build on previous ministerial communications and guidance on investment strategies.

The Fund recognises the Government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost.

The pension funds across England and Wales have come together to form eight asset pools. The Fund joined the London Collective Investment Vehicle (LCIV) in December 2015, the pool comprises of the 32 local authorities within London and has £23.6bn of assets under management, including £11bn under direct management, with 19 funds launched as of 2020/21.

The Fund has transitioned assets into the London CIV with a value of £1.264bn or 72% as at the 31 March 2021. Going forward the Fund will look to transition further assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

GOVERNANCE

There are a number of governance issues to be considered under pooling arrangements such as the relationship between the pension fund and asset pool, governance structure of the pool and the role of administering authorities.

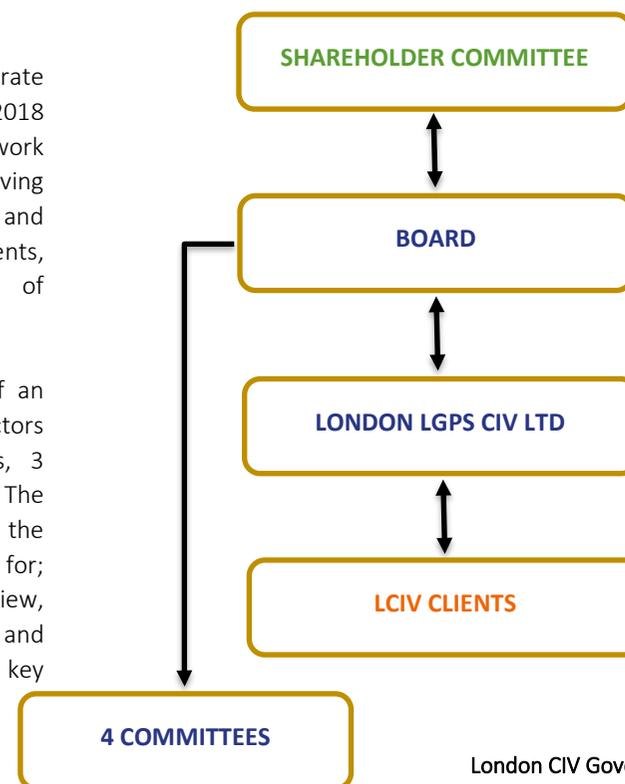
The London CIV Shareholder Committee is responsible for scrutinising the actions of the LCIV Company Board, reporting and transparency, consultation on the strategy, responsible investment and emerging issues. The Committee comprises of 12 members including Councillors and Treasurers from the LLAs.

London CIV shareholders approved a new Corporate Governance and Controls framework at the July 2018 Annual General Meeting (AGM). This framework details the governance arrangements for approving the London CIV's annual budget, business plan and objectives, governance structures and appointments, shareholder agreement and transparency of information and reporting.

The London CIV Company Board comprises of an independent Chairman, 7 non-executive Directors (NEDs), including 2 nominated by the LLAs, 3 executive Directors and the LCIV Treasurer. The Board has a duty to act in the best interests of the shareholders and has collective responsibility for; strategy oversight, budgeting, performance review, major decision making, financial reporting and controls, compliance and risk management, key policies and governance.

The London CIV has four Committees, responsible for investment oversight, audit and risk, remuneration and nominations and day to day operations of the company. These comprise of executive and non-executive members.

External independent oversight and assurance of the pool company is provided by the FCA, depository, external auditors and the MHCLG. The London CIV hosts an AGM on a semi-annual basis, to which all 32 members are invited. This allows members the opportunity to exercise shareholder power, approve the annual budget and hold the Board to account.



London CIV Governance Structure

Pool Set Up Costs

POOL SET UP AND TRANSITION COSTS

The set up and transition costs incurred by the Fund in relation to pooling are detailed in the following table.

	2020/21			Cumulative £'000
	Direct £'000	Indirect £'000	Total £'000	
Set up costs				
Other costs	6	85	91	306
Total set up costs	6	85	91	306
Transition costs				
Taxation	-	-	-	130
Other transition costs	838	-	838	932
Total transition costs	838	-	838	1,062

TOTAL EXPECTED COSTS AND SAVINGS

The Pension Fund has four mandates held with the London CIV pool company; Baillie Gifford Alpha Growth Equities, Morgan Stanley Global Sustain Equities, LGIM Future World Equities and CQS Multi Asset Credit. The following table details actual and forecasted costs and savings to 2024/25 by pooling these funds.

	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24	2024/25
	Actual	Actual	Actual	Actual	Actual	Forecast	Forecast	Forecast	Forecast
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Set up costs	0	(77)	(69)	(69)	(91)	(89)	(90)	(90)	(89)
Transition costs	(25)	0	(3)	(65)	(838)	0	0	0	0
Fee savings/(costs)	201	(577)	(495)	(27)	957	1,601	1,634	1,667	1,701
Net savings/(costs) realised	176	(654)	(567)	(161)	28	1,512	1,544	1,577	1,612

The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning assets across to the London CIV as soon as there are appropriate sub-funds to meet the Fund's investment strategy requirements.

Other Investment Management Costs

The table below splits investment management costs between pooled and non-pooled.

	Asset Pool			Non-asset pool			Fund Total
	Direct	Indirect	Total	Direct	Indirect	Total	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Management fees	2,886	-	2,886	3,260	-	3,260	6,146
Asset pool shared costs	110	-	110	-	-	-	110
Transaction costs	160	1,732	1,892	-	476	476	2,368
Custody	-	-	-	54	-	54	54
Total	3,156	1,732	4,888	3,314	476	3,790	8,678

An analysis of operational expenses including variances to prior years can be found within section 2 of this report.

Asset Allocations and Performance

Asset allocation and performance is separated by pooled and non-pooled in the following table.

Asset Category	Opening Value		Closing Value		Performance	Passive Index	Benchmark
	£'000	%	£'000	%	Net		
Asset pool managed							
UK Equity (Active)	3	0.0%	3	0.0%	N/A	N/A	N/A
UK Equity (Passive)	150	0.0%	150	0.0%	N/A	N/A	N/A
Global Equity (Active)	276,397	20.9%	767,087	43.9%	56.2%	N/A	41.3%
World Equity (Passive)*	523,071	39.6%	398,454	22.8%	N/A	N/A	N/A
Multi Asset Credit	78,765	6.0%	98,641	5.6%	25.2%	N/A	4.4%
Total	878,386	66.6%	1,264,335	72.3%			
Non-asset pool managed							
Global Equity (Active)	55,353	4.2%	69,172	4.0%	34.9%	N/A	40.7%
Global Bonds	216,088	16.4%	240,140	13.7%	10.1%	N/A	7.2%
Property**	61,478	4.7%	89	0.0%	N/A	N/A	N/A
Property (Passive)	68,592	5.2%	71,261	4.1%	N/A	3.8%	-3.7%
Infrastructure	20,639	1.6%	29,728	1.7%	-3.8%	N/A	8.4%
Renewable Infrastructure	-	0.0%	13,337	0.7%	N/A	N/A	N/A
Cash	19,205	1.5%	59,291	3.5%	N/A	N/A	N/A
Total	441,354	33.4%	483,018	27.7%			
Grand Total	1,319,740	100%	1,747,353	100.0%			

*During the year the Fund transitioned from the LGIM Global Passive Fund into the LGIM Future World Fund

**During the year the Fund terminated the Hermes property mandate with funds to be transitioned into renewable infrastructure

See section 3 of this report for more information regarding Fund performance and asset management.



8.

Glossary and Contacts

Glossary of Terms

ACCOUNTING POLICIES

The rules and practices adopted by the authority that determine how the transactions and events are reflected in the accounts.

ACCRUALS

Amounts included in the accounts for income or expenditure in relation to the financial year but not received or paid as at 31 March.

ACTIVE MANAGEMENT

Active management or active fund management is where the fund manager makes specific investments with the aim of outperforming an investment benchmark.

ACTIVE MEMBER

Current employee who is contributing to a pension scheme.

ACTUARIAL GAINS AND LOSSES

These arise where actual events have not coincided with the actuarial assumptions made for the last valuations (known as experience gains and losses) or the actuarial assumptions have been changed.

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.

ADDITIONAL VOLUNTARY 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.

BONDS

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.

CIPFA (CHARTERED INSTITUTE OF PUBLIC FINANCE AND ACCOUNTING)

CIPFA is the professional institute for accountants working in the public services. CIPFA publishes the Code.

CREDITORS

Amounts owed by the Council for goods and services received but not paid for as at 31 March.

DEBTORS

Amounts owed to the Council for goods and services provided but where the associated income was not received as at 31 March.

DEFERRED MEMBERS

Scheme members, who have left employment or ceased to be active members 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.

Glossary of Terms (continued)

DERIVATIVE

A derivative is a financial instrument which derives its value from the change in price (e.g. foreign exchange rate, commodity price or interest rate) of an underlying investment (e.g. equities, bonds, commodities, interest rates, exchange rates and stock market indices), which no net initial investment or minimal initial investment and is settled at a future date

EMPLOYER CONTRIBUTION RATES

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

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.

EXCHANGE TRADED

This describes a financial contract which is traded on a recognised exchange such as the London Stock Exchange or the London International Financial Futures Exchange.

FINANCIAL ASSETS

Financial assets are cash, equity instruments within another entity (e.g. shares) or a contractual right to receive cash or another asset from another entity (e.g. debtors) or exchange financial assets or financial liabilities under potentially favourable conditions (e.g. derivatives).

FINANCIAL INSTRUMENT

Any contract giving rise to a financial asset in one entity and a financial liability or equity in another entity.

FINANCIAL LIABILITIES

Financial assets are contractual obligations to deliver cash or another financial asset (e.g. creditors) or exchange financial assets or financial liabilities under potentially unfavourable conditions (e.g. derivatives).

FORWARD FOREIGN EXCHANGE DERIVATIVE

Forward foreign exchange derivatives are over the counter contracts whereby two parties agree to exchange two currencies on a specified future date at an agreed rate of exchange.

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.

OVER THE COUNTER

This describes a financial contract which is potentially unique as they are not usually traded on a recognised exchange

PASSIVE MANAGEMENT

Passive management is where the investments mirror a market index.

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.

PROJECTED UNIT METHOD – PENSION FUND VALUATION

An accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependents, allowing where appropriate for future increases, and
- the accrued benefits for members in service on the valuation date.

Glossary of Terms (continued)

RELATED PARTIES

Two or more parties are related parties when at any time during the financial period:

- one party has direct or indirect control of the other party; or
- the parties are subject to common control from the same source; or
- one party has influence over the financial and operational policies of the other party, to an extent that the other party might be inhibited from pursuing at all times its own separate interests; or
- the parties, in entering a transaction, are subject to influence from the same source, to such an extent that one of the parties to the transaction has subordinated its own separate interests.

Advice from CIPFA is that related parties to a local authority include Central Government, bodies precepting or levying demands on the Council Tax, members and chief officers of the authority and its pension fund.

RELATED PARTY TRANSACTION

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party, irrespective of whether a charge is made. Examples of related party transactions include:

- the purchase, sale, lease, rental or hire of assets between related parties;
- the provision by a pension fund to a related party of assets or loans, irrespective of any direct economic benefit to the pension fund;
- the provision of services to a related party, including the provision of pension fund administration services; and
- transactions with individuals who are related parties of an authority or a pension fund, except those applicable to other members of the community or the pension fund, such as Council Tax, rents and payments of benefits.

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 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.

THE CODE

The Code incorporates guidance in line with IFRS, IPSAS and UK GAAP Accounting Standards. It sets out the proper accounting practice to be adopted for the Statement of Accounts to ensure they 'present fairly' the financial position of the Council. The Code has statutory status via the provision of the Local Government Act 2003.

UNREALISED GAINS/LOSSES

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

NOTE: values throughout these accounts are presented rounded to whole numbers. Totals in supporting tables and notes may not appear to cast, cross-cast, or exactly match to the core statements or other tables due to rounding differences.

Contact Information

This document gives details of Westminster City Council's Annual Accounts and is available on the Council's website at westminster.gov.uk.

FOR FURTHER DETAILS PLEASE CONTACT:

The Pensions Team
16th Floor
64 Victoria Street
London
SW1E 6QP

pensionfund@westminster.gov.uk

Contact details of the City of Westminster Pension Fund's pool company are as follows:

London CIV
4th Floor
22 Lavington Street
London
SE1 0NZ

pensionsCIV@londonciv.org.uk



9.

Appendices

Governance Compliance Statement

BACKGROUND

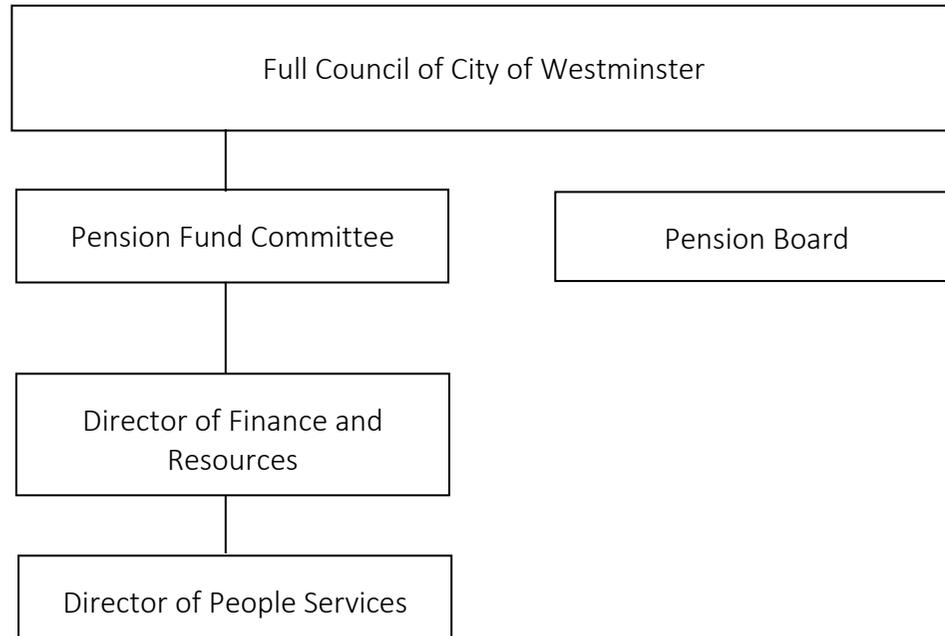
The City of Westminster is the administering authority for the City of Westminster Pension Fund (“the Fund”) and it administers the Local Government Pension Scheme on behalf of the participating employers.

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.



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 comprises 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 Superannuation Fund and to approve the Annual Report.
6. To receive actuarial valuations of the Superannuation Fund regarding the level of employers' contributions necessary to balance the Superannuation 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.
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).

Governance Compliance Statement (continued)

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).

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.

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.	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). 	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

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

Communication 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/>

Communication Policy (continued)

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.

Pension & Lifetime Savings Association (PLSA)

All administering Authorities who are members of the PLSA 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.

Communication Policy (continued)

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

Communication Policy (continued)

FURTHER INFORMATION

If you need more information about the Scheme, you should contact Surrey County Council at the following address:

SURREY COUNTY COUNCIL

Pension Services (WCC Team)

Surrey County Council

Room 243, County Hall

Penrhyn Road

Kingston upon Thames

Surrey KT1 2DN

Email: *myhelpdeskpensions@surreycc.gov.uk*

General enquiries and complaints:

Phone: 0300 200 1031

Funding Strategy Statement

This is the Funding Strategy Statement for the City of Westminster Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes Westminster City Council's strategy, in its capacity as administering authority, for the funding of the City of Westminster Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1. PURPOSE OF THE FUNDING STRATEGY STATEMENT

1.1 The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as required by Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way

that ensures the solvency and long-term cost efficiency of the Fund are met; and

- Take a prudent longer-term view of funding those liabilities.

2. AIMS AND PURPOSE OF THE FUND

2.1 The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

2.2 The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and

- Receive and invest contributions, transfer values and investment income.

3. FUNDING OBJECTIVES

3.1 Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

3.2 The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

3.3 In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service

Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

4. RESPONSIBILITIES OF KEY PARTIES

4.1 The key parties involved in the funding process and their responsibilities are set out below.

The Administering Authority

4.2 The administering authority for the Fund is Westminster City Council. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;

- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme Employers

4.3 In addition to the administering authority, a number of other Scheme employers participate in the Fund. The responsibilities of each employer that participates in the Fund, including the administering authority, 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 the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Scheme Members

4.4 Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

The Fund Actuary

4.5 The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and

- Advise on other actuarial matters affecting the financial position of the Fund.

5. FUNDING STRATEGY

- 5.1 The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.
- 5.2 The most recent valuation of the Fund was as at 31 March 2019.
- 5.3 The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.
- 5.4 The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

6. FUNDING METHOD

- 6.1 The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.
- 6.2 The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.
- 6.3 For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits

expected to be accrued after the valuation date (future service). These are evaluated as follows:

- 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 and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
 - The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.
- 6.4 The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.
- 6.5 The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.
- 6.6 For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in

assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

- 6.7 For closed employers, the actuarial 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 a specific period, such as the length of a contract or the remaining expected working lifetime of active members.
- 6.8 The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example the Council, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

7. VALUATION ASSUMPTIONS AND FUNDING MODEL

- 7.1 In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.
- 7.2 The assumptions adopted at the valuation can therefore be considered as:
- The demographic (or statistical) assumptions which are essentially estimates of the

likelihood or timing of benefits and contributions being paid, and

- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

Financial Assumptions: Future Price Inflation

7.3 The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is used as this is consistent with the average duration of an LGPS Fund.

Financial Assumptions: Future Pension Increases

7.4 Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 1.0% p.a. is therefore made from the RPI assumption to derive the CPI assumption.

Financial Assumptions: Future Pay Increases

7.5 As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Financial Assumptions: Future Investment Returns/Discount Rate

7.6 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.

7.7 The discount rate that is adopted will depend on the funding target adopted for each Scheme employer.

7.8 The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the "ongoing" discount rate.

7.9 It may be appropriate for an alternative discount rate approach to be taken to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting a cessation event or to reflect the administering authority's views on the level of risk that an employer poses to the Fund. The Fund Actuary will incorporate any such adjustments after consultation with the administering authority.

7.10 A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

Financial assumptions as at 31 March 2019	
RPI Inflation	3.6% p.a.
CPI Inflation	2.6% p.a.

Financial assumptions as at 31 March 2019

Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay Increases	CPI inflation + 1.0% p.a.
Discount rate – Scheduled bodies	4.8% p.a.
Discount Rate – Admitted bodies	3.3% p.a.

Admitted Bodies

7.11 A more prudent discount rate is adopted for admitted bodies in the Fund, resulting in a higher level of contributions being required from these bodies. This is in recognition of the fact that such employers may typically be expected to participate in the Fund for a limited period of time and so the aim is to increase the likelihood of sufficient assets being available to fund their employees' past service benefits by the time they cease participation in the Fund. In this way, the risk of deficits arising after the termination date and thus needing to be met by other employers in the Fund is reduced. Some admitted bodies may also be deemed to have a weaker covenant than other employers and so a higher contribution requirement reflects the increased risk that these employers present to the Fund.

Asset valuation

7.12 For the purpose 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. This is referred to as the smoothed asset value and is calculated in a consistent way to the valuation of the liabilities.

7.13 The Fund's assets are allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

Demographic Assumptions

7.14 The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers. Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

McCloud/Sargeant Judgements

7.15 The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

7.16 In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service

schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS. Further details of this can be found below in the Regulatory risks section.

7.17 At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than, the impact of reducing the discount rate assumption by 0.05%.

Guaranteed Minimum Pension (GMP) Indexation and Equalisation

7.18 As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed.

7.19 On 22 January 2018, the government published the outcome to its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully protect the

GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016.

7.20 The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

8. DEFICIT RECOVERY/SURPLUS AMORTISATION PERIODS

8.1 Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, 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. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

8.2 Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 19 years. The adjustment will usually be set as a fixed monetary amount.

8.3 Where the valuation for an employer discloses a surplus then the level of required employer

contribution may include an adjustment to amortise a proportion of the surplus.

8.4 The deficit recovery period or amortisation period that is adopted, and the proportion of any deficit/surplus that is recovered/amortised, for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

9. POOLING OF INDIVIDUAL EMPLOYERS

9.1 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. Pooling of individual employers may be considered in exceptional circumstances if deemed appropriate by the administering authority and Fund Actuary.

10. NEW EMPLOYERS JOINING THE FUND

10.1 When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

ADMISSION BODIES

10.2 New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at Start of Contract

10.3 Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

10.4 However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution Rate

10.5 The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

10.6 Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

10.7 To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

10.8 If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

NEW ACADEMIES

10.9 When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at Start

10.10 On conversion to academy status, the new academy will be allocated assets based on the active cover of the relevant local authority at the conversion date. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities.

Contribution Rate

10.11 The total contribution rate for new academies will be chosen to meet both the costs of benefits accruing to the existing active members in the future, and to try to restore the funding level to 100% over the Fund's maximum deficit recovery period.

11. CESSATION VALUATIONS

11.1 When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations, the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

11.2 Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;

- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

11.3 Amendments to the LGPS Regulations which came into effect from May 2018 allow flexibility over the payment of exit credits to employers where there is a surplus at the exit date. Given that the Fund will retain the long term risks associated with the residual liabilities of ceasing employers, it is possible that adverse future experience may lead to a deficit arising at some point after the date of exit and this would need to be funded by the other employers in the Fund. Therefore, in order to protect the Fund and the remaining active employers, the policy of the Fund is that no exit credit shall be paid to an employer on exit where a surplus is calculated as part of the cessation valuation and the employer's exit payment in this scenario shall be certified as nil.

11.4 In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

11.5 For example, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities are likely to be assessed on a "minimum risk" basis leading to a higher exit payment being required from the employer, in order to extinguish their liabilities to the Fund and to reduce the risk of

these liabilities needing to be met by other participating employers in future.

11.6 If it is agreed that another employer in the Fund will accept responsibility for the residual liabilities, then the assumptions adopted will be consistent with the current ongoing funding position.

12. BULK TRANSFERS

12.1 Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

12.2 The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

12.3 A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

13. LINKS WITH THE INVESTMENT STRATEGY STATEMENT (ISS)

13.1 The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

13.2 As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

14. RISKS AND COUNTER MEASURES

14.1 Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

14.2 The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

FINANCIAL RISKS

14.3 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.

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

required employer contribution by around 0.7% of payroll p.a.

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

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

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

DEMOGRAPHIC RISKS

14.8 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. For example, an increase in the long-term rate of mortality improvement of 0.25% p.a. will increase the liabilities by around 1%.

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

14.10 The liabilities of the Fund can also increase by more than has been planned as a result of the

additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

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

MATURITY RISKS

14.12 The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

14.13 The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner

members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meet its benefit payments. The Fund may carry out cash flow modelling to assess if, when and in what circumstances the Fund will become cash flow negative and options to address this.

14.14 The government has published a consultation (Local government pension scheme: changes to the local valuation cycle and management of employer risk) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

REGULATORY RISKS

14.15 The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government. The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme. However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

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

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.

- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

14.17 At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant Judgements and Cost Cap

14.18 The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employees against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

4.19 The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to

enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

4.20 However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

4.21 The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful

discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS. At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

Consultation: Local Government Pension Scheme: Changes to the Local Valuation Cycle and Management of Employer Risk

14.22 On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

14.23 The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019. A partial government response was issued in February 2020 concerning flexibility around the payment of exit credits only, which has been reflected in this FSS and discussed in the "Cessation

valuations" section above. We await the outcome of the consultation regarding the other proposals.

Timing of Future Actuarial Valuations

14.24 LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. The results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

Changes to Employers Required to offer LGPS Membership

14.25 At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

14.26 With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. This could impact on the level of maturity and the cashflow profile for these employers. As described earlier this may increase the risk of contribution income being insufficient to meet

benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer active members participating in the Fund.

14.27 This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

14.28 There are very few employers of this type currently participating in the Fund and so the risks are considered relatively low at present.

EMPLOYER RISKS

14.29 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; and
- An employer ceasing to exist without having fully funded their pension liabilities.

14.30 However, 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. In particular, the Fund regularly commissions an employer risk review

from the Fund Actuary to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

14.31 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.

GOVERNANCE RISKS

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

MONITORING AND REVIEW

14.33 This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

14.34 The most recent valuation was carried out as at 31 March 2019, certifying the contribution rates

payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

14.35 The timing of the next funding valuation is due to be confirmed as part of the government's Local government pension scheme: changes to the local valuation cycle and management of employer risk consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

14.36 The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

City of Westminster Pension Fund Investment Strategy Statement 2021/22

1. Introduction

1.1 This is the Investment Strategy Statement (ISS) adopted by the City of Westminster Pension Fund (“the Fund”), which is administered by Westminster City Council (“the Administering Authority”).

Under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 the Fund is required to publish this ISS. The Regulations require administering authorities to outline how they meet each of 6 objectives aimed at improving the investment and governance of the Fund.

1.2 This Statement addresses each of the objectives included in the 2016 Regulations:

- a) A requirement to invest fund money in a wide range of instruments;
- b) The authority’s assessment of the suitability of particular investments and types of investment;
- c) The authority’s approach to risk, including the ways in which risks are to be measured and managed;
- d) The authority’s approach to pooling investments, including the use of collective investment vehicles;
- e) The authority’s policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- f) The authority’s policy on the exercise of rights (including voting rights) attaching to investments.

We deal with each of these in turn below.

1.3 The Pension Fund Committee (the “Committee”) of the City of Westminster Pension Fund oversees the management of the Fund’s assets. Although not trustees, the Members of the Committee owe a fiduciary duty similar to that of trustees to the council-tax payers and guarantors of other scheme employers, who would ultimately have to meet any shortfall in the assets of the Fund, as well as to the contributors and beneficiaries of the Fund.

1.4 The relevant terms of reference for the Committee within the Council’s Constitution are:

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 Superannuation 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.

- To approve the final accounts and balance sheet of the Superannuation Fund and to approve the Annual Report.
- To receive actuarial valuations of the Superannuation 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).

The Committee has responsibility for:

- Determining an overall investment strategy and strategic asset allocation, with regard to diversification and the suitability of asset classes
- Appointing the investment managers, an independent custodian, the actuary, the

investment advisor(s) and any other external consultants considered necessary

- Reviewing on a regular basis the investment managers' performance against benchmarks, portfolio risk and satisfying themselves as to the managers' expertise and the quality of their internal systems and controls
- Monitoring compliance with the ISS & Funding Strategy Statement (FSS) and reviewing its contents
- Reviewing policy on social, environmental and ethical considerations, and on the exercise of voting rights

The Executive Director of Finance and Resources, the Tri-Borough Director of Treasury and Pensions and the appointed consultants and actuaries support the Pension Fund Committee. The day-to-day management of the Fund's assets is delegated to investment managers.

1.5 This ISS will be reviewed at least once a year, or more frequently as required - in particular following valuations, future asset/liability studies and performance reviews, which may indicate a need to change investment policy, or significant changes to the FSS.

1.6 Under the previous Regulations the Statement of Investment Principles required to state how it complies with the revised six investment principles as outlined within the CIPFA Pensions Panel Principles. Although not formally required under the 2016 Regulations this information is given in Appendix A. In addition, Appendix B includes a disclosure of the Fund's policy on how the Committee discharge their stewardship responsibilities.

1.7 Governing all investment decisions are the Committee's core investment beliefs they have been

established based on the views of the members and are listed below:

1 Investment Governance

- a) The Fund has access to the necessary skills, expertise and resources to manage the whole Fund, as well as internally managing a small proportion of the Fund's assets, such as cash management.
- b) Investment consultants, independent advisors and officers are a source of expertise and research to inform and assist the Committee's decisions.
- c) The ultimate aim of the Fund's investments is to pay pension liabilities when they become due. The Committee will therefore take account of liquidity and the long-term ability of the Fund to meet these obligations.
- d) The Fund is continuously improving its governance structure through bespoke training to implement tactical views more promptly, but acknowledges that it is not possible to achieve optimum market timing.

2 Long Term Approach

- a) The strength of the employers' covenant allows the Fund to take a longer term view of investment strategy than most investors.
- b) The most important aspect of risk is not the volatility of returns, but the risk of absolute loss over the medium and long term. This would in turn impact the ability of the employers to make adequate contributions to meet the Fund's liabilities.

- c) Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term market setbacks.
- d) Over the long term, equities are expected to outperform other liquid assets, particularly government bonds and cash.

3 Environmental, Social and Governance (ESG) factors

- a) Certain ESG factors are financially material and may therefore influence the risk and return characteristics of the Fund's investments and the likelihood that the Fund's objectives will be achieved.
- b) Well governed companies that manage their business in a responsible manner are less vulnerable to downside risk and may therefore produce higher returns over the long term.
- c) In order to improve corporate governance, investment managers should exercise the voting rights attached to the shares they own, as well as engage with management of the companies they invest in.
- d) Environmental considerations should reflect a growing recognition in the Committee of the urgency required in its decision-making processes when making investment allocations.
- e) If an investment manager fails to adequately consider ESG issues, the Committee is prepared to disinvest assets from that manager.

4 Asset allocation

- a) Allocations to asset classes other than equities and government bonds (e.g., corporate bonds, private markets and property) offer the Fund other forms of risk premia (e.g., additional solvency risk/illiquidity risk).
- b) Diversification across asset classes and asset types that have low correlation with each other will tend to reduce the volatility of the overall Fund return.
- c) In general, allocations to bonds and alternatives are made to achieve additional diversification. As the funding level improves, the Committee may look to certain lower risk strategies to mitigate liability risks and thus dampen the volatility of the Fund's actuarial funding level.

5 Management Strategies

- a) A well-balanced portfolio has an appropriate mix of passive and active investments.
- b) Passive, index-tracker style management provides low cost exposure to equities and bonds, and is especially attractive in efficient markets.
- c) Active management will typically incur higher investment management fees but can provide additional return. Fees should be aligned to the interests of the Fund.
- d) Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.
- e) Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce long term outperformance.

2. Objective 7.2 (a): A requirement to invest fund money in a wide range of instruments

2.1 Funding and investment risk is discussed in more detail later in this ISS. However, at this stage it is important to state that the Committee is aware of the risks it runs within the Fund and the consequences of these risks.

2.2 In order to control risk the Committee recognises that the Fund should have an investment strategy that has:

- Exposure to a diverse range of sources of return, such as market, manager skill and through the use of less liquid holdings.
- Diversity in the asset classes used.
- Diversity in the approaches to the management of the underlying assets.
- Adaptability to be able to maintain liquidity for the Fund.

2.3 This approach to diversification has seen the fund dividing its assets into four broad categories global equities, Fixed Income, Property and Alternatives. The size of the assets invested in each category will vary depending on investment conditions, the strategic asset allocation can be found within appendix E. However, it is important to note that each category is itself diversified. A consequence of this approach is that the Fund's assets are invested in a wide range of instruments.

2.4 The main risk the Committee are concerned with is to ensure the long-term ability of the fund to meet pension, and other benefit obligations, as they fall due is met. As a result, the Committee place a high degree of importance on ensuring the expected return on the assets is sufficient to do so and does not have to rely on a level of risk which the Committee considers excessive. The Fund currently has a negative cash flow position. The Committee is mindful that this position

may change in future and keeps the liquidity within the Fund monitored. At all times the Committee seeks to ensure that their investment decisions, including those involving diversification, are the best long-term interest of Fund beneficiaries and seeks appropriate advice from investment advisors.

2.5 To mitigate these risks the Committee regularly reviews both the performance and expected returns from the Fund's investments to measure whether it has met and is likely to meet in future its return objective. In addition to keeping their investment strategy and policy under regular review the Committee will keep this ISS under review to ensure that it reflects the approaches being taken.

3. Objective 7.2(b): The authority's assessment of the suitability of particular investments and types of investment

3.1 Suitability is a critical test for whether or not a particular investment should be made. When assessing the suitability of investments, the Committee takes into account the following from its due diligence:

- Prospective return
- Risk
- Concentration
- Risk management qualities the asset has, when the portfolio as a whole is considered
- Geographic and currency exposures
- Whether the management of the asset meets the Fund's ESG criteria.

3.2 Each of the Fund's investments has an individual performance benchmark which their reported performance is measured against.

3.3 The policy on asset allocation is compatible with achieving the locally determined solvency target.

3.3 The Committee monitors the suitability of the Fund's assets on a quarterly basis. To that end they monitor the investment returns and the volatility of the individual investments together with the Fund level returns and risk. This latter point being to ensure the risks caused by interactions between investments within the portfolio is properly understood. Where comparative statistics are available the Committee will also compare the Fund asset performance with those of similar funds.

3.4 The Committee monitors the suitability of the Fund's assets on a quarterly basis. To that end they monitor the investment returns and the volatility of the individual investments together with the Fund level returns and risk. This latter point being to ensure the risks caused by interactions between investments within the portfolio is properly understood. Where comparative statistics are available the Committee will also compare the Fund asset performance with those of similar funds.

3.5 The Committee relies on external advice in relation to the collation of the statistics for review.

4. Objective 7.2(c): The authority's approach to risk, including ways in which risks are to be measured and managed

4.1 The Committee recognises that there are a number of risks involved in the investment of the assets of the Fund amongst which are the following:

4.2 Geopolitical and currency risks:

- are measured by the value of assets (the concentration risk), in any one market leading to the risk of an adverse influence on investment values arising from political intervention; and
- are managed by regular reviews of the actual investments relative to policy and

through regular assessment of the levels of diversification within the existing policy.

4.3 Manager risk:

- is measured by the expected deviation of the prospective risk and return as set out in the manager(s) investment objectives, relative to the investment policy; and
- is managed by monitoring the actual deviation of returns relative to the objective and factors inherent in the manager(s) investment process.

4.4 Solvency and mismatching risk:

- are measured through a qualitative and quantitative assessment of the expected development of the liabilities relative to the current and alternative investment policies; and
- are managed by assessing the progress of the actual growth of the liabilities relative to the selected investment policy.

4.5 Liquidity risk:

- is measured by the level of cash flow required over a specified period; and
- managed by assessing the level of cash held in order to limit the impact of the cash flow requirements on the investment cash policy

4.6 Custodial risk:

- is measured by assessing the creditworthiness of the global custodian and the ability of the organisation to settle trades on time and provide secure safekeeping of the assets under custody.

4.7 Employer contributions are based upon financial and demographic assumptions determined by the

actuary. The main risks to the Fund are highlighted within the Funding Strategy Statement (FSS). The risks to the Fund are controlled in the following ways:

- The adoption and monitoring of asset allocation benchmarks, ranges and performance targets constrain the investment managers from deviating significantly from the intended approach while permitting the flexibility for managers to enhance returns
- The appointment of more than one manager with different mandates and approaches provides for the diversification of manager risk

4.8 The investment management agreements constrain the manager's actions in areas of particular risk and set out the respective responsibilities of both the manager and the Fund.

4.9 The Committee are aware investment risk is only one aspect of the risks facing the Fund. The other key risk they are aware of is the ability of the Fund to meet the future liabilities, support the investment risk (i.e. the level of volatility of investment returns) and underwrite actuarial risk, namely the volatility in the actuarial funding position and the impact this has on contributions.

4.10 The Committee are of the view that the diversification of the Fund assets is sufficiently broad to ensure the investment risk is low and will continue to be low. When putting in place the investment strategy the Committee carefully considered both the individual asset risk characteristics and those of the combined portfolio to ensure the risks were appropriate. Estimating the likely volatility of future investment returns is difficult as it relies on both estimates of individual asset class returns and the correlation between them. These can be based on historic asset class information for some of the listed

asset classes the Fund uses. However, for other private market and less liquid assets it is much more difficult. The Committee is also mindful that correlations change over time and at times of stress can be significantly different from when they are in more benign market conditions.

4.11 To help manage risk the Committee uses an external investment adviser to monitor the risk. In addition, when carrying out their investment strategy review the Committee also had different investment advisers' assess the level of risk involved.

4.12 The Fund targets a long-term return 4.8% as aligned with the latest triennial valuation from the Actuary. The investment strategy is considered to have a low degree of volatility.

4.13 When reviewing the investment strategy on a quarterly basis the Committee considers advice from their advisers and the need to take additional steps to protect the value of the assets that may arise or capitalise on opportunities if they are deemed suitable. In addition to this the risk registers are updated on a quarterly basis, appendix F.

4.14 At each review of the Investment Strategy Statement the assumptions on risk and return and their impact on asset allocation will be reviewed.

5 Objective 7.2(d): The authority's approach to pooling investments, including the use of collective investment vehicles

5.1 The Fund recognises the Government's requirement for LGPS funds to pool their investments and is committed to pursuing a pooling solution that ensures maximum cost effectiveness for the Fund, both in terms of return and management cost.

5.2 The Funds approach to pooling arrangements meet the criteria set out in the Local government pension scheme: investment reform criteria and guidance.

5.3 The Fund joined the London Collective Investment Vehicle (LCIV) as part of the Government's pooling agenda. The London CIV was launched in December 2015 by the 32 local authorities within London and has circa £23.6bn of assets under management, including £11bn under direct management, with 19 funds launched as of 2020/21.

5.4 The Fund has transitioned c. 50% of assets into the London CIV as of 31 March 2021. Going forward the Fund will look to transition further assets as and when there are suitable investment strategies available on the platform that meet the needs of the Fund.

5.5 The Fund is monitoring developments and the opening of investment strategy fund openings on the London CIV platform with a view to transitioning assets across to the London CIV as soon as there are appropriate sub-funds to meet the Fund's investment strategy requirements.

5.6 The Fund holds c. 23% of its assets within a passive equity fund and intends to retain these outside of the London CIV in accordance with government guidance on the retention of life funds outside pools for the time being. However, the Fund benefits from reduced management fees, with Legal & General Investment Management having reduced their fees to match those available through the London CIV. The Fund agrees for the London CIV to monitor the passive funds as part of the broader pool.

5.7 The remaining c. 27% of Fund is held within investment assets including property, bonds and infrastructure, and these will remain outside of the London CIV pool. The cost of exiting these strategies early would have a negative financial impact on the

Fund. These will be held as legacy assets until such time as they mature and proceeds re-invest through the pool assuming it has appropriate strategies available or until the Fund changes asset allocation and makes a decision to disinvest.

5.8 The table below details the investment funds held by the Pension Fund and indicates whether this mandate is available on the LCIV platform and if the funds have been transferred.

City of Westminster Fund	Available on the LCIV	Transferred to LCIV
Listed Equities		
Passive Equities: LGIM	Yes	Yes
Global: Baillie Gifford	Yes	Yes
Global: Longview	Yes	No
Global: Morgan Stanley	Yes	Yes
Cash		
At Custody	No	
Fixed Income		
Multi Asset Credit: CQS	Yes	Yes
Global Bonds: Insight	No	
Infrastructure		
Infrastructure: Pantheon	No	
Renewable Infrastructure: Quinbrook	No	
Renewable Infrastructure: Macquarie	No	
Property		
Property: Aberdeen Standard	No	

5.9 The Pension Fund Committee is aware that certain assets held within the Fund have limited liquidity and moving them would come at a cost. Whilst it is the expectation to make use of the London CIV for the management of the majority of the Fund assets in the longer term, the Committee recognises that transitioning from the current structure to the London CIV will be a protracted exercise spread over a number of years to ensure unnecessary costs are not incurred.

5.10 At each review of the investment strategy, which will happen at least every three years, the investment of the above assets will be actively considered by the City of Westminster Pension Fund, and in particular whether a collective investment option is appropriate.

5.11 The London CIV is an FCA authorised company established by the London Local Authorities (LLAs) to provide a collaborative vehicle for pooling LGPS pension fund assets. London CIV shareholders approved a new Corporate Governance and Controls framework at the July 2018 Annual General Meeting (AGM). This framework details the governance arrangements for approving the London CIV's annual budget, business plan and objectives, governance structures and appointments, shareholder agreement and transparency of information and reporting. It was agreed to review the framework after one year of operation which provides an opportunity to assess how it can be improved further, in particular to improve its effectiveness in achieving collaboration and an effective working relation between London CIV and its 32 shareholders collectively.

5.12 The London CIV Company Board comprises of an independent Chairman, 7 non-executive Directors (NEDs), including 2 nominated by the LLAs, 3 executive Directors and the LCIV Treasurer. The Board has a duty to act in the best interests of the shareholders and has collective responsibility for:

- Strategy and Oversight
- Budget & forward plan
- Reviews performance
- Major contracts and significant decisions including in relation to funds
- Financial reporting & controls
- Compliance, risk and internal controls
- Key policies
- Governance

5.13 The London CIV has four Committees, responsible for investment oversight, audit and risk, remuneration and nominations and day to day operations of the company. These comprise of executive and non-executive members.

The role of the Investment Oversight Committee is to:

- determine, maintain and monitor the Company's investment strategy, investment performance and performance risks of the portfolios in accordance with the Company strategy and business plan.

The responsibilities of the Compliance, Audit & Risk Committee include:

- oversee compliance obligations;
- risk management framework; and
- integrity of financial statements and reporting

The responsibilities of the Remuneration & Nomination Committee include:

- remuneration policy;
- remuneration of key staff; and
- nominations and succession planning of key staff and Board members.

The Executive Directors acting collectively as the Executive Committee have a number of specific delegated responsibilities for the day-to-day operations of the company, supported by the wider executive leadership team. The role of the Executive Committee in summary is to:

- execute board-approved strategic objectives and business plan in line with risk appetite and financial limits;
- identify, discuss, and formulate effective solutions to address issues and opportunities facing the Company;
- ensure the day-to-day operations meet relevant legal requirements and compliance obligations of the Company; and
- ensure the Board & Board Committee members receive timely, accurate and transparent management information & reporting to fulfil their duties & responsibilities.

5.14 The London CIV Shareholder Committee is responsible for scrutinising the actions of the Board, reporting and transparency, consultation on the strategy and business plan, matters reserved to shareholders, responsible investment and emerging issues. The Committee meets on a quarterly basis and comprises of 12 members including Councillors and Treasurers from the LLAs.

5.15 The London CIV hosts an AGM on a semi-annual basis, to which all 32 members are invited. This allows members the opportunity to exercise shareholder power, approve the annual budget and hold the Board to account.

5.16 External independent oversight and assurance of the pool company is provided by the FCA, depositary, external auditors and the MHCLG.

5.17 More information on the London CIV and its operation is included in Appendix C of this statement.

6 Objective 7.2(e): How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

6.1 A review of the Fund's carbon exposure was undertaken by TruCost and reported to Committee in September 2019, whereby the Fund's equity and property portfolio carbon footprints were mapped. This exercise will be undertaken on an annual basis going forward. Following this, a responsible investment (RI) policy and ESG policy was drafted for the Fund to be adopted by the Committee for 2020/21 onwards. The RI Policy outlines the approach to the management of Environmental, Social and Governance (ESG) issues within the investment portfolio and can be found within appendix D.

The Present ESG Policy

Introduction

6.2 The City of Westminster (WCC) Pension Fund (the Pension Fund) is committed to being a responsible investor and a long-term steward of the assets in which it invests. The Fund has a fiduciary duty to act in the best interests of its beneficiaries and this extends to making a positive contribution to the long-term sustainability of the global environment.

6.3 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.

6.4 The Fund maintains a policy of non-interference with the day-to-day decision making of the investment managers. The Committee believes that this is the most efficient approach whilst ensuring the implementation of policy by each manager is consistent with current best practice and the appropriate disclosure and reporting of actions.

6.5 There are a wide range of ESG issues, with none greater currently than climate change and carbon reduction. The Pension Fund recognises climate change as the biggest threat to global sustainability alongside its administering authority employer, Westminster City Council, which has committed itself to achieving carbon neutrality by 2030.

6.6 The Pension Fund Committee hold a fiduciary duty to act in the members' best interests and ensure that their pension benefits are fully honoured in retirement. That is why, as well as targeting investment returns that match the pension liabilities, the Committee is committed to managing the investment risks: the risks that pose a substantial threat to LGPS members' long-term future.

6.7 The Pension Fund's revised investment strategy should be governed by the following investment principles, which are set out below

6.8 Investment Principles

- The Pension Fund as a long-term investor, is committed to **investing to build a better future** through the integration of ESG issues at all stages of the investment decision-making process.
- Through active ownership, the Pension Fund **engages with the investment community** to help ensure a sustainable future for all its stakeholders. This includes demanding best practice

amongst its investment managers and challenging their investment outcomes where appropriate.

- The Pension Fund recognises that significant value can be achieved through **collaboration with other stakeholders**. The Pension Fund will work closely with its LGPS pool company (the London CIV), other LGPS funds and member groups such as the Local Authority Pension Fund Forum (LAPFF) to ensure corporate interests are aligned with the Pension Fund's values.
- The Pension Fund wants to **gain the confidence of members** in the governance process and the way in which in the Fund is invested on their behalf. It is important for the Pension Fund to be completely transparent and accountable to members and stakeholders.

6.9 Policy Implementation: investing to build a better future

The Pension Fund will continue to assess investment opportunities that have a positive impact on society as whole. These include but are not limited to, investments in fixed income (green bonds), property, low carbon assets, renewables and social impact opportunities. The Fund currently has a 6% allocation to renewable infrastructure, where the asset managers invest solely within renewables including solar, wind, transmission and storage. Alongside this, the Fund has transitioned c. £690m in equities into the LCIV Global Sustain Fund and LGIM Future World Fund. The Global Sustain Fund seeks to provide a concentrated high-quality global portfolio of companies, however, excludes tobacco, alcohol, adult entertainment, gambling, civilian weapons, fossil fuels, and gas or

electrical utilities. The LGIM Future World Fund tracks the L&G ESG Global Markets Index, whereby an Environmental, Social and Governance screening of companies takes place to remove those companies which do not meet the required ESG criteria.

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

6.10 Policy Implementation: engaging with investment community

Institutional investors have the power to influence and change behaviour globally. The WCC Pension Fund believes that there is significant value in being able to actively engage with the companies we invest in and be part of the transition to a global, low carbon economy.

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

The measurement of ESG performance is still developing and benefitting from significant improvements. There are several performance

benchmarks and disclosure frameworks that exist to measure the different aspects of available ESG data which include carbon emissions and a variety of social impact scores.

- The Pension Fund carries out a carbon footprint exercise on its separate portfolios annually via a specialist firm. The outcome of this measurement exercise will be instrumental in ensuring that the fund is able to meet its decarbonisation goals through effective asset allocation.
- The Pension Fund will continue to work closely with its investment managers to measure the carbon impact of its investments. This will involve developing internal metrics and agreed targets which will be reviewed on a regular basis.

Increasingly, there is growing interest in the investment community to develop investment strategies that focus on sustainable investments. As well as the wider investment community, the Pension Fund will support and contribute to the work carried out by the London CIV in the development of sustainable investments.

6.11 Policy Implementation: collaboration with other stakeholders

The introduction of pooling across the Local Government Pension Scheme (LGPS) will impact how the Pension Fund's responsible investment policy is implemented. The WCC fund is committed to playing a key role as part of the LGPS London CIV pool, with circa 70% of assets pooled.

As asset owners, the Pension Fund, in line with its investment strategy, is responsible for deciding how its

assets are invested through its strategic asset allocation. In addition to engaging with the investment community, the Pension Fund will continue to work closely with other UK and London LGPS funds to find common solutions for ESG issues.

As more funds are onboarded into the London CIV, the Pension Fund expects to further increase its investment in the pool. This is expected to create economies of scale and increased synergies for the Pension Fund through a significant reduction in management fees and greater influence when engaging with external stakeholders. The London CIV will manage the Pension Fund's investments in line with the Fund's strategic objectives and those of the other London LGPS Funds.

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

6.12 Policy Implementation: gaining our members confidence

WCC's LGPS members have spent at least part of their careers helping to deliver key services to their community. It is important for them to understand how their Pension Fund is managed and the contribution its investments make in securing a sustainable future. Members are encouraged to take an active interest in the governance processes of their Pension Fund and their views are represented within the work of the Local Pension Board.

The Pension Fund will aim to provide members with a variety of information which allows them to easily

understand the types of investments within the portfolio.

The Pension Fund reports on its overall performance annually through an annual report which is readily accessible to members on the fund's website.

Data within the annual report will include investment performance, an assessment of the key performance indicators (KPIs) of the Fund's administrative function and the Fund's assessment of its many risks.

The Pension Fund hosts an annual general meeting (AGM), following the end of the financial year, which all members and key stakeholders are invited to attend. This includes updates on the administration service, investment performance from our investment advisor, as well as a market update from an asset manager and a presentation from our actuary.

7 Objective 7.2(f): The exercise of rights (including voting rights) attaching to investments

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

7.2 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.

7.3 In addition 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; and

- Joins wider lobbying activities where appropriate opportunities arise.

7.4 Ongoing voting and engagement is covered with the Funds Responsible Investment Policy (Appendix D).

7.5 The Committee expects any directly appointed asset managers and the pool company (London CIV) to comply with the Stewardship Code (2020) and this is monitored on an annual basis. See appendix B and C for further details on the Funds approach to stewardship.

8 Feedback on this statement

Any feedback on this Investment Strategy Statement is welcomed. If you have any comments or wish to discuss any issues, then please contact:

Tri-Borough Treasury and Pensions Team
PensionFund@westminster.gov.uk

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16th Floor City Hall
Tri-Borough Treasury and Pensions Team
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London
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Investment Strategy Statement: Appendix A

Compliance with CIPFA Pensions Panel Principles for investment decision making in the local government pension scheme in United Kingdom

Decision Making

Regulation 12(3) of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 requires an administering authority to report on its compliance with the six Myners' Principles, in accordance with guidance given by the Secretary of State. The guidance for the Local Government Pension Scheme is set out in the CIPFA publication "Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012",

The Fund aims to comply with all of the Myners' Principles, recognising it is in all parties' interests if the Fund operates to standards of investment decision-making and governance identified as best practice. It is also recognised as important to demonstrate how the Fund meets such principles and best practice.

The Secretary of State has previously highlighted the principle contained in *Roberts v. Hopwood* whose administering bodies exercise their duties and powers under regulations governing the investment and management of Funds:

"A body charged with the administration for definite purposes of funds contributed in whole or in part by persons other than members of that body owes, in my view, a duty to those latter persons to conduct that administration in a fairly business-like manner with reasonable care, skill and caution, and with a due and alert regard to the interest of those contributors who are not members of the body. Towards these latter persons the body stands somewhat in the position of trustees or managers of others".

The Myners' Principles are seen as supporting this approach. The principles, together with the Fund's position on compliance, are set out below:

Principle 1 - Effective decision-making

Administrating 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; and
- Those persons or organizations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

Full Compliance

The Council has delegated the management and administration of the Fund to the Committee, which meets at least quarterly. The responsibilities of the Committee are described in paragraph 1.4 of the ISS. The Committee is made up of elected members of the Council who each have voting rights.

The Committee obtains and considers advice from and is supported by the Executive Director of Finance and Resources, Tri-Borough Director of Treasury & Pensions, and as necessary from the Fund's appointed actuary, investment managers and advisors.

The Committee has delegated the management of the Fund's investments to professional investment managers, appointed in accordance with the scheme's regulations, whose activities are specified in detailed investment management agreements and regularly monitored.

Business plans are presented to the Committee annually.

Several of the Committee members have extensive experience of dealing with Investment matters and training is made available to new Committee members.

Principle 2 - Clear objectives

An overall investment objective(s) should be set for the Fund that takes account of the pension 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 advisors and investment managers.

Full Compliance

The aims and objectives of the Fund are set out within the FSS and within the ISS. The main fund objective is to meet the cost of pension liabilities and to enable employer contribution rates to be kept as nearly constant as possible at reasonable cost to the taxpayers and admitted bodies.

The investment strategy has been set with the objective of controlling the risk that the assets will not be sufficient to meet the liabilities of the Fund while achieving a good return on investment (see paragraphs 4 and 5 above). The approach taken reflects the Fund's liabilities and was decided upon without reference to any other funds. The Fund's performance is measured against the investment objective on a quarterly basis. The Fund's strategy is regularly reviewed.

Principle 3 – Risk and liabilities

In setting and reviewing their investment strategy, administrating authorities should take account of the form and structure of liabilities. These include the implications for local taxpayers, the strength of the

covenant for participating employers, the risk of their default and longevity risk.

Full Compliance

The Committee has, in conjunction with its advisers, agreed an investment strategy that is related to the Fund's liabilities. An actuarial valuation of the Fund takes place every three years, with the most recent triennial valuation taking place in 2019. The investment strategy is designed to give diversification and specialisation and achieve optimum return against acceptable risk.

The asset allocation of the Fund is set to maximise the potential to close the funding deficit over future years. The current asset allocation is outlined in appendix E.

Principle 4 – Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors. Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members

Full Compliance

The IAC has appointed investment managers with clear index strategic benchmarks (see paragraph 4.2 above) within an overall Investment objective which place maximum accountability for performance against that benchmark on the manager.

The managers are monitored at quarterly intervals against their agreed benchmarks, and independent detailed monitoring of the Fund's performance is carried out by Deloitte, the Fund's advisor and by Northern Trust, the Fund's custodian who provide the performance figures. Moreover, portfolio risk is measured on quarterly basis and the risk/return

implications of different strategic options are fully evaluated.

The advisor is assessed on the appropriateness of asset allocation recommendations and the quality of advice given.

The actuary is assessed on the quality and consistency of the actuarial advice received. Both the advisor and the actuary have fixed term contracts which when expired are tendered for under the OJEU procedures. The Committee monitors the investment decisions it has taken, including the effectiveness of these decisions. In addition, the Committee receives quarterly reports as to how the Fund has performed against their investment objective.

In order to comply with the CMA investment consultancy and Fiduciary Management Market Investigation Order 2019, The Fund's investment advisors are measured annually against an agreed set of criteria which was agreed by Committee at the 23 October 2019 meeting.

Principle 5 – Responsible Ownership

Administering authorities should:

- **Adopt, or ensure their investment managers adopt, the Institutional Shareholders Committee Statement of Principles on the responsibilities of shareholders and agents.**
- **Include a statement of their policy on responsible ownership in the statement of investment principles.**
- **Report periodically to scheme members on the discharge of such responsibilities.**

Full Compliance

The Fund is committed to making full use of its shareholder rights. The approach used is outlined in paragraph 8 of the ISS and in the Fund's Responsible Investment (RI) Policy (Appendix D). Authority has

been delegated to the investment managers to exercise voting rights on behalf of the Fund. The investment managers are required to report how they have voted in their quarterly reports.

The Fund believes in using its influence as a shareholder to promote corporate social responsibility and high standards of corporate governance in the companies in which it invests – the Fund's approach to this is outlined in paragraph 7 of the ISS and in the Fund's RI Policy (Appendix D).

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.**
- **Provide regular communications to scheme members in the form they consider most appropriate.**

Full Compliance

Links to the Governance Compliance Statement, the ISS, the FSS, and the Communications Statement are all included in the Pensions Fund Annual Report which is published and is accessible to stakeholders of the Fund on the Council's web site, and a website developed specifically for the Fund.

All Committee meetings are open to members of the public and agendas and minutes are published on the Council's website and internal intranet.

Investment Strategy Statement: Appendix B

Compliance with the Stewardship Code

The **Stewardship Code** is a set of principles or guidelines released in 2010 and updated in 2020 by the Financial Reporting Council (FRC) directed at institutional investors who hold voting rights in United Kingdom companies. Its principal aim is to make shareholders, who manage other people's money, be active and engage in corporate governance in the interests of their beneficiaries.

The Code applies to pension funds and adopts the same "comply or explain" approach used in the UK Corporate Governance Code. This means that it does not require compliance with principles but if fund managers and institutional investors do not comply with any of the principles set out, they must explain why they have not done so. The Committee has not formally adopted the latest version of the Stewardship code. However, it expects any directly appointed fund managers and the pool company (London CIV) to comply and this is monitored on an annual basis.

Investment Strategy Statement: Appendix C

Information on London CIV

Stewardship Statement is attached – Other London CIV details are included in ISS main Statement

The London Collective Investment Vehicle (CIV) was formed as a voluntary collaborative venture by the London Local Authorities in 2014 to invest the assets of London Local Government Pension Scheme (LGPS). The London CIV and its London Local Authority investors recognise the importance of being long term stewards of capital and in so doing supports the UK Stewardship Code, which it recognises as best practice.

The London LGPS CIV Limited (“London CIV”) is fully authorised by the FCA as an Alternative Investment fund manager (AIFM) with permission to operate a UK based Authorised Contractual Scheme fund (ACS Fund). The London CIV in the management of its investments has appointed a number of external investment managers. We therefore see our role as setting the tone for the effective delivery of stewardship managers on our behalf and on behalf of our investing Funds. We are clear that we retain responsibility for this being done properly and fully in the interests of our own shareholders.

This Statement sets out how the London CIV implements the seven principles of the Code.

Principle 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The London CIV on behalf of its London Local Authority Shareholders recognises its position as an investor on their behalf with ultimate responsibility to members and beneficiaries and recognises that effective stewardship can help protect and enhance the long-

term value of its investments to the ultimate benefit of all stakeholders in the LGPS.

As we do not invest directly in companies, we hold our fund managers accountable for the delivery of stewardship on our behalf in terms of day-to-day implementation of its stewardship activity. We require the appointed fund management teams to be responsible for holding to account the management and boards of companies in which they invest. The London CIV believes that this approach is compatible with its stewardship responsibilities as it is the most effective and efficient manner in which it can promote and carry out stewardship activities in respect of its investments and ensure the widest reach of these activities given the London CIV’s investment arrangements.

A key related area where stewardship is integrated into the wider process is in the selection and monitoring of external investment managers. When considering the appointment of external investment managers, the consideration of Environmental Social and Governance (ESG) integration and stewardship activity of each investment manager is part of the selection process.

The London CIV expects its equity investment managers to adhere to the principles within the UK Stewardship Code. This position is communicated to the Fund’s investment managers and forms the basis of the approach to monitoring the investment managers as outlined in this document. Whilst the Stewardship Code is primarily directed at UK equity investments, the London CIV encourages its investment managers to apply the principles of the Code to overseas equity holdings where possible.

The primary mechanisms for the application of effective stewardship for the London CIV are exercise of voting rights and engagement with investee companies. The London CIV expects its external equity

investment managers that invest directly in companies, to pursue both these mechanisms. We receive quarterly reporting from managers which includes their stewardship and voting activities where appropriate. We seek consistently to ensure that these stewardship activities are carried out actively and effectively in the furtherance of good long-term investment returns

We expect all of the London CIV’s equity managers to be signatories to the Code and have publicly disclosed their policy via their Statements on how they will discharge their stewardship responsibilities. We expect managers that invest in companies directly to discharge their responsibilities by:

- having extensive dialogue with the company’s management throughout the year on a range of topics such as governance, financial performance and strategy; and
- voting, either directly or via the services of voting agencies.

Principle 2

Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.

Day-to-day implementation of the Fund’s stewardship activity has been delegated to external investment managers. The London CIV expects its investment managers to document their approach to stewardship, which should include how they manage any conflicts of interest that arise to ensure that the interests of the London CIV’s Investors are prioritised.

The London CIV will review annually the conflicts of interest policy of its managers and how any conflicts have been managed during the year. The London CIV has policies in place to manage conflicts of interest that may arise for the Board and its officers when making

decisions on its behalf. The Conflicts of Interest policy is reviewed by the London CIV board on a regular basis. A Conflicts of Interest Register is maintained. Shareholders of the London CIV attending the Pensions Sectoral Joint Committee are required to declare any conflicts of interest at the start of any meeting.

Principle 3

Institutional investors should monitor their investee companies.

We recognise that active and ongoing monitoring of companies is the foundation of good stewardship, reminding companies in which we invest that they have obligations to their shareholders to deliver returns over the appropriate long-term investment timeframe and, consistent with this, to manage any related environmental and social risks responsibly.

The London CIV requires its external investment managers to monitor investee companies. Issues to be monitored are likely to vary, however typically these might include a company's corporate strategy, financial performance, risk (including those from environmental and social factors), capital structure, leadership team and corporate governance. The London CIV encourages its investment managers to satisfy themselves that investee companies adhere to the spirit of the UK Corporate Governance Code.

The London CIV reviews investment managers in this area as part of their regular meetings. For equity investment managers this includes consideration of:

- who has overall responsibility for ESG risk analysis and integration;
- resources and experience of the team;
- at what stages of the process ESG risks are considered;
- exposures to environmental, social or governance risk within the portfolio; and

- the investment manager's willingness to become an insider and, if so, whether the manager has a policy setting out the mechanisms through which this is done.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

The London CIV recognises that constructive engagement with company management can help protect and enhance shareholder value. Typically, the London CIV expects its investment managers to intervene with investee companies when they view that there are material risks or issues that are not currently being adequately addressed.

The London CIV reviews investment managers in this area as part of their regular meeting. For equity investment managers that invest directly in Companies, this includes consideration of:

- whether voting activity has led to any changes in company practice;
 - whether the manager's policy specifies when and how they will escalate engagement activities;
 - overall engagement statistics (volume and areas of focus);
 - example of most intensive engagement activity discussed as part of the manager's annual review meeting; and
 - the estimated performance impact of engagement on the strategy in question.
- Given the range of fund managers and Fund investments, the London CIV carries out its monitoring at the manager level to identify:
- trends to ensure progress is being made in stewardship activities;
 - specific managers where progress or the rate of progress is not adequate; and
 - appropriate specific actions necessary.

Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.

As day-to-day management of the Fund's assets has been delegated to external investment managers, the London CIV expects its investment managers to get involved in collective engagement where this is an efficient means to protect and enhance long-term shareholder value.

In addition, the London CIV will work collectively with other investors including other LGPS Asset pools and the Local Authority Pension Fund Forum (LAPFF) to enhance the impact of their engagement activities

Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

The London CIV has delegated its voting rights to the Fund's investment managers and requires them to vote, except where it is impractical to do so. The London CIV also monitors the voting alerts of the LAPFF and where these are issued, requires the investment managers to take account of these alerts as far as practical to do so. Where the investment manager does not vote in line with the LAPFF voting alerts, the London CIV will require detailed justification for non-compliance.

The London CIV reviews and monitors the voting policies and activities of its investment managers, this includes consideration of:

- the manager's voting policy and, what areas are covered;
- the level of voting activity
- whether the investment manager typically informs companies of their rationale when voting against or abstaining (and whether this is typically in advance of the vote or not);

- if securities lending takes place within a pooled fund for the strategy, whether the stock is recalled for all key votes for all stocks held in the portfolio; and
- whether a third-party proxy voting service provider is used and, if so, how.

Principle 7

Institutional investors should report periodically on their stewardship and voting activities.

The London CIV encourages transparency from its investment managers and expects its managers to report publicly on their voting in an appropriate manner.

In addition, the London CIV receives reviews and monitors quarterly the voting and stewardship engagement activities of its investment managers. The London CIV reports quarterly to its investors and will include information on voting and engagement activities from investment managers where appropriate including updates as required on updated stewardship and voting policies of managers. The London CIV also requires its managers to provide it with annual assurances on internal controls and compliance through recognised framework such as the AAF01/06 or equivalent.

Investment Strategy Statement: Appendix D

Responsible Investment Policy

Introduction

- 1.1. Responsible Investment is defined by the United Nation's 'Principles for Responsible Investment' document as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long term returns. The Pension Fund's approach to responsible investment is aligned with the Fund's investment beliefs and recognises ESG factors as central themes in measuring the sustainability and impact of its investments.
- 1.2. Failure to appropriately manage ESG factors is considered to be a key risk for the Pension Fund as this can have an adverse impact on the Fund's overall investment performance, which ultimately affects the scheme members, employers and local council taxpayers.
- 1.3. The United Nations has established 17 Sustainable Development Goals (SDGs) as a blueprint to achieving a better and more sustainable future for all. These goals aim to address the challenges of tackling climate change, supporting industry, innovation and infrastructure, and investing in companies that are focused on playing a key role in building that sustainable future.
- 1.4. The Pension Fund acknowledges that these goals form a vital part of acting as a responsible investor alongside its

administering authority employer, Westminster City Council, with the Council having recently committed itself to achieving carbon neutrality by the year 2030.

- 1.5. The Pension Fund maintains a policy of engagement with all its stakeholders, including those operating in the investment industry. It is broadly recognised that, in the foreseeable future, the global economy will transition from its reliance on fossil fuels to the widespread adoption of renewable energy as its main source. The impact of this transition on the sustainability of investment returns will be continually assessed by officers, advisors and investment managers.
- 1.6. The Pension Fund Committee is committed to playing an active role in the transition to a sustainable economic and societal environment. To that extent, the Pension Fund will continue to seek investments that match its pensions liability profile, whilst having a positive impact on overall society. Greater impact can be achieved through active ownership and lobbying for global companies to change and utilise their resources sustainably.
- 1.7. With these noble objectives at the forefront, it is important to note that the Pension Fund Committee has a vital, fiduciary duty to act in the best interests of the LGPS beneficiaries to ensure that their pension benefits are honoured in retirement.

Policy Implementation: Selection Process

- 1.8. The Pension Fund Committee delegates the individual investment selection decisions to

its investment managers. To that extent, the Pension Fund maintains a policy of non-interference with the day-to-day decision-making processes of the investment managers. However, as part of its investment manager appointment process, the Pension Fund Committee assesses the investment managers' abilities to integrate ESG factors into their investment selection processes.

- 1.9. This includes, but is not limited to:
 - a) evidence of the existence of a Responsible Investment policy;
 - b) evidence of ESG integration in the investment process;
 - c) evidence of sign-up to the relevant responsible investment frameworks such as the United Nations Principles for Responsible Investment (PRI);
 - d) evidence of compliance with the Stewardship Code as published by the Financial Reporting Council (FRC);
 - e) a track record of actively engaging with global companies and stakeholders to influence best practice;
 - f) an ability to appropriately disclose, measure and report on the overall impact of ESG decisions made.

- 1.10. As part of its investment selection process, the Pension Fund Committee will obtain proper advice from the Fund's internal and external advisors with the requisite knowledge and skills. Our investment advisor will assess ESG considerations as part of its due diligence process and assess investment managers against the following criteria:

- a) for active managers, the advisor will assess how ESG issues are integrated into investment selection, divestment and retention decisions;
- b) for passive managers, the investment advisor is aware of the nature of the index construction in the investment selection process places and the proximity of ESG issues in comparison with an active portfolio, but still hold ESG issues in its responsible investment policy as the passive manager actively engages with global companies and stakeholders where appropriate;
- c) consideration of whether managers are making most effective use of voting rights and if votes are exercised in a manner consistent with ESG considerations specified by the manager;
- d) how significantly managers value ESG issues and whether any specialist teams and resources are dedicated to this area; and
- e) how ESG risk assessment is integrated into the portfolio investment selection process and the value and effectiveness of these assessments.

1.11. Investment managers are expected to follow best practice and use their influence as major institutional investors and long-term stewards of capital to promote best practice in the

companies/projects in which they invest. Investee companies will be expected to comply with all applicable laws and regulations in their respective markets as a minimum.

Policy Implementation: Ongoing Engagement and Voting

1.12. Whilst it is still quite difficult to quantify the impact of the less tangible non-financial factors on the economic performance of an organisation, this is an area that continues to see significant improvement in the measurement of benchmarking and organisational progress. Several benchmarks and disclosure frameworks exist to measure the different aspects of available ESG data which include carbon emissions, diversity on company boards and social impact. It is apparent that poor scoring on these ESG factors can have an adverse impact on an organisation's financial performance. It is therefore important for the appointed investment managers to effectively assess the impact such factors may have on the underlying investment performance.

1.13. The Pension Fund views active engagement as an essential activity in ensuring long-term value and 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, governance and social issues.

1.14. Pension Fund officers will continue to engage with the investment managers on an ongoing

basis to monitor overall investment performance, including ESG considerations. This can be implemented in several forms which include, but are not limited to:

- a. Regular meetings with investment managers to assess investment performance and the progress made towards achieving ESG targets;
- b. reviewing reports issued by investment managers and challenging performance where appropriate;
- c. working with investment managers to establish appropriate ESG reporting and disclosures in line with the Pension Fund's objectives;
- d. contributing to various working groups that seek to positively influence the reporting of industry standards on ESG metrics;
- e. actively contributing to the efforts of engagement groups such as the Local Authority Pension Fund Forum (LAPFF), of which the fund is a member (currently 83 LGPS member funds).

1.15. The Pension Fund holds units in pooled equity funds, where our asset managers will have the opportunity to vote at company meetings on our behalf. Engagement with companies can have a direct impact on voting choices and fund manager voting and engagement reports are reviewed on a regular basis.

1.16. The Fund will continue to collaborate with the London CIV on maintaining a shared voting policy for the equity managers on the London

CIV platform and actively seek to align these policies with manager insights. Lobbying with other London CIV clients will give the Pension Fund greater control and impact over our voting choices and a centralised process will ensure our voting remains consistent and has the greatest impact.

integration into the pension fund's investment process.

- 1.17. The Pension Fund's officers will work closely with the London CIV pool, through which the Pension Fund will increasingly invest, in developing and monitoring its internal frameworks and policies on all ESG issues which could present a material financial risk to the long-term performance of the fund. This will include the London CIV's ESG frameworks and policies for investment analysis, decision making and responsible investment.
- 1.18. In preparing and reviewing its Investment Strategy Statement, the Pension Fund will consult with interested stakeholders including, but not limited to:
 - a. Pension Fund employers;
 - b. Local Pension Board;
 - c. advisors/consultants to the fund;
 - d. investment managers.

Policy Implementation: Training

- 1.19. The Pension Fund Committee and the Fund's officers will receive regular training on ESG issues and responsible investment. A review of training requirements and needs will be carried out at least once on annual basis. Training is intended to cover the latest updates in legislation and regulations, as well as best practice with regards to ESG

Investment Strategy Statement: Appendix E

Strategic Asset Allocation

The below table sets out the Fund's strategic asset allocation along with review range which would trigger a rebalancing exercise.

Strategic Asset Allocation	Target (%)	Review Range
Listed Equities	65.0%	+/-3.0%
Passive Equities	22.5%	
Global – Active	42.5%	
Cash	0.0%	+/-0.0%
Cash	0.0%	
Fixed Income	19.0%	+/-1.9%
Global Bonds	12.5%	
Multi Asset Credit	6.5%	
Alternatives	11.0%	+/-1.0%
Infrastructure	5.0%	
Renewable Infrastructure	6.0%	
Property	5.0%	+/-0.5%
Property	5.0%	
Total	100.0%	

Pension Fund Risk Register - Administration Risk													
Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed
				Fund	Employers	Reputation	Total						
Administrative and Communicative Risk	1	NEW	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.	3	3	3	9	5	45	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.	3	27	04/05/2021
Administrative and Communicative Risk	2	↔	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.	1	4	3	8	4	32	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.	3	24	04/05/2021
Administrative and Communicative Risk	3	↓	COVID-19 affecting the day to day functions of the Pensions Administration services including customer telephony service, payment of pensions, retirements, death benefits, transfers and refunds.	2	4	3	9	3	27	TREAT 1) The Pensions Administration team have shifted to working from home, with a process now embedded. 2) Revision of processes to enable electronic signatures and configure the telephone helpdesk system to work from home. 3) Maintain regular contact with the Surrey administration team.	2	18	04/05/2021
Administrative and Communicative Risk	4	↔	Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement.	5	3	1	9	3	27	TREAT 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	2	18	04/05/2021
Administrative and Communicative Risk	5	↔	Concentration of knowledge in a small number of officers and risk of departure of key staff.	2	2	3	7	3	21	TREAT 1) Practice notes in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	14	04/05/2021
Administrative and Communicative Risk	6	NEW	Failure of securely sent sensitive data and any unidentified data flows being sent insecurely.	4	3	5	12	2	24	TREAT 1) Active member data is sent on secure platforms between all parties 2) Including "Encrypted" in email subject allows schools and academies to send data to pension admin team securely. 3) Data sent to the actuary using secure webstream portal.	1	12	04/05/2021
Administrative and Communicative Risk	7	NEW	Failure of cyber security measures, including information technology systems and processes, leading to loss, disruption or damage to the scheme or its members.	4	2	5	11	2	22	TREAT 1) Council has a data recovery plan in place, with files uploaded to the cloud every night and transition of files from the j drive to SharePoint. 2) . As a Council we are continuing to invest in technologies to block and filter phishing emails as well as ensuring our systems are up to date to protect us and our devices against these threats. 3) The IT team continuously review and update the cyber security policies, including the Information Security policy, Acceptable Use policy, Email and Internet policy, Social Media policy, Password Management policy and Data Disposal policy. All of which can be found on the Wire.	1	11	04/05/2021
Administrative and Communicative Risk	8	↔	Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	4	4	3	11	2	22	TREAT 1) Update and enforce admin strategy to assure employer reporting compliance. 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis.	1	11	04/05/2021
Administrative and Communicative Risk	9	↔	Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	3	2	5	10	2	20	TREAT 1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place. 2) Review of third party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams. 5) Internal Audits last undertaken during 2018/19 showed satisfactory assurance with recommendations implemented during the year.	1	10	04/05/2021

Administrative and Communicative Risk	10		Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	5	2	2	9	2	18	TREAT 1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action. 3) Take advice from the investment advisor on manager ratings to inform decisions on asset managers.	1	9	04/05/2021
Administrative and Communicative Risk	11		Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	3	3	2	8	2	16	TREAT 1) The Fund has generally good internal controls with regard to the management of the Fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches. 3) Staff have had more time to work on the implementation of GDPR.	1	8	04/05/2021
Administrative and Communicative Risk	12		Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	1	3	4	8	2	16	TREAT 1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments. 2) Process in place for Surrey CC to generate lump sum payments to members as they are due. 3) Officers undertaking additional testing and reconciliation work to verify accounting transactions.	1	8	04/05/2021
Administrative and Communicative Risk	13		Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	1	2	5	8	2	16	TREAT 1) Disaster recovery plan in place as part of the Service Specification between the Fund and Surrey County Council 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance.	1	8	04/05/2021
Administrative and Communicative Risk	14		Poor reconciliation process leads to incorrect contributions.	2	1	1	4	3	12	TREAT 1) Ensure reconciliation process notes are understood by Pension Fund team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process. 3) Contributions reconciliation is undertaken by the pensions team.	2	8	04/05/2021
Administrative and Communicative Risk	15		Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	1	2	4	7	2	14	TREAT 1) In the event of a pension payroll failure, we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers.	1	7	04/05/2021
Administrative and Communicative Risk	16		Failure to detect material errors in the bank reconciliation process.	2	2	2	6	3	18	TREAT 1) Bank reconciliation carried out in-house by the pensions team, alongside the WCC income management team.	1	6	04/05/2021
Administrative and Communicative Risk	17		Failure to pay pension benefits accurately leading to under or over payments.	2	2	2	6	2	12	TREAT 1) There are occasional circumstances where under/over payments are identified. Where underpayments occur, arrears are paid as soon as possible, usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months.	1	6	04/05/2021
Administrative and Communicative Risk	18		Unstructured training leads to under developed workforce resulting in inefficiency.	2	2	2	6	2	12	TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Surrey County Council. 2) Officers regularly attend training events and conferences. 3) Officer in place to record and organise training sessions for officers and members.	1	6	04/05/2021
Administrative and Communicative Risk	19		Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	1	1	1	3	3	9	TREAT 1) Pension administration records are stored on the Surrey CC servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue, All files are backed up daily.	2	6	04/05/2021
Administrative and Communicative Risk	20		Lack of guidance and process notes leads to inefficiency and errors.	2	2	1	5	2	10	TREAT 1) Ensure process notes are compiled and circulated in Pension Fund and Administration teams.	1	5	04/05/2021
Administrative and Communicative Risk	21		Lack of productivity leads to impaired performance.	2	2	1	5	2	10	TREAT 1) Regular appraisals with focused objectives for pension fund and admin staff.	1	5	04/05/2021
Administrative and Communicative Risk	22		Rise in ill health retirements impact employer organisations.	2	2	1	5	2	10	TREAT 1) Engage with actuary re assumptions in contribution rates.	1	5	04/05/2021

Administrative and Communicative Risk	23		Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	2	2	1	5	2	10	TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	5	04/05/2021
Administrative and Communicative Risk	24		Failure to identify GMP liability leads to ongoing costs for the pension fund.	1	2	1	4	1	4	TREAT 1) GMP identified as a Project as part of the Service Specification between the Fund and Surrey County Council, with minimal effect on the Fund.	1	4	04/05/2021

Pension Fund Risk Register - Investment Risk

Risk Group	Risk Ref.	Movement	Risk Description	Impact				Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk	Reviewed
				Fund	Employers	Reputation	Total						
Asset and Investment Risk	1		The global outbreak of COVID-19 poses economic uncertainty across the global investment markets.	5	4	2	11	4	44	TREAT - 1) Officers will continue to monitor the impact lockdown measures have on the fund's underlying investments and the wider economic environment. 2) The Fund holds a diversified portfolio, which should reduce the impact of stock market movements. 3) Asset allocation was reviewed during 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 Funds investment advisor.	3	33	04/05/2021
Asset and Investment Risk	2		Significant volatility and negative sentiment in global investment markets following disruptive geo-political uncertainty. Increased risk to global economic stability.	5	4	1	10	4	40	TREAT- 1) Continued dialogue with investment managers re management of political risk in global developed markets. 2) Investment strategy involving portfolio diversification and risk control. 3) Investment strategy review took place during June 2020 and a new strategic asset allocation was agreed.	3	30	04/05/2021
Asset and Investment Risk	3		Investment managers fail to achieve benchmark/ outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.7m. Following COVID-19, there was some concern around Fund Managers outperforming their benchmarks.	5	3	3	11	3	33	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.	2	22	04/05/2021
Liability Risk	4		Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	2	22	TOLERATE - 1) The scheme's liability is reviewed at each triennial valuation and the actuary's assumptions are challenged as required. The actuary's most recent longevity analysis has shown that the rate of increase in life expectancy is slowing down.	2	22	04/05/2021

Liability Risk	5		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%.	5	3	2	10	3	30	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.	2	20	04/05/2021
Liability Risk	6		Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	4	4	2	10	2	20	1) Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 2) No evidence in 2020/21 of members transferring out to DC schemes.	2	20	04/05/2021
Liability Risk	7		Employee pay increases are significantly more than anticipated for employers within the Fund.	4	4	2	10	2	20	TOLERATE - 1) Actuarial valuation assumptions show a decrease in salary increases by 0.3% from 2016. 2) Fund employers should monitor own experience. 3) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer	2	20	04/05/2021
Liability Risk	8		Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	2	20	TOLERATE - 1) Political power required to effect the change.	2	20	04/05/2021
Resource and Skill Risk	9		That the London Collective Investment Vehicle (LCIV) fails to produce proposals/solutions deemed sufficiently ambitious.	4	3	3	10	2	20	TOLERATE - 1) Partners for the pool have similar expertise and like-mindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives. 2) Member presence on Shareholder Committee and officer groups. 3) Fund representation on key officer groups.	2	20	04/05/2021
Asset and Investment Risk	10		Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union and the economic aftereffects.	4	4	1	9	3	27	TOLERATE/TREAT - 1) Officers to consult and engage with advisors and investment managers. 2) The Fund transitioned out of UK equities during November 2019, moving funds into the LGIM global passive. 3) Possibility of hedging currency and equity index movements. 4) The UK struck a trade deal with the EU in	2	18	04/05/2021

Asset and Investment Risk	11		Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage. The Council declared a climate emergency in September 2019, how this will effect the Pension Fund going forward is currently unknown.	3	2	4	9	3	27	1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published ISS. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and Pensions and Lifetime Savings Association (PLSA), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors. 4) Following the strategic asset allocation review in June 2020, the Pension Fund has committed 6% towards renewables and 20% to the LCIV Global Sustain Fund, as well as moving the LGIM passive mandate into the LGIM Future World Fund. 5) An ESG and RI Policy was drafted for the Pension Fund and a Responsible Investment Statement was drafted during late 2020.	2	18	04/05/2021
Regulatory and Compliance Risk	12		Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales.	3	2	1	6	3	18	1) Officers consult and engage with MHCLG, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Uncertainty surrounding new MHCLG pooling guidance.	3	18	04/05/2021
Resource and Skill Risk	13		London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	3	3	2	8	3	24	1) Pension Fund Committee Chair is a member of the shareholder Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV. 2) Officers continue to monitor the ongoing staffing issues and the quality of the performance reporting provided by the London CIV.	2	16	04/05/2021
Asset and Investment Risk	14		Impact of economic and political decisions on the Pension Fund's employer workforce.	5	2	1	8	2	16	1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. Employer responsibility to flag up potential for major bulk transfers outside of the Westminster Fund. The potential for a significant reduction in the workforce as a result of the public sector financial pressures may have a future impact on the Fund. 2) Need to make prudent assumptions about diminishing workforce when carrying out the triennial actuarial valuation.	2	16	04/05/2021
Liability Risk	15		Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	4	2	1	7	2	14	TOLERATE: Review "budgets" at each triennial valuation and challenge actuary as required. Charge capital cost of ill health retirements to admitted bodies at the time of occurring. Occupational health services provided by the Council and other large employers to address potential ill health issues early.	2	14	04/05/2021
Liability Risk	16		Impact of increases to employer contributions following the actuarial valuation	5	5	3	13	2	26	TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	1	13	04/05/2021

Liability Risk	17		There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	5	4	3	12	2	24	TREAT: 1) Cashflow forecast maintained and monitored. 2) Cashflow position reported to committee quarterly. 3) Cashflow requirement is a factor in current investment strategy review.	1	12	04/05/2021
Asset and Investment Risk	18		Failure to take difficult decisions inhibits effective Fund management	5	3	4	12	2	24	TREAT-1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (/FSS), Governance policy statement and Committee Terms of Reference and that appropriate advice from experts is sought.	1	12	04/05/2021
Regulatory and Compliance Risk	19		Changes to LGPS Regulations	3	2	1	6	3	18	TREAT - 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will be considered during the 2016 actuarial valuation process. 3) Fund will respond to consultation processes. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored.	2	12	04/05/2021
Liability Risk	20		Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy.	5	3	3	11	2	22	TREAT - 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Investment strategy review is currently underway with an approved switch from equities to fixed income. 3) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 4) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific.	1	11	04/05/2021
Reputational Risk	21		Financial loss of cash investments from fraudulent activity.	3	3	5	11	2	22	TREAT - 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Strong governance arrangements and internal control are in place in respect of the Pension Fund. Internal Audit assist in the implementation of strong internal controls. Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls).	1	11	04/05/2021
Regulatory and Compliance Risk	22		Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	3	3	5	11	2	22	TREAT - 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2)WCC IT data security policy adhered to. 3) Implementation of GDPR.	1	11	04/05/2021
Reputational Risk	23		Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	5	2	4	11	2	22	TREAT: 1) Officers maintain knowledge of legal framework for routine decisions. 2) Eversheds retained for consultation on non-routine matters.	1	11	04/05/2021

Liability Risk	24		Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	5	3	3	11	2	22	TREAT: 1) Transferee admission bodies required to have bonds or guarantees in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds.	1	11	04/05/2021
Asset and Investment Risk	25		A change in government may result in new wealth sharing policies which could negatively impact the value of the pension fund assets.	5	5	1	11	2	22	TREAT: 1) Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	11	04/05/2021
Resource and Skill Risk	26		Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	2	2	1	5	4	20	TREAT - 1) Succession planning process in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	2	10	04/05/2021
Liability Risk	27		Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	5	3	2	10	2	20	TREAT: 1) At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. Committee and officers scrutinise and challenge advice provided.	1	10	04/05/2021
Asset and Investment Risk	28		Financial failure of third party supplier results in service impairment and financial loss	5	4	1	10	2	20	TREAT - 1) Performance of third parties (other than fund managers) regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers.	1	10	04/05/2021
Asset and Investment Risk	29		Failure of global custodian or counterparty.	5	3	2	10	2	20	TREAT: 1) At time of appointment, ensure assets are separately registered and segregated by owner. 2) Review of internal control reports on an annual basis. 3) Credit rating kept under review.	1	10	04/05/2021
Asset and Investment Risk	30		Financial failure of a fund manager leads to value reduction, increased costs and impairment.	4	3	3	10	2	20	TREAT - 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager. 4) Fund has the services of the London Collective Investment Vehicle (LCIV).	1	10	04/05/2021
Asset and Investment Risk	31		Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	5	3	2	10	2	20	TREAT- 1) Proportion of total asset allocation made up of equities, bonds, property funds, infrastructure and fixed income, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.	1	10	04/05/2021

Resource and Skill Risk	32		Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	4	3	3	10	2	20	TREAT: 1) Person specifications are used at recruitment to appoint officers with relevant skills and experience. 2) Training plans are in place for all officers as part of the performance appraisal arrangements. 3) Shared service nature of the pensions team provides resilience and sharing of knowledge. 4) Officers maintain their CPD by attending training events and conferences.	1	10	04/05/2021
Regulatory and Compliance Risk	33		Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests.	3	3	4	10	2	20	TREAT - 1) Publication of all documents on external website. 2) Managers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews.	1	10	04/05/2021
Reputational Risk	34		Inaccurate information in public domain leads to damage to reputation and loss of confidence.	1	1	3	5	3	15	Treat: 1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed. 3) Stage AGM every year.	2	10	04/05/2021
Liability Risk	35		Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	5	3	1	9	2	18	TREAT: 1) Review maturity of scheme at each triennial valuation. Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. 2) Cashflow position monitored monthly.	1	9	04/05/2021
Resource and Skill Risk	36		Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	2	18	TREAT: 1) External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval).	1	9	04/05/2021
Administrative and Communicative Risk	37		Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	3	5	9	2	18	TREAT - 1) Ensure that a cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	9	04/05/2021
Regulatory and Compliance Risk	38		Loss of flexibility to engage with Fund Managers and loss of elective professional status with any or all of the existing Fund managers and counterparties resulting in reclassification. (The Fund is a retail client to counterparties unless opted up).	3	2	2	7	2	14	TREAT: 1) More reliance on investment advisor to keep Officers and Committee updated. Officers are considering other financial institution outside of the current mandates to 'opt up' with. 2) Maintaining up to date information about the fund on relevant platforms. 3) Fund can opt up with prospective clients. 4) Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. There is a training programme and log in place to ensure knowledge and understanding is kept up to date. 5) Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	7	04/05/2021

Regulatory and Compliance Risk	39		Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process.	2	2	3	7	2	14	TREAT - 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	1	7	04/05/2021
Liability Risk	40		The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	4	2	1	7	2	14	TREAT: 1) Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	1	7	04/05/2021

Responsible Investment Statement

1. Introduction

2. Investment Horizon

3. Carbon Journey

- Administering Authority
- Employers

4. ESG Case Studies

- Environmental Case Study
- Social Case Study
- Governance Case Study

5. Fund Key Facts

6. Voting & Engagement

- Engagement Case Study

7. Connected Organisations

- Local Authority Pension Fund Forum
- Pensions and Lifetime Savings Association
- ShareAction

1. Introduction

Responsible Investment is defined by the United Nation's 'Principles for Responsible Investment' document as an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long term returns.

The City of Westminster Pension Fund is committed to being a responsible investor and a long-term steward of the assets in which it invests. The Fund has a fiduciary duty to act in the best interests of its beneficiaries and this extends to making a positive contribution to the long-term sustainability of the global environment.

There are a wide range of ESG issues, with none greater currently than climate change and carbon reduction. The Pension Fund recognises climate change as the biggest threat to global sustainability alongside its administering authority employer, Westminster City Council, which has committed itself to achieving carbon neutrality by 2030.

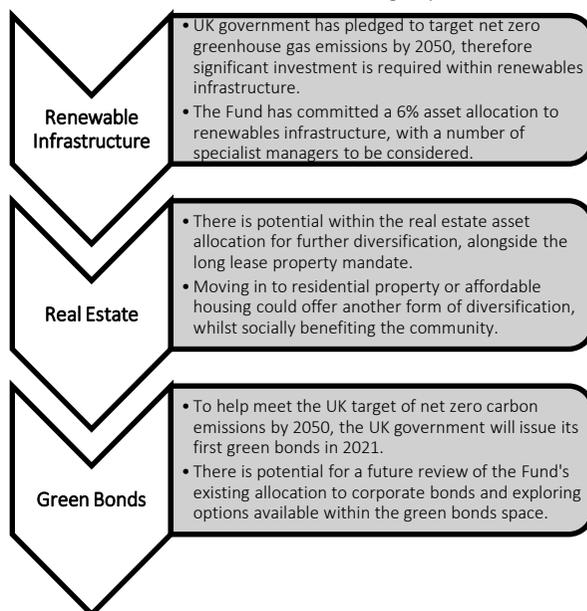
The Pension Fund acknowledges that the neglect of corporate social responsibility and poor attention paid to environmental, social and governance issues is more likely to lead to poor or reduced shareholder returns. Therefore, the ESG approach has become integral to the Fund's overall investment strategy and recognises ESG factors as central themes in measuring the sustainability and impact of the Fund's investments.

2. Investment Horizon

The City of Westminster Pension Fund Investment Strategy Statement (ISS) sets out the Fund's policy on investment, risk management, LGPS pooling and environmental, social and governance issues.

Alongside this the Fund's core investment beliefs set out the foundation of discussions, regarding the structure of the Fund, its strategic asset allocation and the selection of investment managers, incorporating ESG factors into this decision-making process.

The Fund's investment priorities over the coming years will be centred around the following topics:



3. Carbon Journey

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

Since this mapping took place, the Fund has transitioned its London CIV (LCIV) UK Equity allocation

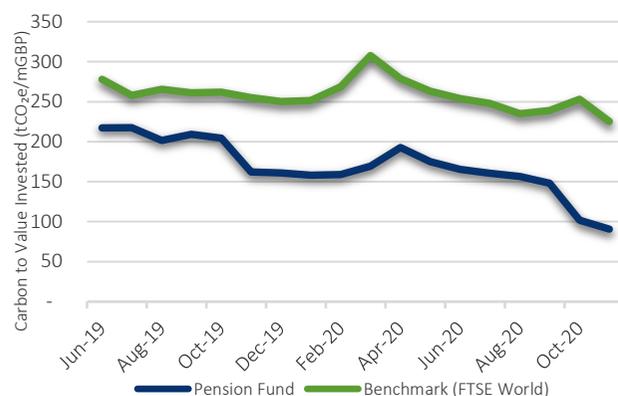
and Legal & General (LGIM) Global Passive Equities into the LCIV Global Sustain Fund and LGIM Future World Fund. The Global Sustain Fund seeks to provide a concentrated high-quality global portfolio of companies, however, excludes tobacco, alcohol, adult entertainment, gambling, civilian weapons, fossil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

Alongside this, a 6% commitment has been made towards investment within renewable infrastructure, with funds from the sale of the Hermes Property Fund. A fund manager selection process took place during December 2020, with Macquarie and Quinbrook each selected to manage a 3% allocation. The first drawdowns totalling c.£15m, took place during Q1 of 2021.

During November 2020, the Pension Fund commissioned TruCost to undertake a Carbon Review of the Fund following the transition into the ESG equity mandates, as at 31 October 2020.

The carbon to value invested metric is used by TruCost to reflect how efficient companies are at creating shareholder value, relative to the carbon emissions produced. The following graph depicts the Fund's carbon to value invested journey against the benchmark, within the equity allocation, from 30 June 2019 to 30 November 2020. The Pension Fund has been benchmarked against the FTSE World Index.

Weighted Average Carbon to Value Invested



4. ESG Case Studies

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

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

The measurement of ESG performance is still developing and benefitting from significant improvements. There are several performance benchmarks and disclosure frameworks that exist to measure the different aspects of available ESG data

which include carbon emissions and a variety of social impact scores.

Environmental: *Gwynt y Môr case study*

Gwynt y Môr is a 576-megawatt wind farm located off the coast of North Wales, and it's held within our Macquarie Renewable Energy Fund.

The fund has a 10% stake in the windfarm and is the fifth largest operating offshore wind farm in the world. Macquarie manages an additional 10% exposure in Gwynt Y Môr through their existing renewable infrastructure funds and therefore is already familiar with the asset. Operational since 2015, Gwynt y Mor is comprised of 160 Siemens 3.6MW wind turbines spread across 80 square kilometres and provides enough clean electricity to power approximately 430,000 UK homes each year.

It is estimated that the windfarm cuts carbon emissions by around 2m tonnes a year, with the CO₂e avoided equivalent to taking 234,680 cars off the road.

Social: *Teladoc case study*

The Pension Fund holds, Teladoc, within its LCIV (Baillie Gifford) Growth Alpha Equity portfolio. The company is the largest telemedicine company in the US, providing remote access to services such as primary care appointments, expert second opinions, health support and chronic care management.

By providing healthcare services via video or phone consultants, this increases the accessibility to the services, helps to lower average healthcare costs and improves efficiency of the healthcare system.

In the first quarter of 2020, following the COVID-19 outbreak, Teladoc welcomed over a million new customers, ensuring the ability to continue to access

healthcare at a time when hospitals and clinics would otherwise be unavailable to them. Teladoc operates in over 175 countries, and the company claims in the US an average saving of \$472 per medical visit. Alongside this, in countries with nationalised healthcare, savings will benefit the government and therefore the public.

Governance: *Atlas Copco case study*

Atlas Copco is a leading manufacturer of industrial equipment, held within the LCIV (Baillie Gifford) Growth Alpha Equity fund. The manager has engaged with Atlas's Head of Sustainability to discuss how its technology enables its customers to reduce their environmental impact, with many operating in high-emitting industries. Atlas Copco equipment is energy efficient, enabling more work to be completed at less cost and with lower emissions. This results in a saving for customers with 70-75% of ownership cost attributed to energy during use.

Baillie Gifford has also learned more about how the company implements its sustainability strategy across a decentralised business. The central sustainability role sets the overall direction for the company, empowering leaders within each business segment to set targets and drive innovation, with this approach embedded in the business culture. The manager remains supportive, long-term shareholders in Atlas and aim to continue engagement with the company to better understand how they are supporting the transition to a low-carbon society.

5. Key Fund Facts

Aberdeen Standard Long Lease

- 77% of energy data collected
- 74% of water data collected
- 83% A-D Energy Performance Certificate Rating

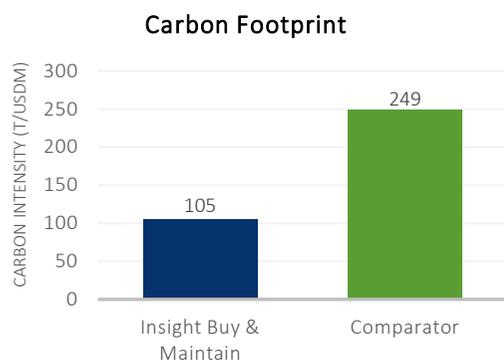
- 5 metric tonnes of carbon saved by solar installation

Pantheon Global Infrastructure

- 5% invested in solar
- 4% invested in wind power
- 43% of senior roles held by women
- 100% recycling rate

Insight Buy & Maintain

- The carbon intensity of the fund is 84 (t/USDm) lower than its comparators



LGIM Future World

- Companies failing to meet globally accepted business practices are excluded from the Future World Fund, based on any of the following criteria:
 - Involved in production of controversial weapons
 - Involved solely in the extraction of coal
 - Violators of the UN Global Compact initiative

LCIV Global Alpha

- 48% women employed
- 52% men employed
- 41.8% lower relative carbon footprint than the benchmark

LCIV Global Sustain

- The Global Sustain Fund avoids sectors such as alcohol, tobacco, weapons, gambling, fossil fuels and electric utilities and undertakes an engaged investment approach considering financial returns and ESG criteria.

6. Voting & Engagement

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

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

The Pension Fund views engagement with companies as an essential activity and encourages companies to take positive action towards reversing climate change. The Westminster Pension Fund is a responsible owner

of companies and cannot exert that positive influence if it has completely divested from all carbon intensive producing companies. The Pension Fund will continue to encourage positive change whilst officers will continue to engage with the investment managers on an ongoing basis to monitor overall investment performance, including carbon and other ESG considerations.

Engagement: Microsoft case study

As part of the LCIV Global Sustain Fund, Morgan Stanley have engaged with Microsoft on a number of issues including carbon and diversity and inclusion.

Microsoft have pledged to become carbon-negative by 2030, Morgan Stanley have engaged with the company on these decarbonisation targets and how they can be achieved. This engagement has shown that Microsoft is increasingly focusing on decarbonising their supply chains, not just direct operations. To assist in understanding and reducing these supply chain emissions, Microsoft has started charging a carbon price on these activities and developed tools to incentivise suppliers to reduce these. Other Microsoft initiatives include \$1bn funding new carbon removal technologies, transition to renewable energy and establishing a net zero initiative with other large companies.

The company has disclosed that they include diversity as part of senior management remuneration and have set up recruitment campuses at universities with high levels of diversity.

7. Connected Organisations

The Pension Fund recognises that significant value can be achieved through collaboration with other stakeholders. The Pension Fund works closely with its LGPS pool company, other LGPS funds and member

groups such as the Local Authority Pension Fund Forum (LAPFF), Pensions and Lifetime Savings Association (PLSA) and ShareAction to ensure corporate interests are aligned with the Pension Fund's values.

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

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum are a collection of over 83 local authority pension funds, with assets under management of over £300bn, promoting the highest standard of governance with the aim of protecting the long-term value of pension funds. The LAPFF engage directly with companies, on behalf of all asset owners and pension fund trustee members, on issues such as executive pay, reliable accounting and a transition to a net carbon zero economy.

LAPFF case study

The LAPFF produce quarterly engagement reports, covering all ESG related issues from climate change, governance, human rights and cyber security. Over the quarter to 30 September 2020, the LAPFF engaged with 27 companies, including Sainsbury, Tesco and the National Grid.

At the National Grid 2020 AGM, LAPFF asked the National Grid to commit to its delayed setting of scope 3 carbon emission reduction targets. The company published a response on its website, signifying that it

would provide information on scope 3 targets in October.

Alongside this, the company has set a target of aiming for a carbon-neutral grid by 2025, including the provision of electric vehicle charging stations.

Pensions and Lifetime Savings Association

The City of Westminster Pension Fund is a member of the PLSA, who aim to raise industry standards, share best practice and support members. The PLSA works across a range of stakeholders including governments, regulators and parliament to help the implementation of sustainable policies and regulation. They represent over 1,300 pension schemes totalling £1.3tn in assets under management, including those in the public and private sectors.

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

PLSA case study

The PLSA published its response to the MHCLG proposals regarding the McCloud and Sargeant discrimination cases by, extending the underpin to younger scheme members with the underpin period applying from the 1st April 2014 to the 31st March 2022.

The PLSA conducted a survey of its members and consulted the Local Authority Committee on the proposals within the MHCLG consultation. On the whole the PLSA was supportive of the Government's plan to implement a two-stage underpin process, however they did express concerns about the impact these proposals would have on funds and pensions administrators given the significant resourcing requirements.

ShareAction

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

Most recently, ShareAction has been working on a Healthy Markets coalition group. The Healthy Market Initiative aims to make food retailers and manufactures take on accountability for their role and impact on people's diets. The City of Westminster is a member of the Healthy Markets coalition and along with other members, represents over \$1 trillion in assets under management. The Fund has actively engaged with ShareAction on this initiative, attending coalition meetings, as well as contacting our equity managers and the LAPFF on their behalf to see if they would be willing to engage.

In 2019 ShareAction partnered with the Access to Nutrition Initiative (ATNI) on its Healthy Markets Campaign. ATNI adapted the core methodology used for the Global Access to Nutrition Indexes to assess the disclosure of the UK food retail sector. In March 2020, the ATNI published its UK Supermarkets spotlight analysing the top 10 food retailers in the UK, scoring them against a number of indicators including governance, nutrient profiling, promotions and labelling.

During 2021, ShareAction co-ordinated a Special Resolution, asking Tesco to report on its nutrition and health strategy, together with metrics and targets, including progress reporting within its Annual Report. These resolutions have led to Tesco committing to; increase the share of its UK sales derived from healthier food and drink products from 58% to 65% by

2025, increase sales of healthier food and drinks within Central Europe, encourage consumers to choose healthier options by increasing ranges of healthier products available, engage with ShareAction and members of its Healthy Markets investor coalition as the Company develops and implements its health strategy.

Pension Administration Strategy

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- Other documents which make up the overall strategy

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- Employers

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5. Standard of expected service between the

Administrating Authority and employers

- Employer targets

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Charging

7. Strategy to develop web enabled services for

employers

8. Further Information

1. Introduction

The delivery of a high quality, cost effective pensions administration service is not just the responsibility of the Administering Authority (Westminster City Council), it also depends upon collaborative working with all stakeholders to ensure that Scheme members, and other interested parties, receive the appropriate level of service and ensure that statutory requirements are met.

The aim of this Pension Administration Strategy (PAS) is to ensure that the Administering Authority along with their Admitted and Scheduled body employers are aware of their responsibilities under the Local Government Pension Scheme (LGPS).

This document also shows the relationship and details the split of responsibilities between the Administering Authority and the Admitted and Scheduled body employers (Employers).

For clarity Westminster acting as Administering Authority (WAA) for the pension fund will treat Westminster the main fund employer (WFE) exactly the same as all the other fund employers.

It should be noted that the Administering Authority is working with Surrey County Council (SCC) to provide the main pension administration service to all fund employers under a 101 shared service arrangement.

Throughout this document contractual and best practice levels of performance are referenced with the aim of incrementally improving the provision of timely accurate data and levels of pension administrative services.

Failure to comply with the standards shown in this document could result in charges being levied by the Administering Authority to Employers in accordance

with the terms set out in the schedule of charging in Section 6.

2. Pension Administration Strategy Statement

This statement sets out the aims and objectives of the PAS and references other documents which together make up the overall pensions administration management system.

Statutory background

Regulation 59 of the Local Government Pension Scheme Regulations 2013 (LGPS 2013) enables an Administering Authority to prepare a document detailing administrative standards, performance measurement, data flows and communication vehicles with Employers.

Regulation 70 of the LGPS 2013 allows an Administering Authority to recover costs from an Employer where costs have been incurred because of an Employer's non-compliant level of performance in carrying out its functions under the Regulations.

Aims & Objectives

In creating this strategy, the aim of the Administering Authority is to have in place a pension management system that meets the needs of the stakeholders by:

- clarifying the roles and responsibilities of all the major stakeholders
- ensuring the services provided by all the major stakeholders are accessible, equitable and transparent
- assisting Employers to provide the effective provision of timely and accurate data

To support these aims this PAS document introduces:

- the standard of expected service between the Administering Authority and Employers

- a schedule of charges that apply when standards of service fall below expectations
- a strategy in place to develop web enabled services for Employers and employees.

Other documents which make up the overall strategy

- Local Government Pension Scheme Communications Policy

3. Roles and responsibilities

Administering Authority

The responsibilities of the Administering Authority are:

1. To decide how any previous service or employment of an employee is to count for pension purposes, and whether such service is classed as a 'period of membership'.
2. To notify each member regarding the counting of membership in the scheme following notification from the member's employer of the relevant service details.
3. To set up and maintain a record for each member of the scheme which contains all the information necessary to produce an accurate benefit calculation following the employer providing useable and accurate financial data.
4. To calculate and pay the appropriate benefits at the correct time, based on membership details held the termination date and the final pay details provided by the employer when an employee ceases employment, or ceases membership of the Scheme.

5. To supply beneficiaries with details of their entitlements including the method of calculation.
6. To set up and maintain a record for each pensioner member.
7. To increase pensions periodically in accordance with the provisions of Pensions Increase Acts and Orders.
8. To pay benefits to the correct beneficiaries only and to take steps to reduce the possibility of fraud taking place.
9. To ensure that sufficient information is issued to satisfy the requirements of Regulation 61 of the LGPS 2013. This relates to fund communication more details are contained within section 4 of this document or alternatively see the communications policy which is also available on the Westminster Pension fund website.
10. To maintain an appointed person for the purposes of the scheme internal dispute resolution procedure (IDRP). The appointed person will in general be the Director of People Services or where the Director had previously been involved in the case an officer of equivalent level will be asked to make a determination. The appointed person will be able to access advice from the funds appointed legal advisors where necessary.
11. To appoint all necessary advisors to enable the appointed person to perform the duties required by the IDRP.
12. To appoint an actuary for the purposes of the triennial valuation of the Pension Fund and

provide periodical actuarial advice when required.

13. To arrange and manage the triennial valuation of the pension fund.
14. To ensure compliance with the Data Protection Act 1998.
15. The Administering Authority and its agents will respond to queries from employers external or internal auditors within 5 working days or advise when a full response can be sent if not possible within that time frame.
16. The Administering Authority and its agents will respond to relevant Freedom of Information requests within 14 working days if possible or advise when a full response can be sent if not possible within that time frame.
17. The Administering Authority will reply to any Pension Ombudsman query within 30 days of receipt or advise of reason for further delay.

Employers

The main duties of the Employer are:

1. To decide who is eligible to become a member of the Scheme. The employer must abide by any admission agreement entered into with the administering authority if applicable. If there is a closed admission agreement only the named employees can be entered into the LGPS.
2. To decide whether that person is employed in a full time, part time, variable time or casual capacity. If the employee is part time the employer must determine the proportion

which the employees' contractual hours relate to the hours of a comparable full time, employee.

3. To determine the pay of employees for the purposes of calculating the pension contributions.
4. To determine final pay for the purposes of calculating benefits due from the Scheme.
5. To issue a notification to any employees who cannot become members of the Scheme explaining the reason(s) why.
6. Where, after reasonable efforts, an employee fails to provide information relating to previous service, provide basic information to the Administering Authority.
7. At cessation of membership of the Scheme, to determine the reason for leaving and entitlement to benefit and notify the Administering Authority and the Scheme member of the decision.
8. To supply timely and accurate information to the Administering Authority to ensure the correct calculation of benefits payable from the Scheme.
9. To deduct Additional Voluntary Contributions (AVCs) from a member's pay and pay over to the provider within the statutory deadlines.
10. To be responsible for exercising the discretionary powers given to Employers by the regulations. These regulations also require the Employer to publish its policy in respect of these key discretions.

11. To provide a notice, drawing the employee's attention to their right of appeal under the LGPS, with any statement issued to an employee relating to any decision made about the Scheme.
12. To use an Independent Registered Medical Practitioner qualified in Occupational Health medicine that has been approved by the Adminstrating Authority in determining ill health retirement.
13. To repay to the Scheme member any incorrectly deducted employee's contributions.
14. To provide the Adminstrating Authority with Monthly and Year-end information as at 31 March each year in an approved format.
15. To provide the Adminstrating Authority with an audited copy of the final statement which shall also contain the name and pensionable pay of each employee who is an active member, the amounts which represent pension deductions from pay for each of those employees and the periods covered by the deductions and any other information requested. The information should also distinguish those amounts representing deductions for voluntary contributions and the employees paying those voluntary contributions.
16. To be responsible for complying with the requirements for funding early retirement for whatever reason as required by the Administering Authority using actuary factors.
17. To cover any professional costs for legal or actuarial services that are incurred by the

administering authority on behalf of any employer investigating any amendment in relation to its members of the scheme. An example of this would be where an (transferee) employer wishes to tupe eligible staff to another employer (transferor) and the transferor wishes to become an admitted body within our fund. The transferee employer would be expected to meet the actuarial and legal costs associated with the process and will be invoiced for this. Costs may occur in other circumstances where employers require an individual response on either a legal or actuarial matter.

18. Pay the Adminstrating Authority interest on payments due from the Employer which are overdue by more than one month.
19. Where a member leaves the Scheme and full contributions have not been deducted for whatever reason, immediately make payment of outstanding member's and Employer's contributions to the Adminstrating Authority.
20. To ensure compliance with Data Protection Act 1998.
21. The employer and its agents will respond to queries from the Administering Authorities external or internal auditors within 5 working days or advise when a full response can be sent if not possible within that time frame.
22. The employer will reply to the Administering Authority on any query relating to a Pension Ombudsman issue with 14 days of request to allow the Administering Authority to respond to the Pension Ombudsman.

23. The employer must advise the Administering Authority of any change of contact details for the payroll or finance functions for communication purposes.
24. The employer is responsible for all Auto enrolment functions and must advise the Administering Authority of anyone auto enrolled as per the normal new starter process. Employers are advised to contact the pension regulator directly if they have any queries see link to website. <http://www.thepensionsregulator.gov.uk/>

4. Liaison, engagement and communication strategy

The Adminstrating Authority will issue and annually review their Local Government Pension Scheme Communications Policy

The policy will include a strategy for communicating with:

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

This policy document will set out the mechanisms that the Adminstrating Authority will use to meet their communication responsibilities it will also include details of what is communicated and the frequency.

Annually the Adminstrating Authority will issue an engagement plan that will include events for employers, members of the scheme and perspective members of the scheme.

The Communications policy will be updated on the Westminster Pension Fund where it can be found

under the Forms and Publications sub heading under the About us main tab.

See link to the pension fund website below.

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

5. Standard of expected service between the Administrating Authority and the employers

Who *	Administration Description	Performance Targets
	<u>New Starters and Transfers In</u>	
E	<p>New starter: The Employer must advise all eligible employees of their membership of the scheme. Members should be given the details of the Pension Fund website http://www.wccpensionfund.co.uk/</p> <p>Members must be advised that transfers into the scheme must be requested in the first year of joining or thereafter at their employer's discretion.</p> <p>Members must be advised that all necessary forms and contact details are available on the Pension Fund website.</p>	On the first day of the members employment if not provided prior to the start.
E	<p>New scheme member: Employer to send to the Administrating Authority the details of the new member. Completing the new starter form available on the website or by sending a file in an approved format by WAA to SCC.</p>	Details to be provided to SCC by the last working day of the month following the first payroll deduction of pension.
AA	<p>New scheme member Administrating Authority to create a new pensions record from the completed notification from the Employer.</p>	By the last working day of the month following the data submission by the employer.

AA	<p>New scheme member: Administrating Authority to request a transfer quote from the new member's previous scheme.</p>	Within 30 days of receipt of authorisation from the employee. If transfer factors are currently available. If not the member is to be advised of the delay within the same timescale.
AA	<p>New scheme member: Administrating Authority to credit member record with membership due from transfer of previous pension benefits.</p>	Within 30 days of receipt of payment from previous scheme.
AA	<p>New Scheme member:</p>	
	Notification of service purchased by an incoming transfer to be provided to the scheme new member.	Within 30 days of receipt of the all the information
	<u>Existing members and schemes</u>	
AA	Changes to data which materially affect actual or potential benefit calculations to be processed and provided to the member concerned.	Within 30 days of occurrence or receipt of all necessary information, whichever is later.
AA	Admissions and Inter Fund Adjustment (IFA) in to be notified to the members concerned.	Within 30 days of receipt of all necessary information.
AA	Transfers and Inter Fund Adjustment IFA out to be notified to the receiving scheme.	Within 30 days of receipt of all necessary information
AA	The terms of purchasing additional pension to be notified to the member concerned.	Within 15 days of receipt of all necessary information.
AA	Refund of contributions, where due under the Regulations, to be calculated and paid.	Within 14 days of receipt of all necessary information
AA	Upon notification of a death notification of a pensioner; arrangements put in place for pension payments to cease immediately.	Within 1 working day of receipt of all necessary information
AA	Letters will be sent to next of kin or other relevant party.	Within 5 days of receipt of notification of a death or within 5 days of receipt of all relevant information.
	Setting up of any dependents pension.	Within 14 days of receipt of all necessary information.

<u>Leavers and Transfers out</u>		
E	Leaver: Employer to send the Administrating Authority a completed leaver notification.	By the Last working day of the month following the month in which the members final pensionable pay was processed.
AA	Leaver: Administrating Authority to issue a statement of deferred benefits as appropriate.	Within 30 days of receipt of all necessary information.
AA	Leaver: Administrating Authority to issue quote for Cash Equivalent Transfer Value (CETV).	Within 30 days days of receipt of all necessary information.
E	Retirements: Employer to send the Administrating Authority a completed notification.	By the final working day of the month in which the members final pay is processed but employers should be looking to provide leavers
		final details to SCC before the member leaves if possible to do so.
AA	Retirements: Administrating Authority to send benefit options to member together with relevant forms required for payment of retirement benefits.	Within 5 working days of receiving notification from the Employer.
AA	Retirements: Administrating Authority to arrange the payment of Lump Sum.	Within 5 working days of receiving all required information from the Employer and the Member.
AA	Retirements: Administrating Authority to arrange payment of Annual Pension (paid monthly).	The pension to be processed on the next available pay period following the release of any lump sum and the member notified in writing.
AA	Deferred Benefits Into Payment: Administrating Authority to send a letter to the leaver that includes the benefits that are payable and/or the options for early payment (together with relevant forms to enable payment).	Within one month of the potential due date of any benefit into payment SCC will write to the member.
<u>Deductions</u>		
E	Monthly deductions: Employer to send funds and schedule of deductions from salary to the Administering Authority.	By the 19th day of the month following the month in which contributions were deducted.

<u>Pensioners</u>		
AA	Payslips: Every pensioner to receive a monthly pension advice payslip in the months of April and May. Thereafter, a hard copy payslip will be generated only where the net pension alters by ten pounds (£5) or more from the previous month.	Pensioners can access all their payslips via the member self-service option on the website. http://www.wccpensionfund.co.uk/ 3 Working days prior to pay day.
AA	Increases: Notify the pensioners of the increase and its effect on their pension by standard letter.	In the month of the payment increase.
<u>Advisory & Communications</u>		
AA	Contact centre Answer phone calls and deal with queries from members and employers.	On working days between the hours of 9.00 am and 5.00 pm.
<u>Complaints</u>		
AA	All complaints to be acknowledged. A full written response to a complaint must be sent to the complainant.	Within 5 working days. Within 20 working days of its receipt by Surrey, subject to all necessary information being available to Surrey to enable a full response to be given.

6. Pensions Administration Strategy - Schedule of Charging

Westminster acting as Administering Authority (WAA) wishes to support its fund employers to enable them to provide all relevant data to both members and to WAA as per the requirements of the PAS set out above. Any employer who is unclear on the requirements of the PAS or is struggling with any aspect of the requirements should inform WAA of any concern as soon as possible, WAA will provide support where it can. WAA's first priority is to ensure compliance for the benefit of members and employers, ensuring that accurate data is stored for members. That pension can be processed quickly and accurately when required and that WAA and its employers all meet their statutory obligations.

Where additional costs have been incurred by the Administering Authority as a direct result of an Employer's poor performance these costs will be recovered from the Employer.

The Administering Authority will give the reasons for doing so in accordance with the regulations.

In addition to the schedule below other circumstances could generate a charge:

- Instances where the performance of the Employing Authority has resulted in fines being levied against the Administering Authority by the Pension Regulator, Pensions Ombudsman, HMRC or other regulatory body.
- Additional cost incurred in providing specialist third party advice in administering the Scheme on behalf of the employer, including but not exclusive to actuarial services,

occupational medical practitioner services and legal services.

- Persistent failure to resolve issues in a timely and satisfactory fashion.

In these circumstances the Administering Authority will set out the calculations of any loss or additional cost incurred, in writing, stating the reason for the cost(s) and the basis for the calculation.

WAA will monitor aspects of the PAS on a quarterly basis, the aspect monitored may change and not all employer's data will necessarily be reviewed on each occasion. WAA will be reviewing data from SCC to ensure its own compliance which will be reported on to the Pension fund Committee and the Pension board.

WAA will also seek evidence from SCC of employer compliance with the PAS but may also request data directly from the employer who will be expected to respond with relevant evidence or assurance of compliance where relevant. If an employer does not respond to any request for information within **30 days** of request then this will also be chargeable at **£200** an occasion.

Administration Description	Performance Targets	Charge
<u>New Starters and Transfers In</u>		
New scheme member: Employer to send to the Administering Authority the details of the new member.	Within 25 working days after the start date.	£50 per case
<u>Leavers and Transfers out</u>		
Scheme Leaver: Employer to send the Administering Authority a completed leaver notification.	Within 25 working days from the employee's last day in the Scheme.	£50 per case
Retirements: Employer to send the Administering Authority a completed notification.	At least 15 working days before their final paid day of work.	£50 per case
<u>Deductions</u>		
Monthly deductions: Employer to send funds and schedule of deductions from salary to the Administering Authority.	By the 19th day of the month following the month in which contributions were deducted.	£100 per instance of late payment.
Payment of Other Sums Due: Employers should make payment of any invoiced sums as set out within this PAS within 30 days of invoice date.		

7. Strategy to develop web enabled services for employers and employees.

In 2016/17 the Administrating Authority will implement, develop and engage employers in an online portal. Initially, the portal will be used for data sharing with employers and information communication with employees.

Whilst forms will be restricted to being downloaded completed and resent, it is anticipated that the portal will be developed to allow members of the scheme to self-serve e-forms direct to the scheme administrators.

8. Further Information

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Annual Report of the Pension Board 2020/21

The role of the Local Pension Board is to assist the scheme manager (the administering authority) in securing compliance with:

- The scheme regulations
- Other governance and administration legislation
- Any requirements of the Pensions Regulator (tPR)
- Additional matters, if specified by scheme regulations

The Local Pension Board is required to have an equal number of representatives from employers and scheme members. They may also have other types of members, such as independent experts, but such members will not have a vote.

The law requires Local Pension Board members to have knowledge and understanding of relevant pension laws, and to have a working knowledge of the LGPS, its governance and documentation. Whereas the role of the Pension Fund Committee usually involves carrying out a decision-making function, members of Local Pension Boards should focus on the processes involved in running the fund. For example, are policies and procedures up to date, are the requirements of the Pensions Regulator being met and is the Fund following recognised best practice?

At a national level, the LGPS Scheme Advisory Board (SAB) consists of representatives from across a broad spectrum of LGPS stakeholders. Its purpose is to encourage best practice, increase transparency and coordinate technical and standards issues by being reactive and proactive. Separate SABs exist for the

schemes in England and Wales, Scotland and Northern Ireland.

Employer Representatives

- Councillor Tim Mitchell, Chairman of the Local Pension Board (Westminster, Conservative)
- Councillor Guthrie McKie (Westminster, Labour)
- Marie Holmes (The Grey Coat Hospital)

Scheme Member Representatives

- Terry Neville OBE, Vice-Chairman of Local Pension Board
- Christopher Smith (Westminster, UNISON)
- Chris Walker

During the year 2020/21 the Board met twice:

- 16 June 2020
- 31 March 2021

During the year, the Board's work programme covered the following areas:

- The monitoring of quarterly fund investment performance
- Reports detailing the Fund's financial management, including cash flow and scrutiny of the fund risk register
- Pensions administration key performance indicators
- Pension fund costs

Other notable examples of work that the Board covered during the year:

- The Board had oversight of the Strategic Investment Review that included a response to the Covid-19 pandemic and a set of recommendations to the asset allocation of the fund.

The Board underwent the following training in the year:

- The Board attended three half-day bespoke training events that took place in November 2020, December 2020 and February 2021 and covered the following topics:
 - 2020 from an actuarial perspective and funding updates
 - The macro-economic outlook
 - Asset allocation and portfolio construction
 - Diversity in the asset management industry
 - Investing in renewable energy
 - LGPS current developments
 - Physical climate risk management
 - Impact investing
 - Responsible investment
 - Behavioural finance
 - How asset managers approach risk management
 - Fixed income update
 - Risk and compliance perspective from an asset pool

➤ Environmental risk

Councillor Tim Mitchell

Chairman of Westminster Local Pension Board

June 2021



Photos: Kristina Mikneviute



City of Westminster