



City of Westminster

Title:

Pension Board

Meeting Date:

Monday 27th July, 2015

Time:

6.30 pm

Venue:

Room 5 - 17th Floor, City Hall

Members:

Councillors:

Peter Cuthbertson
Adnan Mohammed

Employer Representative
Employer Representative

**Scheme Member
Representatives:**

Susan Manning
Dr Norman Perry
Christopher Smith

Vacancy

Employer Representative (other than
Council)



Members of the public are welcome to attend the meeting and listen to the discussion Part 1 of the Agenda

Admission to the public gallery is by ticket, issued from the ground floor reception at City Hall from 6.00pm. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.



An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee Officer, Toby Howes, Senior Committee and Governance Officer.

**Tel: 020 7641 8470; E-mail: thowes@westminster.gov.uk
Corporate Website: www.westminster.gov.uk**

Note for Members: Members are reminded that Officer contacts are shown at the end of each report and Members are welcome to raise questions in advance of the meeting. With regard to item 2, guidance on declarations of interests is included in the Code of Governance; if Members and Officers have any particular questions they should contact the Head of Legal & Democratic Services in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

1. MEMBERSHIP

2. APOLOGIES FOR ABSENCE

3. INTRODUCTIONS OF BOARD MEMBERS

4. APPOINTMENT OF CHAIR AND VICE CHAIR FOR THE 2015/16 MUNICIPAL YEAR

To appoint a Chair and Vice Chair for the 2015/16 Municipal Year.

5. DECLARATIONS OF INTEREST

To receive declarations by Members and Officers of the existence and nature of any personal or prejudicial interests in matters on this agenda.

The Conflicts of Interest Policy is attached for information.

(Pages 1 - 4)

6. BACKGROUND AND ROLE OF PENSION BOARD

The report from the City Treasurer is attached. Guidance on the creation and operation of Pension Boards and Westminster's Pension Board's Terms of Reference are also attached.

(Pages 5 - 90)

7. PENSION FUND COMMITTEE

The report from the City Treasurer is attached. The agenda and minutes from the Pension Fund Committee meeting held on 25 March 2015 are also attached for information.

(Pages 91 - 110)

8. CODE OF CONDUCT POLICY

The report from the City Treasurer and the Code of Conduct Policy are attached.

(Pages 111 - 116)

9. KNOWLEDGE AND SKILLS POLICY

**(Pages 117 -
122)**

The report from the Director of Human Resources and the Knowledge and Skills Policy is attached.

10. KEY DOCUMENTS

**(Pages 123 -
208)**

The report from the City Treasurer is attached.

The following documents are attached as appendices:

- Governance and Compliance Statement
- Statement of Investment Principles
- Funding Strategy Statement
- Communication Policy Statement
- Quarterly Fund Performance
- Risk Register

The Annual Report and Accounts is attached as a separate document and can also be viewed online at

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

**Charlie Parker
Chief Executive
20 July 2015**

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Conflicts of Interest Policy

Introduction

In setting up Pension Boards, there are various legal requirements which need to be considered to make sure that sound governance principles are followed and that conflicts of interest are properly managed. Failure to follow applicable codes of conduct or declare a conflict of interest can impact on good governance in a variety of ways and may result in a Local Pension Board acting improperly.

The scheme manager of a public service scheme must be satisfied that no pension board member has a conflict of interest. Schemes are required to have an agreed and documented policy which includes identifying, monitoring and managing potential conflicts of interest.

Identifying potential conflicts of interest

It is important to be aware of any potential conflicts of interest on a pension board. A conflict of interest occurs when an individual has another interest which is likely to prejudice the way they carry out their role as a pension board member.

For the purposes of a member of a Local Pension Board, a 'conflict of interest' is defined in section 5(5) of the 2013 Act as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of a Local Pension Board. The 2013 Act also specifies that a conflict does not include a financial or other interest arising merely by virtue of that person being a member of the LGPS and/or Fund (or any connected scheme).

Since the Local Pension Board does not make decisions in relation to the administration and management of the Fund which rest with the Administering Authority, it is not anticipated that significant conflicts will arise in the same way as would be the case if the Board were making decisions on a regular basis

A conflict of interest may arise when a member of a Local Pension Board needs to fulfil their legal duty to assist the Administering Authority, but has a separate personal interest (financial or otherwise), or another responsibility in relation to a matter which gives rise to a possible conflict with their responsibility as a Local Pension Board member.

Examples of potential conflicts in this context would include:

- A finance officer appointed as a member of a Local Pension Board may, from time to time, be required to review a decision which may be, or appear to be, in opposition to another interest or responsibility. For example, they may be required as a member of the Local Pension Board to review a decision which involves the use of departmental resources to improve scheme administration, whilst at the same time being tasked, by virtue of their employment, with reducing departmental spending;
- A member representative who works in the Administering Authority's internal audit department may be required as part of his work to audit the Fund. For example, the employee may become aware of confidential breaches of law by the Fund which have not yet been brought to the attention of the Local Pension Board;
- An employer representative from the private sector may also have a conflict of interest as a decision-maker in their own workplace. For example, if an employer

representative is drawn from a company to which the Administering Authority has outsourced its pension administration services and the Board are reviewing the standards of service provided by it.

Identifying, Monitoring and Managing Conflicts – The Role of the Administering Authority

The Regulations place a duty on the Administering Authority to satisfy itself that those appointed to its Local Pension Board do not have an actual conflict of interest prior to appointment and “from time to time” thereafter.

There is a corresponding duty on any person who is proposed to be appointed to a Local Pension Board, and on an appointed member of a Local Pension Board, to provide the Administering Authority with such information as the Administering Authority reasonably requires to satisfy itself that such person has no conflicts of interest.

To comply with its duty in relation to conflicts, the Administering Authority needs to put procedures in place in respect of the appointment of members and establish policies to be included in the Board’s constitution to ensure that interests are declared, potential conflicts are identified and members of the Board are trained and receive advice on conflicts.

Regarding the process of appointments, the Administering Authority requires that members of a Local Pension Board:

- Disclose any interests or responsibilities which could become conflicts of interest and which may adversely affect their suitability for the role, before they are appointed;
- Are scrutinised during the appointment process for potential areas of difficulty by eliciting relevant information. The fact an individual could potentially have a conflict of interest at some point in the future should not preclude an individual being appointed provided he or she does not have an actual conflict of interest when appointed;
- Agree to terms of engagement in their appointment letters that include a clause requiring disclosure of all interests and responsibilities which have the potential to become conflicts of interest, as soon as they arise. All interests and responsibilities disclosed should be recorded in a register.

The Administering Authority will need to keep appointments under review and also monitor whether appointed members have potential conflicts of interest and are declaring them appropriately. This could be achieved by requesting reports from the Local Pension Board annually.

Identifying, Monitoring and Managing Conflicts – The Role of the Local Pension Board

Local Pension Boards should cultivate a culture of openness and transparency. The need for continuing appraisal of conflicts should be recognised, including monitoring of interests and responsibilities which have the potential to become conflicts of interest.

The Local Pension Board should ensure that its members have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest, and should know how potential conflicts should be managed.

- Local Pension Boards should identify, monitor and manage dual interests and responsibilities which are or have the potential to become conflicts of interest;
- Local Pension Boards should evaluate the nature of any dual interests and responsibilities and assess the impact on their operations and good governance were a conflict of interest to materialise.

In order to prevent a potential conflict of interest from becoming an actual conflict of interest board members should:

- Include conflicts of interest as an opening agenda item at Local Pension Board meetings, and revisit during the meeting, where necessary
- Withdraw from the discussion and any decision-making process if a conflict arises;
- Resign from the Board if the conflict is so fundamental that it cannot be managed in any other way;

Board members should seek professional advice from a nominated officer (for example, the monitoring officer or the chief finance officer) or external advisers where necessary, if they are concerned that a conflict may arise.

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Pension Board

| | |
|---------------------------|---|
| Date: | 27 July 2015 |
| Classification: | General Release |
| Title: | Background and Role of Board |
| Report of: | Steve Mair <i>City Treasurer</i> |
| Wards Involved: | All |
| Policy Context: | Effective Control over Council Activities |
| Financial Summary: | There are no financial implications arising from this report |

1. Executive Summary

- 1.1 This report sets out the background to the creation and operation of Local Pension Boards in England and Wales and the role of the Board as defined by section 5 of the Public Service Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme (LGPS) Governance Regulations 2013.

2. Key Matters for the Board

- 2.1 The Board note the contents of this paper and the Terms of Reference
- 2.2 The Board agree on the approach for substitute members

3. Background

- 3.1 The Public Service Pensions Act 2013 (the 'Act') and the Local Government Pension Scheme (LGPS) Regulations 2013 required the Council to establish a Pension Board by 1 April 2015.

- 3.2 The Shadow LGPS Scheme Advisory Board (which was set up under Section 7 of the Act to encourage best practice, increase transparency and coordinate technical and standards issues within the Scheme) published guidance on the creation and operation of Local Pension Boards in England and Wales. This document is provided for Board members as Appendix 1.
- 3.3 The General Purposes Committee approved the setting up of a Pension Board and the Terms of Reference, in accordance with the delegation given by the Council, at its meeting in February 2015.

4. Role of the Board

- 4.1 The Terms of Reference for the Pension Board (attached as Appendix 2) includes the role of the Pension Board, as defined by the above legislation, which is to assist the administering authority [the Council] with:
- (i) securing compliance with the LGPS Governance regulations and any other legislation relating to the governance and administration of the LGPS;
 - (ii) securing compliance with any requirements imposed by the Pensions Regulator in relation to the scheme and
 - (iii) ensuring effective and efficient governance and administration of the Scheme
- 4.2 The role of the Pension Board is, therefore, to review, assist and monitor the administration and management of the Scheme, not to make operational or investment decisions concerning the City of Westminster Pension Fund. That function is the role of the Pension Fund Committee, which is reported elsewhere on this agenda.
- 4.3 As this is the inaugural meeting of the Board and training has not yet been undertaken by the members (refer to agenda item 9), it is recommended that the Board consider their role specifications at the next meeting.
- 4.4 The Terms of Reference includes a section on substitute members. The Board is asked to consider whether they wish to nominate substitutes, who would act in the Board member's absence.

**If you have any queries about this Report or wish to inspect any of the
Background Papers please contact:**

Nikki Parsons

Pension Fund Officer

Email: nparsons@westminster.gov.uk

Telephone: 020 8641 6925

BACKGROUND PAPERS:

None

APPENDIX 1:

Local Government Pension Scheme (LGPS): Guidance on the Creation and Operation of Local Pension Boards in England and Wales

APPENDIX 2:

Terms of Reference – City of Westminster Pension Board

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Local Government Pension Scheme (LGPS)

Guidance on the creation and operation of Local Pension Boards in England and Wales

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1. Introduction

- 1.1 The LGPS is a common pension scheme throughout England and Wales, administered locally by 90 separate Administering Authorities.
- 1.2 In the context of the UK public service pension schemes, the LGPS is the largest funded occupational pension scheme in the UK.
- 1.3 Administering Authorities are required to establish a new body to be known as a Local Pension Board to assist the Administering Authority in its role as the Scheme Manager of its Fund in accordance with the requirements of the 2013 Act.
- 1.4 This Guidance is designed to assist Administering Authorities in the creation and operation of Local Pension Boards in line with relevant legislation and in particular the 2013 Act and the Regulations.
- 1.5 This Guidance should not be taken as a definitive interpretation of legislation and it should always be read in conjunction with the relevant legislation. Administering Authorities are advised to secure their own legal advice on the interpretation and application of the legal framework.
- 1.6 Unless otherwise stated, this Guidance is correct as at 28 January 2015.
- 1.7 The following is an explanation of defined terms used in this Guidance:

| | |
|--------------------------------|---|
| 1972 Act | The Local Government Act 1972. |
| 1989 Act | The Local Government & Housing Act 1989. |
| 2000 Act | The Local Government Act 2000. |
| 2004 Act | The Pensions Act 2004. |
| 2011 Act | The Localism Act 2011. |
| 2013 Act | The Public Service Pensions Act 2013. |
| Administering Authority | A body listed in Part 1 of Schedule 3 of the Regulations who maintains a fund within the LGPS. |
| Code of Practice | The Regulator's Code of Practice no. 14 entitled " <i>Governance and administration of public service</i> " |

| | |
|-------------------------------|--|
| | <i>pension schemes”.</i> |
| DCLG | The Department for Communities and Local Government. |
| DPA | Data Protection Act 1998. |
| FOIA | Freedom of Information Act 2000. |
| Investment Regulations | The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. |
| IPSPC | Independent Public Service Pensions Commission. |
| LGPS | The Local Government Pension Scheme - a scheme for the payment of pensions and other benefits to or in respect of persons working in local government service in England and Wales or for other bodies that participate in the LGPS. |
| Local Pension Board | The board established to assist the Administering Authority as the Scheme Manager for each Fund. |
| Pension Committee | A committee or sub-committee to which an Administering Authority has delegated its pension function. |
| Regulations | The Local Government Pension Scheme Regulations 2013 (as amended). |
| Regulator | The Pensions Regulator. |
| Responsible Authority | The Secretary of State for Communities and Local Government being the person who makes regulations for a pension scheme established under section 1 of the 2013 Act. |
| Rules of Procedure | The rules governing the decision making process of the Administering Authority as set out in its constitution. |

| | |
|---------------------------------|--|
| Scheme Advisory Board | The Local Government Pension Scheme Advisory Board established under the Regulations. |
| Scheme Manager | A person or body responsible for managing or administering a pension scheme established under section 1 of the 2013 Act. In the case of the LGPS, each Fund has a Scheme Manager which is the Administering Authority. |
| Secretary of State | The Secretary of State for Communities and Local Government. |
| Transitional Regulations | The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014. |

2. Background

LGPS Governance Structure Prior to April 2015

- 2.1 The LGPS is a statutory funded public service pension scheme. It differs in legal status from trust based pension schemes in the private sector because it is established under statute and not set up under a trust. It also differs from most other statutory public service pension schemes which are unfunded schemes. Matters of governance in the LGPS therefore need to be considered on their own merits and with proper regard to the unique legal status of the LGPS.
- 2.2 Prior to 1 April 2015, the LGPS has had a relatively straightforward governance structure which includes the Secretary of State and the Administering Authority.
- 2.3 Each Administering Authority is responsible for managing and administering the LGPS in relation to any person for which it is the appropriate administering authority under the Regulations. The Administering Authority is responsible for maintaining and investing its own Fund within the LGPS.
- 2.4 How an Administering Authority delegates its LGPS function is largely a matter for each Administering Authority. The majority of Administering Authorities are local authorities and therefore operate in accordance with local government law. However some Administering Authorities are not local authorities such as the Environment Agency, the London Pensions Fund Authority and the South Yorkshire Pensions Authority. Such bodies operate in accordance with their own legal constitutions.

The Road to Reform

- 2.5 June 2010: Lord Hutton of Furness is appointed by Government to chair the IPSPC and undertake a fundamental structural review of public service pension provision and to make recommendations to the Chancellor and Chief Secretary to the Treasury on future pension arrangements.
- 2.6 October 2010: The IPSPC produces its interim report.
- 2.7 March 2011: The IPSPC produces its final report making 27 recommendations for the reform of public service pension schemes including:

- properly constituted, trained and competent pension board with member nominees, responsible for meeting good standards of governance including effective and efficient administration;
- a pension policy group for each public service pension scheme at national level for considering major changes to scheme rules; and
- independent oversight of the governance, administration and data transparency of public service pension schemes.

- 2.8 December 2011: Following a meeting in November 2011, the Local Government Association and lead members and officials from GMB, UNISON and Unite conclude that discussions should be progressed with the aim of reaching agreement on a set of high level principles for the LGPS.
- 2.9 May 2012: The Local Government Association, GMB, UNISON and Unite announce the outcome of their negotiations on new LGPS proposals to take effect from 1 April 2014.
- 2.10 April 2013: The 2013 Act implementing most of the IPSPC's recommendations receives Royal Assent.
- 2.11 April 2014: The new career-average LGPS comes into force.
- 2.12 April 2015: The new governance structure for the LGPS and other public service pension schemes come into force.

3. Legislative background and structure of governance arrangements from 2015

Legislative requirements for governance in the LGPS

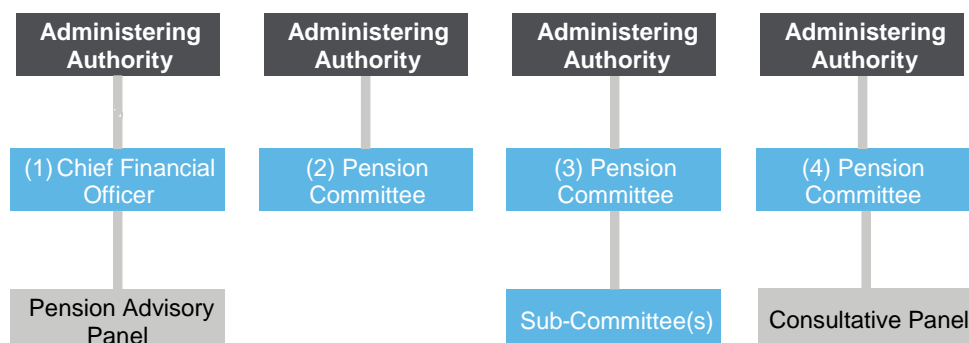
- 3.1 The Regulations require each Administering Authority to establish a Local Pension Board for the purposes of assisting the Administering Authority in line with the requirements set out in paragraph 3.27.
- 3.2 Local Pension Boards must be established no later than 1 April 2015. Established in this context means that the Administering Authority must have approved the establishment of the Local Pension Board, its composition and also the terms of reference, in accordance with its constitution. It does not necessarily mean that the Local Pension Board has to be fully operational by this date. However, it is anticipated that a Local Pension Board should be operational within a reasonably practicable period after 1 April 2015 (being no longer than 4 months).
- 3.3 The Regulations set out the requirements relating to the new Local Pension Boards.

Governance structure in the LGPS

- 3.4 Each Administering Authority is responsible for managing and administering the LGPS in relation to any person for which it is the appropriate administering authority under the Regulations. The Administering Authority is responsible for maintaining and investing its own Fund for the LGPS.
- 3.5 Administering Authorities are defined in Part 1 of Schedule 3 of the Regulations.
- 3.6 The majority of Administering Authorities are local authorities and therefore operate in accordance with local government law requirements. However some Administering Authorities are not local authorities such as the Environment Agency, the London Pensions Fund Authority and the South Yorkshire Pensions Authority. Such bodies operate in accordance with their own legal constitutions.
- 3.7 In some instances, two or more Administering Authorities may share their administration function, for example through a shared service arrangement, or in other ways. However, where this happens each local authority still retains its own individual Administering Authority status and therefore legal responsibility for its own Fund.

- 3.8 The membership structure for the Local Pension Board required by regulation 107 of the Regulations does not fit neatly into the standard arrangements which exist for decision making on pensions issues and existing established governance arrangements for Administering Authorities. This section of the Guidance sets out the general legal provisions which will assist in placing the Local Pension Board in the context of decision making on wider pensions and financial matters.
- 3.9 For local authority Administering Authorities it is not permissible for decisions about pension allowances or the amount of pension to be paid to employees to be an executive decision (see The Local Authorities (Functions and Responsibilities) (England) Regulations 2000 and The Local Authorities Executive Arrangements (Functions and Responsibilities) (Wales) Regulations 2001. This means that the executive (usually cabinet or the elected mayor) cannot make decisions in relation to LGPS matters, for example, how to exercise discretions under the Regulations.
- 3.10 This means in practice that decisions about pensions are delegated in accordance with Section 101 of the 1972 Act to:
- 3.10.1 committees or sub-committees made up of that Administering Authority's councillors from all the political groups and will be politically balanced (and some of these committees or sub-committees also have additional co-opted members such as employer and scheme member representatives); or
 - 3.10.2 Administering Authority officers.
- Some decisions will be reserved for full council, for example decisions which have an impact on the budget.
- 3.11 Regulation 105 also provides that Administering Authorities may delegate functions under the Regulations. This confirms the authority in Section 101 of the 1972 Act.
- 3.12 The delegation of pension functions varies from Administering Authority to Administering Authority depending on local circumstances. The Regulations require an Administering Authority's governance compliance statement to set out whether the Authority delegates its functions and the detail of the delegation given. This includes the terms, structure and operation of the delegation, the frequency of meetings, membership and voting rights.

- 3.13 Examples of delegation structures used by Administering Authorities can be summarised as follows:



Governance compliance statements

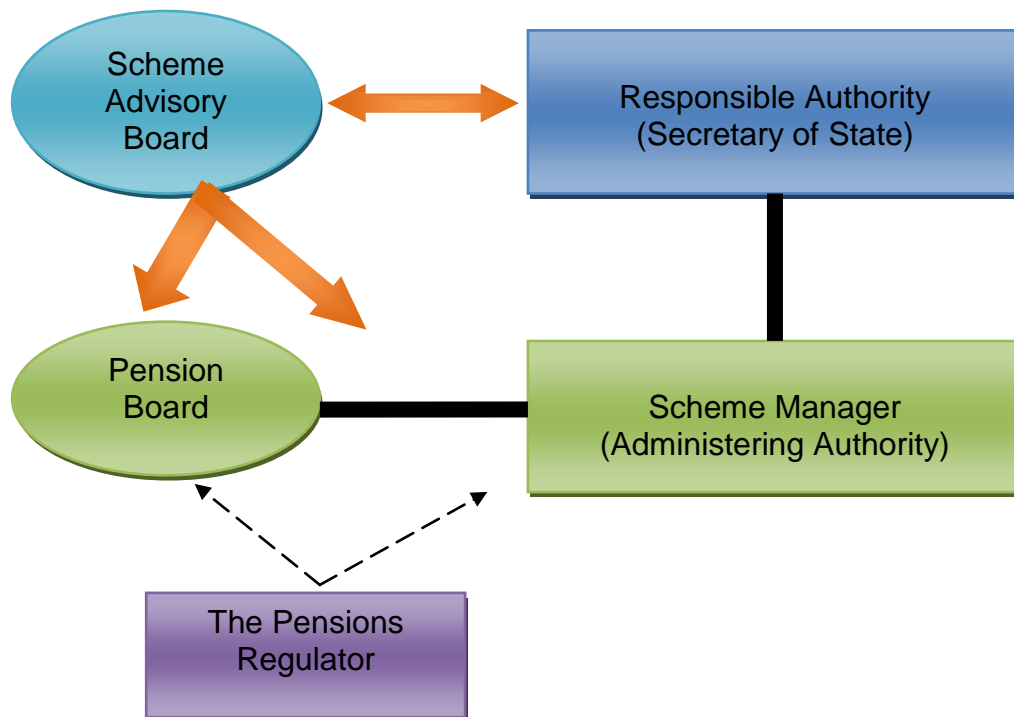
- 3.14 To ascertain how an individual Administering Authority actually delegates its pension function it is necessary to review its governance compliance statement. Each Administering Authority must have in place a statement setting out whether the Administering Authority delegates its functions, or part of its functions under the Regulations to a committee, a sub-committee or an officer of the authority.
- 3.15 Where the Administering Authority does delegate its functions, the statement must include:
- 3.15.1 the terms, structure and operational procedures of the delegation;
 - 3.15.2 the frequency of any committee or sub-committee meetings;
 - 3.15.3 whether such a committee or sub-committee includes representatives of scheme employers or members, and if so, whether those representatives have voting rights;
 - 3.15.4 the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
 - 3.15.5 details of the terms, structure and operational procedures relating to the Local Pension Board.
- 3.16 Current governance compliance statements will need to be revised to include the new information referred to in paragraph 3.15.5. The

Administering Authority will firstly need to consult with such persons as it thinks necessary about the revised statement and then publish it once it has been revised.

New governance structure in the LGPS

- 3.17 From 1 April 2015, the new governance structure of the LGPS can be summarised in the following diagram:

Post April 2015 LGPS Governance Structure



The Responsible Authority

- 3.18 In accordance with section 2 of the 2013 Act, each pension scheme established under section 1 of the 2013 Act must have a 'responsible authority' which is the person who may make regulations for that scheme.
- 3.19 In the case of the LGPS, the Responsible Authority is the Secretary of State.

Administering Authority/Scheme Manager

- 3.20 Section 4 of the 2013 Act requires that, in the case of a pension scheme established under section 1 of that Act, regulations must provide for a 'scheme manager'. The scheme manager is the person who is responsible for managing or administering the scheme.

- 3.21 The Regulations specify that the ‘scheme manager’ responsible for the local administration of pensions and other benefits payable under the LGPS shall be each Administering Authority.
- 3.22 In the case of the LGPS, each Fund therefore has a Scheme Manager which is the Administering Authority. This contrasts with other public service pension schemes administered on a national basis, such as the Teachers’ Pension Scheme, where there is a single scheme manager for the whole scheme.
- 3.23 As noted at paragraph 3.4 an Administering Authority is responsible for managing and administering the LGPS in relation to any person for which it is the appropriate administering authority under the Regulations. The Administering Authority is responsible for maintaining and investing its own Fund for the LGPS. This means the Administering Authority is responsible for making all decisions relating to the operation of the Fund.
- 3.24 The creation of new Local Pension Boards does not change the core role of the Administering Authority or the way it delegates its pension functions. However, when establishing its Local Pension Board, the Administering Authority may wish to take the opportunity to review its current delegation structure to see if it remains fit for purpose.
- 3.25 For example, where there is an advisory panel advising a Pension Committee, the Administering Authority may wish to consider the extent to which the advisory panel’s functions are superseded by the new Local Pension Board. An existing panel of this nature is not a Local Pension Board and should not be re-badged as such. A new Local Pension Board should be properly established and the existing arrangements then reviewed.

Local Pension Boards

- 3.26 Section 5 of the 2013 Act requires that, in the case of a pension scheme established under section 1 of that Act, regulations must provide for the establishment of a board with responsibility for assisting the scheme manager(s) in relation to specified matters. In turn, this has resulted in the requirement for Local Pension Boards for each Administering Authority in the LGPS under the Regulations.

3.27 Regulation 106(1) of the Regulations specifies that each Administering Authority shall establish its own Local Pension Board with responsibility for assisting the Administering Authority:

3.27.1 to secure compliance with:

3.27.1.1 the Regulations;

3.27.1.2 other legislation relating to the governance and administration of the LGPS; and

3.27.1.3 the requirements imposed by the Regulator in relation to the LGPS, and

3.27.2 to ensure the effective and efficient governance and administration of the LGPS.

3.28 Assisting the Administering Authority should be interpreted as helping the Administering Authority, including doing work requested by the Administering Authority. The role of the Local Pension Board should be interpreted as covering all aspects of governance and administration of the LGPS, including funding and investments. However, the Local Pension Board does not replace the Administering Authority or make decisions which are the responsibility of the Administering Authority under both the Regulations and other overriding legislation. The Administering Authority can choose to delegate duties to the Local Pension Board within the parameters of the Regulations.

3.29 The role and remit of a Local Pension Board is considered in more detail in Schedule A.

3.30 Regulation 106(9) of the Regulations specifies that the expenses of a Local Pension Board shall be regarded as part of the costs of administration of the Fund. This is considered in more detail in section 9, Resourcing and Funding.

Scheme Advisory Board

3.31 Section 7 of the 2013 Act requires that, in the case of a pension scheme established under section 1 of that Act, regulations must provide for the establishment of a board with responsibility for providing advice to the responsible authority, at the authority's request, on the desirability of

changes to the scheme. The responsible authority must have regard to such advice.

- 3.32 Where a scheme has more than one scheme manager (and accordingly there is more than one pension board for the scheme), regulations may also provide for the Scheme Advisory Board to provide advice (on request or otherwise) to the scheme managers or the scheme's pension boards in relation to the effective and efficient administration and management of the scheme or any pension fund of the scheme.
- 3.33 In turn, Section 7 has resulted in the requirement for the Scheme Advisory Board for the LGPS under the Regulations. The Scheme Advisory Board for the LGPS is established by the Regulations and is responsible for providing advice:
- 3.33.1 to the Secretary of State on the desirability of making changes to the LGPS; and
 - 3.33.2 to the Administering Authorities and Local Pension Boards in relation to the effective and efficient administration and management of the LGPS and the Funds.
- 3.34 In both cases, the Secretary of State and Administering Authorities (including those with delegated responsibility, i.e. Pension Committees (or sub-committees) and Officers) or Local Pension Boards must have regard to advice issued by the Scheme Advisory Board in accordance with section 7(3) of the 2013 Act.

4. The Pensions Regulator

- 4.1 The regulatory powers of the Regulator were extended under section 17 and Schedule 4 of the 2013 Act to cover some aspects of public service pension schemes, including the LGPS.
- 4.2 The Regulator is an existing body corporate established by the 2004 Act. Prior to 1 April 2015, the Regulator regulated occupational and personal pension schemes provided primarily through private sector employers.
- 4.3 The Regulator has a number of statutory objectives including to:
 - 4.3.1 protect the benefits of pension scheme members,
 - 4.3.2 promote, and improve understanding of, the good administration of work-based pension schemes,
 - 4.3.3 maximise compliance with the duties and safeguards of the Pensions Act 2008; and
 - 4.3.4 minimise any adverse impact on the sustainable growth of an employer (in relation to the exercise of the Regulator's functions under Part 3 of the Pensions Act 2004 only).
- 4.4 The 2013 Act introduces a framework for the regulatory oversight of aspects of the governance and administration of public service pension schemes by the Regulator from 1 April 2015, through expanding its current role.
- 4.5 The Regulator has oversight in areas such as those listed in paragraph 4.6 below and may issue codes of practice for public service pension schemes in these areas.
- 4.6 The Regulator has issued the Code of Practice which covers:
 - 4.6.1 knowledge and understanding required by pension board members (see paragraphs 33 to 60 of the Code of Practice);
 - 4.6.2 conflicts of interest and representation (see paragraphs 61 to 91 of the Code of Practice);
 - 4.6.3 reporting breaches of the law (see paragraphs 241 to 275 of the Code of Practice);
 - 4.6.4 publishing information about schemes (see paragraphs 92 to 99 of the Code of Practice);

- 4.6.5 internal controls (see paragraphs 101 to 120 of the Code of Practice);
 - 4.6.6 scheme record-keeping (see paragraphs 122 to 146 of the Code of Practice);
 - 4.6.7 maintaining contributions (see paragraphs 147 to 186 of the Code of Practice);
 - 4.6.8 providing information to members (see paragraphs 187 to 211 of the Code of Practice) ; and
 - 4.6.9 internal dispute resolution (see paragraphs 213 to 240 of the Code of Practice).
- 4.7 However, only the areas of knowledge and understanding, conflicts of interest and representation and reporting breaches of the law have direct application to Local Pension Boards. The other areas apply to Administering Authorities, although there are areas that a Local Pension Board will need to be aware of in order to assist the Administering Authority.
- 4.8 This Guidance takes into account the principles of the Code of Practice where relevant and applies them to the LGPS.
- 4.9 For the avoidance of doubt the powers of the Regulator were not extended to cover areas such as the funding and investment of Funds.

The Regulator's Powers

- 4.10 The Regulator will have a range of enforcement powers under the 2013 Act including:
- 4.10.1 the power to appoint a person to assist a Local Pension Board in the discharge of its functions if the Regulator considers it desirable for the purpose of ensuring compliance with relevant “pensions legislation”;
 - 4.10.2 the power to issue an ‘improvement notice’ to an Administering Authority or to a member(s) of a Local Pension Board directing them to take, or refrain from taking, such steps as are specified in the notice in order to remedy or prevent a recurrence of a contravention of “pensions legislation”;

- 4.10.3 the power to issue a 'third party notice' directing a third party to take, or refrain from taking, such steps as are specified in the notice in order to remedy or prevent a recurrence of a contravention of "pensions legislation";
 - 4.10.4 the power to issue a 'report notice' to an Administering Authority or to a member(s) of a Local Pension Board requiring them to provide a report on a specified matter(s) which are relevant to the exercise of any of the Regulator's functions;
 - 4.10.5 the power to require Administering Authorities and members of Local Pension Boards to produce documents and information;
 - 4.10.6 the power to inspect premises;
 - 4.10.7 the power to apply for an injunction;
 - 4.10.8 the power to apply for restitution where there has been a misuse or misappropriation of any Fund assets;
 - 4.10.9 the power to recover unpaid contributions on behalf of an Administering Authority; and
 - 4.10.10 the power to impose civil penalties for breaches of certain pensions legislation including the duty for Administering Authorities and members of Local Pension Boards to report breaches of the law, the duty for Administering Authorities to report the late payment of employer contributions and the failure to comply with an 'improvement notice' or a 'report notice'.
- 4.11 As noted above, certain powers of the Regulator are limited to contravention of "pensions legislation". For this purpose, "pensions legislation" has a specific meaning and includes certain pieces of core pensions legislation which apply to both public and private sector schemes (the Pension Schemes Act 1993; parts of the Pensions Act 1995; the Pensions Act 2004; and statutory provisions on pension sharing on divorce). In terms of the legislation contained in the 2013 Act, "pensions legislation" only includes sections 5(4) (pension board: conflicts of interest and representation), 6 (pension board: information), 14 (information about benefits) and 16 (records).

- 4.12 Of the 2013 Act provisions, only section 5(4) (pension board: conflicts of interest and representation) has direct relevance to a Local Pension Board, as the other sections relate to Scheme Manager responsibilities.
- 4.13 The other listed statutory provisions are relevant to the extent that a Local Pension Board is responsible for assisting the Administering Authority to comply with legislation relating to the governance and administration of the LGPS (which will include certain elements of the listed statutes). In all cases, the term “pensions legislation” covers both the statutory provisions listed and any secondary legislation made under those provisions.

Reporting Local Pension Board Members to the Administering Authority

- 4.14 If the Regulator has reasonable grounds to suspect or believe that a member of a Local Pension Board:
- 4.14.1 has misappropriated any assets of the Fund or is likely to do so;
or
 - 4.14.2 has a conflict of interest in relation to the investment of assets of the Fund

the Regulator must report the matter to the Administering Authority. However, given that a member of Local Pension Board should not have access to Fund assets or be involved in the investment of Fund assets then the exercise of this duty should be rare in practice.

5. Constitution and Membership of a Local Pension Board

- 5.1 As noted at paragraph 3.2, Local Pension Boards must be established no later than 1 April 2015. Established in this context means that the Administering Authority must have approved the establishment of the Local Pension Board, its composition and also the terms of reference, in accordance with its constitution. It does not necessarily mean that the Local Pension Board has to be fully operational by this date. However, it is anticipated that a Local Pension Board should be operational within a reasonably practicable period after 1 April 2015 (being no longer than 4 months).
- 5.2 The responsibility for establishing a Local Pension Board rests with the Administering Authority of each Fund. This is something the Administering Authority must do; it is not optional.
- 5.3 For many Administering Authorities, all existing pension functions are likely to be delegated to a Pension Committee or an officer. However, it is open to an Administering Authority to exercise directly any function which it has delegated.
- 5.4 In light of the fact that the role of the Local Pension Board is to assist the Administering Authority, the Administering Authority will need to carefully consider the establishment of the Local Pension Board and the appointment of its members. It should therefore be a function undertaken by the Administering Authority (for example full council) rather than by the delegated Pension Committee or officer.
- 5.5 An Administering Authority is given power under regulation 106(6) of the Regulations to determine the procedures applicable to its Local Pension Board, including the establishment of sub-committees and the payment of expenses. When exercising this power (as provided for in the 2013 Act), the Administering Authority must do so in accordance with usual local government principles, acting reasonably and within the powers set out in the Regulations.
- 5.6 Regulation 106(2) of the Regulations provides that where a local authority Administering Authority delegates its pension functions to a Pensions Committee, then with Secretary of State approval, the Pensions Committee may also undertake the role of the Local Pension Board. Please see section 10 of this guidance for further details.

Membership of a Local Pension Board

- 5.7 A Local Pension Board must include an equal number of employer and member representatives with a minimum requirement of no fewer than four in total. In addition, the Regulations do not preclude that other members may also be appointed to the Board.
- 5.8 No officer or councillor of an Administering Authority who is responsible for the discharge of any function under the Regulations (apart from any function relating to Local Pension Boards or the Scheme Advisory Board) may be a member of the Local Pension Board of that authority.
- 5.9 The officers of the Administering Authority who would be precluded from being a member of the Local Pension Board would be any officer named in the scheme of delegation for that Administering Authority, for example the section 151 officer and the head of investments. It would also be appropriate to consider whether officers of the Fund at a senior level, who are not named in the formal scheme of delegation but who are responsible for discharging functions under the Regulations should also be precluded from being a member of the Local Pension Board.
- 5.10 Where an elected member of the Administering Authority is appointed as a member of the Local Pension Board this can only be as either an employer or member representative under the provisions of regulation 107(3)(b).
- 5.11 When determining the size of its Local Pension Board, the Administering Authority should consider the capacity of the Board to undertake its role in assisting the Administering Authority with the governance and administration of the scheme. The Administering Authority will need to consider a number of factors including (without limitation):
- 5.11.1 the number of scheme members, the number and size of employers;
 - 5.11.2 the breadth and diversity of scheme members and employers,
 - 5.11.3 the assets within the Fund and any collective arrangements in place for them to make decisions or provide input in relation to Fund matters;
 - 5.11.4 the cost of establishing and operating the Board;
 - 5.11.5 the existence or proposal to form any other advisory groups; and

5.11.6 the scope of the Board's remit and workplan.

- 5.12 As indicated in the Code of Practice the Administering Authority should consider providing high quality pre-appointment training to proposed members of the Local Pension Board.

Appointment of Local Pension Board Members

- 5.13 Each employer or member representative on a Local Pension Board will potentially represent a significant range of employers or members (as appropriate). It is therefore important that the methodology for appointment ensures that representative Board members are truly representative.
- 5.14 All employers and members within a Fund must have equal opportunity to be nominated for the role of employer or member representative through an open and transparent process.
- 5.15 The Regulations also allow for the appointment of other Local Pension Board members i.e. members who are not there to represent employers or scheme members, this would include for example where an Administering Authority wishes to appoint an independent chairperson to the Local Pension Board.

Capacity of Representative Members

- 5.16 Regulation 107 of the Regulations also requires that the Administering Authority must ensure that any person it wishes to appoint as an employer or member representative has the capacity to represent the employers or members (as appropriate) of the Fund.
- 5.17 It will be important to appoint members who have the time to commit to attend meetings, undertake training and effectively represent employers and members (as appropriate).
- 5.18 Whilst it is the responsibility of those members appointed to have the capacity to represent employers and members respectively consideration should also be given by employers to reasonable time off or 'facilities time' to allow employees who are members of the Local Pension Board to effectively carry out their role. Administering Authorities should highlight to employers the work needed to carry out the role to encourage employers to allow for reasonable time off for Local Pension Board members. Administering Authorities could for example reimburse employers who provide their employees (who are members of the Board) with paid time off

for and to attend Board meetings. See section 9 for more information on the resourcing of Local Pension Boards. In addition whilst no member of the Board should be better or worse off by undertaking a role on the Local Pension Board the Administering Authority should encourage policies which enable active participation on the Board and therefore help in developing an effective Board.

- 5.19 The Regulations specify a Local Pension Board member should not have a conflict of interest, and then go on to clarify that a financial or other conflict of interest will not arise merely by virtue of a member of a Local Pension Board being a member of the LGPS and/or Fund. The potential for conflicts of interest is considered in section 7 of this guidance.
- 5.20 An individual's ability to properly represent the interests of employers or members (as appropriate) and channel information back to those persons effectively should also be a key factor in selecting members of the Local Pension Board. This needs to take account of the wide range of membership of the Fund to ensure all employers and members are represented.

Appointment of Other Members

- 5.21 As noted at paragraph 5.8, no officer or councillor of an Administering Authority who is responsible for the discharge of any function under the Regulations (apart from any function relating to Local Pension Boards or the Scheme Advisory Board) may be a member of the Local Pension Board of that authority.
- 5.22 The requirement for capacity does not explicitly apply to other (i.e. non-representative) members appointed by the Administering Authority. Nevertheless, the Administering Authority should have an open and transparent process for the appointment of such members.
- 5.23 As noted at paragraph 5.10 an elected member of the Administering Authority cannot be appointed to the Local Pension Board as an 'other member'.
- 5.24 Where an Administering Authority decides to appoint an independent chair to the Board, that chair would be considered an 'other member'.

The Process for Appointing Employer and Member Representatives

- 5.25 The methodology for appointing employer and member representatives is not prescribed by the Regulations. It will therefore fall to each Administering Authority to establish an appropriate process. Options may include (but are not limited to):

Direct Appointment Process

- 5.25.1 Selecting employer representatives through existing employer forums, for example nominations and voting at employer AGMs.
- 5.25.2 Selecting member representatives through existing representative organisations for example recognised trade unions, staff committees, member representative committees, pensioner organisations or nominations and voting at member AGMs (this could include active, deferred and pensioner members of the scheme).

Two Stage Nomination and Selection Process

- 5.25.3 Administering authorities may wish to consider methodologies used by private sector trust based schemes to appoint member-nominated trustees (“MNTs”). MNTs must be:
- 5.25.3.1 nominated as the result of a process which includes at least all the active and pensioner members of the scheme (or an organisation which adequately represents them); and
 - 5.25.3.2 selected as a result of a process which involves some or all of the members of the scheme.
- 5.25.4 Seeking nominations by advertising in local newspapers and on websites (including employer and member representative bodies websites).
- 5.25.5 Encouraging partner organisations or admission bodies to nominate members.
- 5.26 When selecting members, proper regard must be given to the obligations of the Administering Authority in relation to equal opportunities in any recruitment process. In practice, this means having an open and

transparent process, with a role specification. Depending on the appointment process used by the Administering Authority, it may also be necessary to have a formal interview process before appointments are made (if for example more nominations are received than available places on the Board). The interview process should assess the ability of the individual to meet the requirements of the role and make appointment on merit.

- 5.27 It is also important to ensure that those who are appointed have a range of experience so that there is a good balance and breadth of experience on the Local Pension Board.

Making Appointments

- 5.28 As noted in other sections, the appointment process provides an ideal opportunity for the Administering Authority to obtain confirmation from the appointee in the form of a written undertaking that they understand the requirements of the role and to commit to those requirements, for example by:

- 5.28.1 disclosing all interests and responsibilities which have the potential to become conflicts of interest (see paragraph 7.36);
- 5.28.2 committing to attend a minimum number of meetings a year;
- 5.28.3 committing to undertake and attend the necessary knowledge and understanding training (see paragraph 6.23); and
- 5.28.4 undertaking to abide by the Board's terms of reference and wider constitutional documents.

Term of Office

- 5.29 Consideration should be given to the term of office so that experience is retained on the Local Pension Board. This could be by a proportion of members retiring on a rolling basis so that the Local Pension Board has the benefit of gaining new members with new experience whilst also retaining existing experienced members and stability for the Local Pension Board.
- 5.30 The ability of members to seek re-appointment for a further term needs to be considered. Given the complexity of the subject matter there is a case for renewing membership over an extended period.

Termination

- 5.31 As well as dealing with the terms of appointment, the Administering Authority should also consider the circumstances in which a member of a Local Pension Board should cease to be a member.
- 5.32 Clearly this will arise at the expiry of a member's term of office, although there may well be other circumstances in which a member's term of office may end, for example the Administering Authority should consider suitable provisions if:
- 5.32.1 a member has a conflict of interest which cannot be managed in accordance with the Board's conflicts policy;
 - 5.32.2 a member dies or becomes incapable of acting;
 - 5.32.3 a member who is a councillor of the Administering Authority is appointed to a Pensions Committee;
 - 5.32.4 a member is appointed to the role of an officer of the Administering Authority with responsibility for the discharge of functions under the Regulations;
 - 5.32.5 a member wishes to resign, for example how much notice should be given and in what form;
 - 5.32.6 a representative member ceases to represent his constituency, for example if an employer representative leaves the employment of his employer and therefore ceases to have the capacity to represent the Fund's employers; and
 - 5.32.7 a member fails to attend meetings or otherwise comply with the requirements of being a Board member, for example fails to attend the necessary knowledge and understanding training. The Administering Authority should consider who would decide this, whether the member should be given an opportunity to change their behaviour and how much notice should be given and in what form. Where issues of this nature arise, the chair of the Local Pension Board should have lead responsibility for an initial informal discussion with the member about the concerns. It would be helpful for the chair of the Local Pension Board to be supported and advised by professional advisers with that discussion. This could be an Administering Authority officer provided there was no conflict

of interest. The matter could also be raised with any body which had nominated the individual for appointment.

- 5.33 Where a vacancy arises for a representative member mid-term, the Administering Authority should consider the process to be used to fill that vacancy.

Terms of Reference

- 5.34 The Administering Authority when establishing its Local Pension Board should create terms of reference for the Board on the basis that the Board is a stand-alone body. The terms of reference are the rules setting out how the Board will be constituted and operate on a day to day basis. The terms of reference for a Local Pension Board should be reviewed periodically and at each material change in regulations impacting on Local Pension Boards.

- 5.35 It is worth noting that under regulation 106(8) of the Regulations a Local Pension Board shall have the general power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions. However, as a minimum a Board's terms of reference should include areas such as:

5.35.1 **Function of the Board** – The terms should set out the function of the Board to assist the Administering Authority to secure compliance and ensure the effective and efficient governance and administration of the LGPS in line with the requirements set out at paragraph 3.27 and Schedule A.

5.35.2 **Membership** – This should include the number of each category of Board member (including other representatives), the appointment and selection process, term of office and procedures for termination of office.

5.35.3 **Code of Conduct** – The terms of reference should refer to the requirement for the Local Pension Board to have a code of conduct for its members and that members of the Board should abide by the code (see paragraph 7.9).

5.35.4 **Voting Rights** – The terms should set out that employer and member representatives of the Board have equal voting rights. The terms should also indicate where the chair is from either the employer or member representatives whether the chair has a

casting vote. It should be noted that other members do not have voting rights on the Board.

- 5.35.5 **Conflict of Interests** – The terms should refer to the requirement for the Board to always act within the terms of reference. The Local Pension Board should have a conflicts policy for its members and that members should abide by the policy and provide information that the Administering Authority may reasonably require from time to time to ensure that members do not have a conflict of interest (see paragraph 7.40).
- 5.35.6 **Appointment of a Chair/Vice-Chair** – The terms should specify whether the Board is to have a chair and/or vice-chair and if so specify the roles of the chair and/or vice-chair, how they are appointed and whether the chair is to be given a casting vote (only where the chair is from the member or employer representatives on the Local Pension Board). This should include the leadership responsibilities of the chair to ensure that meetings are properly conducted, decision making is clear and professional advice is followed. It will also set out the role of the chair in agreeing the agenda and approving the minutes for each meeting.
- 5.35.7 **Role of Advisors** – The terms should set out the role of professional advisers, or other advisors to the Board and the process for their appointment and agreeing their fees. In addition the process for the Board accessing existing advisors to the Administering Authority should also be set out. Administering Authorities may wish to use a shared pool of potential advisors, for example having access to an agreed pool of senior pension fund officers from other (possibly neighbouring) authorities.
- 5.35.8 **Role of Officers** – The terms should set out the role of officers of the Administering Authority to the Board, for example in the provision of secretariat services to the Board or providing pension fund information to the Board.
- 5.35.9 **Administration, Papers, Communication and Obtaining Information** – The terms should specify the terms for notice of Board meetings, the circulation of papers in advance of meetings, how meetings are to be run, the decision making process, recording minutes of meetings, a procedure for dealing with urgent items of business and the publication of information if considered relevant.

In addition where specific information may be required by the Board details of where such information may be obtained from should be provided to the Board. As the Local Pension Board is considered a committee of the Administering Authority for certain overriding statutory purposes such as FOIA and the Administering Authority is a FOIA public authority, minutes should be carefully dealt with and separated as appropriate into open and closed business, so that open minutes (including agendas and relevant papers) can be promptly published in the Administering Authority's FOIA publication scheme (see paragraph 8.22 to 8.23).

5.35.10 Organisation of meetings: The terms should specify how meetings will be organised. It is anticipated that meetings will take place separately from those of the Pension Committee. Should both bodies choose to meet at the same time to consider the same agenda, the terms should specify how those concurrent meetings are chaired as well as acknowledging that the statutory roles and function of the Pension Committee and the Board are separate

5.35.11 Number of Meetings – The terms should specify whether there should be a minimum number of meetings in a year. The frequency of Pension Committee meetings may serve as a useful benchmark for how often the Board should meet. There should also be an ability for a specified number of Board members or the Administering Authority to require a special meeting to be convened on notice.

5.35.12 Location and time of meetings – The terms should specify any restrictions in relation to the time (for example, during working hours only), and location of meetings and whether the meetings are to be public or not. Decisions about the time and location of meetings should be made whilst also being aware of the capacity requirements placed upon Board members.

5.35.13 Quorum – The terms should specify a quorum for meetings and in particular whether the quorum should include a minimum number of employer and member representatives.

5.35.14 Attendance Requirements – The terms should specify the requirements for attending meetings and the consequences of continued failure to attend Board meetings.

- 5.35.15 **Role of Substitutes** – The terms should specify whether members are allowed to send substitutes to meetings where they are unable to attend themselves. This may be more appropriate for employer and member representatives. Training requirements should also be considered where substitutes are permitted.
- 5.35.16 **Creation of Working Groups/Sub-Committees** – The terms should specify whether the Board has the power to set up working groups or sub-committees and if so on what terms (including terms of reference for those working groups or sub-committees).
- 5.35.17 **Allowances/Expenses** – The terms should specify the policy in relation to the payment of allowances and expenses to Board members (see section 9 of this guidance for further information).
- 5.35.18 **Budget** – The terms of reference should also set out a process for the Local Pension Board to have access to a budget for specified purposes, for example seeking professional advice, training for members, accommodation costs or meeting the costs of any claim for expenses and the timetable for approving that Budget.
- 5.35.19 **Knowledge and Understanding** – The terms should refer to the requirement for the Board to have a policy and framework to meet the knowledge and understanding requirements of the 2004 Act (see section 6 of this guidance).
- 5.35.20 **Reporting** – The terms should include arrangements for the reporting of information to the Administering Authority, including direct reporting arrangements where the Board has material concerns (see section 8 of this guidance). In addition the methods used to communicate to scheme members and employers should be included.
- 5.35.21 **Data Protection** – The terms should take account of the Administering Authority's role as a 'data controller' under data protection legislation and any policies, such as a data protection policy, with which it must comply as well as ensuring personal data processing by the Local Pension Board is within the Administering Authority's notification registered with the Information Commissioner from time to time (which should be reviewed and updated as necessary) – see paragraphs 8.17 to 8.21 for further details.

- 5.36 The terms of reference should be approved by the Administering Authority. The terms of reference should also be formally adopted by the Local Pension Board once it is established. This would normally be expected to occur at the Board's first meeting.

Chair of the Local Pension Board

- 5.37 As per 5.34.6 the appointment of a chair/vice chair should be detailed in the Local Pension Board's terms of reference.

- 5.38 A chair could be appointed in a number of ways including:

5.38.1 a chair may be appointed by the employer and member representatives of the Board from amongst their own number or on a rotating basis with the term of office shared between an employer and a member representative on an equal basis.

5.38.2 an independent chair may be appointed by the Administering Authority. Such a chair would count in the number of other representatives on the Board. An independent chair would have no pre-existing employment, financial or other material interest in either the Administering Authority or any scheme employer in a fund or funds administered by the Administering Authority or would not be a scheme member of the LGPS in a fund administered by the Administering Authority. The appointment of an independent chair should be subject to the passing of a motion to confirm this by a majority of the employer and member representatives of the Board.

- 5.39 In their role the Chair of the Board:

5.39.1 shall ensure the Board delivers its purpose as set out in the Board's terms of reference,

5.39.2 shall ensure that meetings are productive and effective and that opportunity is provided for the views of all Board members to be expressed and considered, and

5.39.3 shall seek to reach consensus and ensure that decisions are properly put to a vote when that cannot be reached ensuring that instances of a failure to reach a consensus position will be recorded and published.

- 5.40 Where an Administering Authority appoints an independent chair consideration should be given to a clause within their contract for the role where they must agree to treat any confidential information as such and not to use for any potential financial or material gains.

Other Constitutional Documents

- 5.41 In addition to the terms of reference a Board is likely to have other key documents which would be included in its wider constitution. These may include:

- 5.41.1 A code of conduct (see paragraphs 7.9 to 7.11);
- 5.41.2 A conflicts policy (see paragraphs 7.40 to 7.41);
- 5.41.3 A knowledge and understanding policy document (see paragraph 6.8) including a list of the core documents recording policy about the administration of the Fund; and
- 5.41.4 Policies dealing with data protection, information security, acceptable use (and monitoring) and subject access request (see paragraph 8.21).

Failure to Establish a Local Pension Board

- 5.42 If an Administering Authority fails to establish its Local Pension Board by 1 April 2015, or having done so the Board fails to exercise its role, the question then arises as to what steps might be taken and by whom to challenge the action or lack of action of the Administering Authority. There are a number of potential possibilities:

- 5.42.1 Intervention by the Regulator.
- 5.42.2 Intervention by legal action - In principle an action by way of judicial review could be launched to ensure compliance where there has been failure to comply with a statutory obligation. It will be necessary to consider who might have interest or standing to bring such an action. Potentially this could be a body or person who has been denied representation by the failure to establish the Local Pension Board.
- 5.42.3 Complaint to the Local Government Ombudsman or Pensions Ombudsman. A failure by the Administering Authority to establish a

Local Pension Board is likely to constitute maladministration on the part of the Administering Authority.

5.42.4 Adverse comment by the Administering Authority's external auditor in the context of the Annual Audit letter.

5.42.5 Adverse comment by the Scheme Advisory Board.

5.43 The Secretary of State has overarching responsibility for the Scheme as the Responsible Body - with a clear interest in the successful implementation of local pension boards.

Action Points:

- Administering Authority to have approved the establishment (including Terms of Reference) of the Local Pension Board by 1 April 2015.
- The Local Pension Board must be operational (i.e. had its first meeting no later than 4 months after the 1 April 2015).

6. Board Knowledge and Understanding

Legal requirements

6.1 In accordance with section 248A of the 2004 Act, every individual who is a member of a Local Pension Board must:

6.1.1 be conversant with:

6.1.1.1 the rules of the LGPS, in other words the Regulations and other regulations governing the LGPS (including the Transitional Regulations, earlier regulations and the Investment Regulations); and

6.1.1.2 any document recording policy about the administration of the Fund which is for the time being adopted in relation to the Fund, and

6.1.2 have knowledge and understanding of:

6.1.2.1 the law relating to pensions; and

6.1.2.2 such other matters as may be prescribed.

6.2 A Local Pension Board member should be aware that their legal responsibilities begin from the date they take up their role on the Board and so should immediately start to familiarise themselves with the documents as referred to in paragraph 6.1.1 and the law relating to pensions.

6.3 In accordance with section 248A, the knowledge and understanding requirement applies to every individual member of a Local Pension Board rather than to the members of a Local Pension Board as a collective group.

General Principles

6.4 Administering Authorities should also take account of this Guidance to support them in understanding the requirement and to enable them to help members of the Local Pension Board to meet their knowledge and understanding obligations.

6.5 Administering Authorities should make appropriate training available to Local Pension Board members to assist them in undertaking their role and where possible support all members of the Board in undertaking that training. Where Local Pension Board members do not demonstrate their

capacity to attend and complete training then the Administering Authority may need to consider whether that Local Pension Board member has the capacity to undertake their role on the Board. See paragraph 5.31.7 for further information.

- 6.6 Knowledge and understanding must be considered in light of the role of a Local Pension Board to assist the Administering Authority in line with the requirements set out at paragraph 3.27.
- 6.7 However, members of a Local Pension Board clearly need to understand the duties and obligations of the Administering Authority, including funding and investment matters, in order to be able to assist it.
- 6.8 Once created, a Local Pension Board should establish and maintain a policy and framework to address the knowledge and understanding requirements that apply to its members. Where the Pensions Committee has an existing knowledge and understanding policy already in place, it may be sensible to see if this could be incorporated to cover both the Pensions Committee and the Local Pension Board to avoid unnecessary duplication. However the knowledge and understanding requirements of a Local Pension Board and a Pension Committee may differ, especially given the former's statutory requirements.
- 6.9 The Local Pension Board may wish to designate a person to take responsibility for ensuring that the knowledge and understanding framework is developed and implemented. This could be a member of the Local Pension Board or an external person, for example an officer of the Administering Authority or a professional adviser.

Knowledge and Understanding for Pension Committee Members

- 6.10 The legal requirement for knowledge and understanding for members of a Local Pension Board does not apply to members of a Pension Committee. However, the requirement serves as a useful benchmark for the knowledge and understanding that a member of a decision-making Pension Committee should have.

The Regulator's Code of Practice

- 6.11 The issue of knowledge and understanding is dealt with in the Regulator's Code of Practice (see paragraphs 34 to 60 of the Code of Practice). This Guidance is intended to reflect the principles of the Code of Practice and apply them in a LGPS context.

Degree of Knowledge and Understanding

- 6.12 Being conversant with the rules of the LGPS and any document recording policy about the administration of the Fund means having a working knowledge (i.e. a sufficient level of familiarity) of them so that members of a Local Pension Board can use them effectively when carrying out their role of assisting the Administering Authority.
- 6.13 In particular members of a Local Pension Board should understand the rules and documents in enough detail to know where they are relevant to an issue and where a particular provision or policy may apply.
- 6.14 In order to assist the Administering Authority, it is implicit that members of a Local Pension Board understand the duties and obligations that apply to the Administering Authority as well as to themselves.
- 6.15 The rules of the LGPS would include:
- 6.15.1 the Regulations;
 - 6.15.2 the Investment Regulations; and
 - 6.15.3 the Transitional Regulations (including any earlier Regulations as defined in the Transitional Regulations to the extent they remain applicable),
- and any statutory guidance referred to in these regulations.
- 6.16 A Local Pension Board should prepare and keep updated a list of the core documents recording policy about the administration of the Fund and make sure that the list and documents (as well as the rules of the LGPS) are accessible to its members.
- 6.17 Part 1 of Schedule B of this Guidance contains a list of documents which are likely to be regarded as recording policy about the administration of a Fund. This list should not be relied upon as being definitive and actual lists are likely to vary from Fund to Fund. This Schedule has been added to this guidance to assist Administering Authorities and Local Pension Boards to quickly identify documents which record policy about the administration of a Fund.
- 6.18 Members of a Local Pension Board should also be aware of the range and extent of overriding law which applies to the LGPS and have sufficient

knowledge and understanding of the content and effect of that law to recognise when and how it impacts on their role, responsibilities and duties.

- 6.19 Part 2 of Schedule B of this Guidance contains a summary of some of the key areas of law relating to pensions generally and the LGPS in particular. This summary should not be relied upon as being a definitive list of all the areas of law that members of a Local Pension Board need to know about and understand. This Schedule been added to this guidance to assist Administering Authorities and Local Pension Boards to quickly identify key areas of law that may be relevant.
- 6.20 Given the role of the Local Pension Board to assist the Administering Authority, members of a Local Pension Board should have sufficient knowledge and understanding to challenge any failure by the Administering Authority to comply with the Regulations and other legislation relating to the governance and administration of the LGPS (which should be interpreted as including the Regulations and other legislation relating to investment and funding matters) and/or any failure to meet the standards and expectations set out the Code of Practice.
- 6.21 Members of a Local Pension Board should have a breadth of knowledge and understanding that is sufficient to allow them to understand fully any professional advice the Local Pension Board is given. Members should be able to challenge any information or advice they are given and understand how that information or advice impacts on any decision relating to the Local Pension Board's duty to assist the Administering Authority.

Acquiring, Reviewing and Updating Knowledge and Understanding

- 6.22 A Local Pension Board's knowledge and understanding policy and framework should provide for the acquisition and retention of knowledge and understanding for its members.
- 6.23 Members of the Local Pension Board should commit sufficient time in their learning and development alongside their other duties. Training is an important part of the individual's role and will help to ensure that they have the necessary knowledge and understanding to effectively meet their legal obligations to assist the Administering Authority.
- 6.24 Members of the Local Pension Board must be aware that their knowledge and understanding responsibilities technically begin from the date they take up their post. Therefore, members should immediately start to familiarise

themselves with the Regulations, key Fund documents and relevant pensions law.

- 6.25 The Administering Authority should offer high quality induction training and should provide relevant ongoing training for Board members. This could be included in the normal training programme for members of the Pensions Committee as well as a specific training programme for the Local Pension Board.
- 6.26 It may also be useful for the Local Pension Board to have shared training events with the Pensions Committee and/ or Pension Committees and Local Pension Boards from other Funds to share knowledge and experience.
- 6.27 There must be a practical recognition that it will take a newly appointed member a reasonable period to attain the required full level of knowledge and understanding (see paragraph 6.1). Consideration should also be given to permitting newly appointed Local Pension Board members to overlap with the outgoing member to allow them to shadow that Board member for at least one Board meeting (where possible) as well as providing them with high quality induction training.
- 6.28 A Local Pension Board's knowledge and understanding policy and framework should require its members to undertake a personal training needs analysis and regularly review their skills, competencies and knowledge to identify gaps or weaknesses.
- 6.29 Part 2 of Schedule B contains examples of areas of knowledge and understanding that a member of a Local Pension Board might be expected to have. These examples may assist a Board member in undertaking a personal training needs analysis.
- 6.30 A personalised training plan should then be used to document and address these promptly. This would be supported by any person the Local Pension Board has designated to implement the knowledge and understanding policy and framework.
- 6.31 Learning programmes should be flexible, allowing members of the Local Pension Board to update particular areas of learning where required and acquire new areas of knowledge in the event of any change. For example, members of the Local Pension Board who take on new responsibilities in

their role will need to have knowledge and understanding which is relevant to carry out those new responsibilities.

- 6.32 Learning programmes should deliver the appropriate level of detail to ensure that Local Pension Board members have the required level of knowledge and understanding specific to the LGPS.
- 6.33 The Regulator will be providing an e-learning programme which has been developed to meet the needs of all members of public sector scheme pension boards, whether or not they have access to other learning. It is not anticipated that this e-learning module alone would provide the sufficient level of LGPS specific training required for Local Pension Board members.
- 6.34 Members of a Local Pension Board and the Administering Authority should investigate what other third party learning tools and courses are available both for initial training requirements and any ongoing training needs identified for members of the Local Pension Board. Administering Authorities and Local Pension Boards should contact relevant advisors to identify any training resources being made available. For example the LGPC Secretariat will be providing training events for Local Pension Board members with details available from their website.
- 6.35 Once a Local Pension Board is in operation and new appointments are made in the future, mentoring by existing members could also be considered. This could also help to ensure that historical and scheme specific knowledge is retained when members of a Local Pension Board change.

Demonstrating Knowledge and Understanding

- 6.36 The Local Pension Board should keep appropriate records of the learning activities of individual members and the Local Pension Board as a whole. This will assist members in demonstrating their compliance, if necessary, with the legal requirement and how they have mitigated risks associated with knowledge gaps. For example a good external learning programme will maintain records of the learning activities of individuals on the programme or of group activities, if these have taken place, which can be provided to the Local Pension Board.

Action Points:

- Once established a Local Pension Board should adopt a knowledge and understanding policy and framework (possibly in conjunction with the Pensions Committee if appropriate).
- A Local Pension Board should designate a person to take responsibility for ensuring that the knowledge and understanding policy and framework is developed and implemented.
- The Administering Authority should offer access to high quality induction training and provide relevant ongoing training to the appointed members of the Local Pension Board.
- A Local Pension Board should prepare (and keep updated) a list of the core documents recording policy about the administration of the Fund and make the list and documents (as well as the rules of the LGPS) accessible to its members.
- Members of a Local Pension Board should undertake a personal training needs analysis and put in place a personalised training plan.

7. Conduct of Members and Conflicts of Interest

Introduction

- 7.1 There are various legal requirements which need to be considered to make sure that sound governance principles are followed, and in particular that conflicts of interest are properly managed. These include:
- 7.1.1 Section 5(5) of the 2013 Act, which defines “conflict of interest” for the purpose of a Local Pension Board;
 - 7.1.2 Regulation 108 of the Regulations, which places duties on the Administering Authority to satisfy itself that Local Pension Board members do not have conflicts of interest on appointment or whilst they are members of the Board;
 - 7.1.3 The 2011 Act, which requires councillors to comply with the code of conduct of their local authority and to disclose interests;
 - 7.1.4 The ‘Seven Principles of Public Life’, also known as the ‘Nolan Principles’, with which any holder of public office is also expected to comply; and
 - 7.1.5 The expectations contained in the Code of Practice.
- 7.2 This section of the Guidance takes account of the above requirements and gives guidance on how the different duties can be reconciled in a practical way.
- 7.3 The importance of following these requirements needs to be clearly appreciated at the outset. Failure to follow applicable codes of conduct or declare a conflict of interest can impact on good governance in various ways. For example, such failure may result in a Local Pension Board actually acting improperly, may lead to a perception that the Local Pension Board has acted improperly, or may result in a challenge to the work carried out by the Board.

Codes of Conduct and Disclosure of Interests for Councillors

- 7.4 The elected and co-opted members of a local authority (referred to as “councillors” for the purposes of this section of the Guidance) are governed by their local authority’s code of conduct for councillors. This code is required of every local authority by the 2011 Act and sets out the standards of behaviour expected of individuals in their capacity as councillors.

- 7.5 In addition, there is a legal obligation for councillors to disclose, in a register maintained by the authority's monitoring officer, certain pecuniary interests, as defined in regulations made under the 2011 Act.
- 7.6 Both of these requirements will apply to any members of a Local Pension Board who are also councillors of a local authority (whether that is the Administering Authority or another local authority). They will not apply to members of a Local Pension Board who are not councillors unless they are specifically adopted in terms of reference or other policy document to apply to the other members of the Local Pension Board.

Seven Principles of Public Life

- 7.7 The members of a Local Pension Board should have regard to the 'Seven Principles of Public Life' (known as the Nolan Principles), which are:
- 7.7.1 **Selflessness** - Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.
 - 7.7.2 **Integrity** - Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.
 - 7.7.3 **Objectivity** - In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.
 - 7.7.4 **Accountability** - Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
 - 7.7.5 **Openness** - Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands it.
 - 7.7.6 **Honesty** - Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to

resolve any conflicts arising in a way that protects the public interest.

7.7.7 Leadership - Holders of public office should promote and support these principles by leadership and example.

7.8 As members of a publicly-funded body involved in the discharge of public business, all members of a Local Pension Board should comply with these principles in the exercise of their functions. They require the highest standards of conduct.

Code of Conduct for Local Pension Boards

7.9 When establishing its Local Pension Board, the Administering Authority should prepare and approve a code of conduct for the Board to adopt. The code of conduct should set out the standards of behaviour expected of members, incorporating the Seven Principles. An Administering Authority may wish to effectively adopt some or all of an existing Code of Conduct for the Local Pension Board. Once adopted, the Local Pension Board should keep this code of conduct under regular review.

7.10 The code of conduct should also make reference to the need for members of the Local Pension Board who are councillors to comply with any separate code of conduct and disclosure requirements which apply to them in their capacity as councillors (in other words, the Local Pension Board's code should make it clear that it is not an exhaustive statement of the standards of behaviour required of Board members).

7.11 It is important that individual members of the Local Pension Board are familiar with and understand the importance of following the principles in the Board's code of conduct, and the Board should arrange appropriate training for members on this issue.

Conflicts of Interest – General Comments

7.12 As an introductory point, although there is a requirement for Local Pension Board members not to have a conflict of interest, it is important to note that the issue of conflicts of interest must be considered in light of the Local Pension Board's role, which is to assist the Administering Authority. The Local Pension Board does not make decisions in relation to the administration and management of the Fund: these rest with the Administering Authority. As a result, it is not anticipated that significant conflicts will arise in the same way as would be the case if the Board were

making decisions on a regular basis (compared, for example, to a Pensions Committee). Nevertheless, steps need to be taken to identify, monitor and manage conflicts effectively.

The Regulator's Code of Practice on Conflicts of Interest

- 7.13 The Regulator has a particular role in relation to members of a Local Pension Board and conflicts of interest. Whilst members of a Local Pension Board may be subject to other legal requirements, when exercising functions as a member of a Local Pension Board, the Regulator expects the requirements which specifically apply by virtue of the 2013 Act to be met and the standards of conduct and practice set out in its Code of Practice to be complied with.
- 7.14 The Code of Practice offers guidance about managing potential conflicts and the identification, monitoring and management of actual conflicts. This Guidance is intended to reflect the principles of the Code of Practice and apply them in a LGPS context.

What is a Conflict of Interest?

- 7.15 For the purposes of a member of a Local Pension Board, a 'conflict of interest' is defined in section 5(5) of the 2013 Act as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of a Local Pension Board.
- 7.16 The 2013 Act also specifies that a conflict does not include a financial or other interest arising merely by virtue of that person being a member of the LGPS and/or Fund (or any connected scheme).
- 7.17 Therefore, a conflict of interest may arise when a member of a Local Pension Board:

7.17.1 must fulfil their legal duty to assist the Administering Authority;
and

7.17.2 at the same time they have:

7.17.2.1 a separate personal interest (financial or otherwise); or

7.17.2.2 another responsibility in relation to that matter,

giving rise to a possible conflict with their first responsibility as a Local Pension Board member.

Examples of Conflicts of Interest

7.18 Some examples of potential conflicts in this context would include:

7.18.1 A finance officer appointed as a member of a Local Pension Board may, from time to time, be required to review a decision which may be, or appear to be, in opposition to another interest or responsibility. For example, they may be required as a member of the Local Pension Board to review a decision which involves the use of departmental resources to improve scheme administration, whilst at the same time being tasked, by virtue of their employment, with reducing departmental spending.

7.18.2 A member representative who works in the Administering Authority's internal audit department may be required as part of his work to audit the Fund. For example, the employee may become aware of confidential breaches of law by the Fund which have not yet been brought to the attention of the Local Pension Board.

7.18.3 An employer representative from the private sector may also have a conflict of interest as a decision-maker in their own workplace. For example, if an employer representative is drawn from a company to which the Administering Authority has outsourced its pension administration services and the Board are reviewing the standards of service provided by it.

Identifying, Monitoring and Managing Conflicts – The Role of the Administering Authority

7.19 The Regulations place a duty on the Administering Authority to satisfy itself that those appointed to its Local Pension Board do not have an actual conflict of interest prior to appointment and "from time to time" thereafter.

7.20 There is a corresponding duty on any person who is proposed to be appointed to a Local Pension Board, and on an appointed member of a Local Pension Board, to provide the Administering Authority with such information as the Administering Authority reasonably requires to satisfy itself that such person has no conflicts of interest.

7.21 To comply with its duty in relation to conflicts, the Administering Authority needs to put procedures in place in respect of the appointment of members and establish policies to be included in the Board's constitution to ensure

that interests are declared, potential conflicts are identified and members of the Board are trained and receive advice on conflicts. In doing so, the Administering Authority may wish to delegate its duty in relation to conflicts to a particular officer or officers, for example, the monitoring officer.

- 7.22 Looking first at the process of appointments, the Administering Authority should ensure that members of a Local Pension Board are appointed under procedures that require them to disclose any interests or responsibilities, which could become conflicts of interest and which may adversely affect their suitability for the role, before they are appointed. The appointment process should facilitate scrutiny of potential areas of difficulty by eliciting relevant information. The fact an individual could potentially have a conflict of interest at some point in the future should not preclude an individual being appointed provided he or she does not have an actual conflict of interest when appointed.
- 7.23 All terms of engagement (for example, appointment letters and any contracts for services) should include a clause requiring disclosure of all interests and responsibilities which have the potential to become conflicts of interest, as soon as they arise. All interests and responsibilities disclosed should be recorded.
- 7.24 As regards the Administering Authority's ongoing obligation to ensure that members of the Local Pension Board do not have a conflict of interest, the Administering Authority will need to keep appointments under review and also monitor whether appointed members have potential conflicts of interest and are declaring them appropriately. This could be achieved by requesting reports from the Local Pension Board, perhaps annually.

Identifying, Monitoring and Managing Conflicts – The Role of the Local Pension Board

- 7.25 Local Pension Boards should cultivate a culture of openness and transparency. The need for continual consideration of conflicts should be recognised. Disclosure of interests and responsibilities, which have the potential to become conflicts of interest, should not be ignored.
- 7.26 The Local Pension Board should ensure that its members have a clear understanding of their role and the circumstances in which they may find themselves in a position of conflict of interest, and should know how potential conflicts should be managed. Many Local Pension Board members are likely to be familiar with the concept of a conflict of interests

and it should not be difficult to adapt established procedures to meet the obligations in the 2013 Act and the Regulations.

- 7.27 Local Pension Boards should identify, monitor and manage dual interests and responsibilities which are or have the potential to become conflicts of interest.
- 7.28 Local Pension Boards should evaluate the nature of any dual interests and responsibilities and assess the impact on their operations and good governance were a conflict of interest to materialise.
- 7.29 When seeking to prevent a potential conflict of interest becoming detrimental to the conduct or decisions of a Local Pension Board, the Board should consider obtaining professional legal advice when assessing any option.
- 7.30 A register of interests should provide a simple and effective means of recording and monitoring dual interests and responsibilities.
- 7.31 Local Pension Boards should also capture decisions about how any identified potential conflicts of interest should be managed – ideally, in their register of interests.
- 7.32 Options for managing a potential conflict of interest from becoming an actual conflict of interest, include:
 - 7.32.1 a member withdrawing from the discussion and any decision-making process;
 - 7.32.2 the Board establishing a sub-board to review the issue (where the terms of reference give the power to do so); or
 - 7.32.3 a member resigning from the Board if the conflict is so fundamental that it cannot be managed in any other way.
- 7.33 The Local Pension Board's register of interests should be circulated to the Local Pension Board for ongoing review it should be made available to the Administering Authority and it should be published (for example, on the Fund's website). The Local Pension Board should report any concerns to the Administering Authority and include in an annual report a section on good governance and management of conflicts.
- 7.34 Conflicts of interest should be included as an opening agenda item at Local Pension Board meetings, and revisited during the meeting where

necessary. This provides an opportunity for those present, including non-Board members, to declare any dual interests and responsibilities, which have the potential to become conflicts of interest, and to minute discussions about how they will be managed so as to prevent an actual conflict arising.

- 7.35 Local Pension Boards should take time to consider what key decisions are likely to be made during, for example, the year ahead and identify and consider any conflicts of interest that may arise in respect of these future decisions.

Considering Conflicts of Interest – Responsibilities of Board Members

- 7.36 It is important that individual members of the Local Pension Board know how to identify when they have a potential conflict of interest which needs to be declared and which may also restrict their ability to participate in meetings or decision-making. They also need to appreciate that they have a legal duty under the Regulations to provide information to the Administering Authority in respect of conflicts of interest.
- 7.37 Individual Local Pension Board members should seek professional advice from a nominated officer (for example, the monitoring officer or the chief finance officer) or external advisers where necessary and the importance of doing so should be emphasised in the Local Pension Board's conflicts policy.

Managing Adviser and Officer Conflicts

- 7.38 A Local Pension Board may need to seek specialist advice or support, for example legal advice. The Board may use an officer of the Administering Authority or a third party adviser. However, in both cases the Board should be confident that such advice is independent and any potential or actual conflicts are disclosed by the officer or adviser on a timely basis to the Board. For example, an adviser may have a conflict of interest if he or she (or the same firm) is also advising the Administering Authority.
- 7.39 The risk to the Local Pension Board is that the adviser does not provide, or is not seen to provide, independent advice. Where there is likely to be a conflict of interest in giving advice, the Board should consider carefully whether it is appropriate to appoint the adviser in the first place. It may also be necessary to consider carefully whether they should take steps to remove an adviser who has already been appointed.

- 7.40 When establishing its Local Pension Board, the Administering Authority should prepare and approve a conflicts policy for the Board to adopt. The conflicts policy should cover the points discussed in the preceding paragraphs relating to the identification, monitoring and management of potential conflicts of interest (including adviser conflicts). Once adopted, the Local Pension Board should keep this policy under regular review.
- 7.41 The conflicts policy should include as a minimum:
- 7.41.1 examples of scenarios giving rise to conflicts of interest (which may include those set out at paragraph 7.18 above);
 - 7.41.2 how a conflict might arise specifically in relation to a member of a Local Pension Board; and
 - 7.41.3 the process to be followed by members of a Local Pension Board and the Administering Authority to address a situation where members are subject to a potential or actual conflict of interest.

Action Points:

- An Administering Authority should prepare a code of conduct and a conflicts policy for its Local Pension Board for approval in accordance with the Administering Authority's constitution and at the first meeting of the Local Pension Board. The Local Pension Board should keep these under regular review.
- Training should be arranged for officers and members of a Local Pension Board on conduct and conflicts.
- A Local Pension Board should establish and maintain a register of interests for its members.

8. Reporting

Internal Reporting

- 8.1 Each Administering Authority has the prime responsibility for establishing its Local Pension Board and it is therefore appropriate and consistent with good governance for the Local Pension Board to report to the Administering Authority.
- 8.2 The reporting requirements will be for each Administering Authority to determine and could include reporting and communicating with a range of individuals and decision making bodies. This could include communication with internal and external audit as well as reporting to the audit committee, scrutiny or a corporate resources committee, as well as full council or equivalent where appropriate. The agreed reporting requirements should be reflected in the Local Pension Board's terms of reference.
- 8.3 There should also be more frequent reporting (perhaps quarterly or after the Local Pension Board meets) to the Administering Authority/Pension Committee and the chief finance officer and/or monitoring officer for example, this could be achieved through sharing the minutes of Board meetings in a timely manner.
- 8.4 The Local Pension Board should take responsibility in conjunction with the Administering Authority for ensuring the necessary reports are prepared and delivered.
- 8.5 Whilst the process for internal reporting will need to be determined locally, the following examples may assist Administering Authorities and Local Pension Boards when formalising their reporting lines:
 - 8.5.1 The Local Pension Board should in the first instance report its requests, recommendations or concerns to the Administering Authority/Pension Committee based on the remit of the Board (see paragraph 3.27 and Schedule A).
 - 8.5.2 The Local Pension Board could report any concerns over a decision made by the Pension Committee to that Committee within a reasonable period of the decision coming to the Board's attention.

- 8.5.3 On receipt of a report from the Local Pension Board the Pension Committee should consider and respond to it within a reasonable period.
 - 8.5.4 The Local Pension Board could report any concerns over a decision made by the Pension Committee to that Committee and where it considers that a decision was in breach of the Regulations (or overriding legislation) they may seek to challenge that decision. Such requests for a motion to review or challenge a decision must be subject to the agreement of the majority of the voting Board members.
 - 8.5.5 The Pension Committee should within a reasonable period, consider and respond to a motion to review or in the case of a motion to challenge to revisit the original decision.
 - 8.5.6 Where the Local Pension Board is satisfied that there has been a breach of the Regulations which has been reported to the Pension Committee which has not been rectified within a reasonable period of time the Local Pension Board is under an obligation to escalate the breach using the appropriate route for reporting breaches within that Administering Authority.
 - 8.5.7 In addition where the Board fail to reach consensus on a decision this should be recorded as such and noted in the minutes of the meeting.
- 8.6 A report to full council (or equivalent) or another committee/officer the Administering Authority has delegated to receive it, could include:
- 8.6.1 a summary of the work of the Local Pension Board;
 - 8.6.2 details of areas reported to the Board to be investigated by the Local Pension Board and how they have been dealt with;
 - 8.6.3 details of any conflicts of interest that have arisen in respect of individual Local Pension Board members and how these have been managed;
 - 8.6.4 whether there are any risks or other areas of potential concern which the Board wishes to raise with the Administering Authority (although legal advice to the Local Pension Board should not be shared with a full council meeting and nor should a summary of

it, since once legal advice goes beyond the intended 'client' and / or confidentiality is lost, privilege will be waived and this would also have an impact on the availability of the FOIA exemption for legally privileged information);

8.6.5 details of training received and future training needs;

8.6.6 the work plan for the last year and a draft of the work plan for the following year; and

8.6.7 details of any expenses and other costs incurred by the Local Pension Board and anticipated expenses for the forthcoming financial year. These costs will be met as part of the administration costs of the Fund.

8.7 The above topics should also form the basis of ongoing regular reports to the Administering Authority/Pension Committee who should be asked to comment on the draft work plan, for views on how complaints and risks reported to the Board have been managed and confirm that the Local Pension Board is acting within its terms of reference and in accordance with good governance principles.

8.8 Information being reported from the Local Pension Board should also be communicated to members and employers of the scheme to encourage engagement and promote a culture of transparency.

Escalation by the Local Pension Board of more serious concerns

8.9 The terms of reference for the Local Pension Board should include procedures for the Local Pension Board to report concerns which are sufficiently serious to be reported directly at a higher level, or where a concern has been raised with the Pension Committee and the Local Pension Board consider the Pension Committee have not taken appropriate action to rectify the issue (or appropriate action within a reasonable time period). Such concerns may include a fundamental breach of the Regulations or a fundamental failure by the Administering Authority to ensure the effective governance of the Fund.

8.10 The terms of reference would need to identify to whom such concerns are reported to. This could be to named officer(s), a sub-committee or Council (or equivalent), or combination of these to avoid issues having to be reported immediately to full Council.

- 8.11 Escalation via the Scheme Advisory Board or the Responsible Authority where internal channels are not appropriate or considered to have failed may also be an option used by the Local Pension Board. In addition it may be appropriate to report serious concerns to the Regulator.

Internal Reporting - Conflicts of interest

- 8.12 All members of the Local Pension Board must provide the Administering Authority with such information it reasonably requires for the purposes of satisfying itself that none of the members of the Local Pension Board has a conflict of interest. This is considered in more detail in section 7 of this guidance.

Internal Reporting - Record-keeping

- 8.13 Where the Local Pension Board is established as a local authority committee with the Secretary of States consent, in accordance with regulation 106(2) of the Regulations, the usual provisions about transparency in respect of access to information and reports will apply. In that case, the terms of reference for the Local Pension Board should include provisions dealing with the provision of agendas and reports in advance of Local Pension Board meetings and making those publically available (with the exception of confidential or personal information).
- 8.14 As a Local Pension Board is considered a committee of local government it should consider publishing information as would be required by committees of local government. The Regulator's Code of Practice advises that the Local Pension Board should consider publishing reports, agendas, papers and minutes, see paragraph 97 of that Code for further information. Any confidential or personal information should not be published.
- 8.15 Minutes of meetings should also be available and published in accordance with procedures for other meetings, for example on the website of the Administering Authority.
- 8.16 All papers and records should be prepared to minimise personal data, to separate all general confidential information and should be drafted wherever possible as if they may be made public (whether directly or, if received by the Administering Authority, through them).

Data Protection

- 8.17 For legal purposes a Local Pension Board is considered a committee of and part of the Administering Authority legal entity (but a Local Pension Board is not a committee created under section 101 of the 1972 Act). The Administering Authority is and remains the data controller responsible for DPA compliance, including for processing carried out by the Local Pension Board, where processing is carried out as a data controller, or where personal data use by the Local Pension Board is not carried out for and on behalf of any other separate legal entity.
- 8.18 Since the Local Pension Board is not a separate legal entity processing personal data, it cannot be a data controller itself under the DPA (even to the extent that the Local Pension Board independently uses personal data of its Board members, processes information about its relationships with other individuals and scrutinises records containing personal data of Fund members from the Administering Authority).
- 8.19 The Administering Authority must already comply with DPA data protection principles and must (amongst other requirements):
- 8.19.1 **Notification** – notify the DPA regulator, the Information Commissioner’s Office (“ICO”), of all of the purposes for which they may be using personal data (including Local Pension Board purposes) and renew this annually (unless exempt).
 - 8.19.2 **Fair and lawful processing** – provide privacy notices to individuals whose personal data is processed (including by the Local Pension Board) in most but not all cases.
 - 8.19.3 **Disclosures** – if using data processors (service providers using personal data on behalf of the Local Pension Board), have an appropriate written contract in place containing legally required and ICO recommended provisions to protect personal data.
 - 8.19.4 **Transfers** – not directly or indirectly ‘export’ personal data to a country outside the European Economic Area and European Commission’s ‘white list’ countries unless “adequate safeguards” have been put in place (such as entering into a data transfer agreement on the basis of the EU Commission’s model clauses).
- 8.20 To better comply with the ICO’s expectations and evidence compliance with data protection principles, it is recommended that (to the extent not yet done)

the Administering Authority implement additional measures (also covering their Local Pension Board and their staff and operations), including:

- 8.20.1 adopting policies such as a data protection policy, information security policy, acceptable use (and monitoring) policy and subject access request policy; and
 - 8.20.2 training on key DPA issues, requirements and policy compliance. This should form part of the knowledge and understanding requirements (see paragraph 6.1 for further information).
- 8.21 Given that the Local Pension Board is not considered a separate legal entity, the Administering Authority remains the responsible data controller. Accordingly:
- 8.21.1 the Administering Authority's notification registered with the Information Commissioner should be reviewed and, if necessary amended to cover proposed personal data processing by the Local Pension Board (failure to have a current up to date notification being a criminal offence);
 - 8.21.2 the Local Pension Board and Administering Authority should liaise to understand the Authority's requirements and controls and policies for data protection compliance so that the Local Pension Board is aware of them and can comply with them (avoiding duplication and inconsistency of approach) and where necessary so that appropriate changes can be made to such requirements, controls and policies before adoption and implementation by the Local Pension Board;
 - 8.21.3 the Local Pension Board and Administering Authority should be able to discuss and agree appropriate procedures for dealing with material data protection compliance issues, such as a potential security breach.

Freedom of Information

- 8.22 To be bound by the FOIA a body must be a FOIA public authority. Administering Authorities are already FOIA public authorities.
- 8.23 Local Pension Boards are not legal entities in their own right and so cannot be FOIA public authorities in their own right (and do not meet any of the FOIA public authority criteria as a Local Pension Board at present). However, Local

Pension Boards will be part of that same legal entity as the Administering Authority, and so the Local Pension Board will already be part of that FOIA public authority. Accordingly, information records created or obtained by the Local Pension Board will be accessible from it, or any part of its Administering Authority under FOIA. The Local Pension Board must liaise with the Administering Authority to:

- 8.23.1 understand the Authority's requirements and controls and policies for FOIA compliance so that the Local Pension Board is aware of them and can comply with them (avoiding duplication and inconsistency of approach) and, where necessary so that appropriate changes can be made to such requirements, controls and policies before adoption and implementation by the Local Pension Board;
- 8.23.2 agree what details are made available through the Administering Authority's publication scheme and so that it can be updated as necessary;
- 8.23.3 agree what procedure applies in relation to FOIA information requests received by the Local Pension Board and / or received by the Administering Authority about the Local Pension Board to ensure proper and consistent consultation, action and response within applicable time limits.

External Reporting - Breaches of Law

- 8.24 In accordance with section 70 of the 2004 Act, certain individuals must report to the Regulator as soon as reasonably practicable where that individual has reasonable cause to believe that:
 - 8.24.1 a duty which is relevant to the administration of the LGPS, and is imposed by or by virtue of an enactment or rule of law, has not been or is not being complied with; and
 - 8.24.2 the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions.
- 8.25 This obligation directly applies to each individual who is a member of the Local Pension Board. In addition, it also extends to the Administering Authority, participating employers in the LGPS, any person who is otherwise involved in the administration of the LGPS, any person who is otherwise

involved in advising the Administering Authority and, in some circumstances, professional advisors of the Administering Authority.

Implementing adequate arrangements

- 8.26 The Local Pension Board should have effective arrangements in place to meet its duty to report breaches of law. Please refer to paragraphs 245 to 246 of the Code of Practice as to the procedures that should be established and operated to ensure that members of the Local Pension Board are able to meet their legal obligations.

Judging whether a breach must be reported

- 8.27 The decision whether to report requires two key judgments:
- 8.27.1 Is there reasonable cause to believe there has been a breach of law?
 - 8.27.2 If so, is the breach likely to be of material significance to the Regulator?
- 8.28 Paragraphs 248 to 262 of the Code of Practice provides guidance as to what is meant by 'reasonable cause' and how to judge whether a breach is likely to be of 'material significance' to the Regulator.

Submitting a report to the Regulator

- 8.29 Reports must be submitted in writing. Paragraphs 263 to 271 of the Code of Practice specifies how and the format in which a report should be submitted.
- 8.30 The requirement to report applies to all those subject to the reporting duty who become aware of a breach that is likely to be of material significance to the Regulator; it is not automatically discharged by another party reporting the breach. However, in practice, where the Local Pension Board considers there has been a breach it may be appropriate to inform and review this with the Administering Authority and (where appropriate) the Fund advisor(s) so that a collective report can be submitted. Details on how such a report should be submitted can be found in the Regulator's Code of Practice (paragraphs 263 to 271). An exception to this arrangement will apply in cases where there is a suspicion or dishonesty or other serious wrongdoing by the Administering Authority and/or the Fund advisor(s).

Non-compliance

- 8.31 Failure to comply with the obligation imposed to report breaches of law without 'reasonable excuse' is a civil offence under section 10 of the Pensions Act 1995. An individual member of a Local Pension Board could be fined up to £5,000.

External Reporting - Annual Report

- 8.32 It would be good practice for the Local Pension Board to consider publishing an annual report of the Local Pension Board's activities for that year.
- 8.33 The Local Pension Board should consider with the Administering Authority whether it would be appropriate to detail these activities as part of the Fund's annual report.

External Reporting - Governance Compliance Statement

- 8.34 Section 6 of the 2013 Act requires a scheme manager to publish information about its pension board.
- 8.35 In terms of the LGPS, this requirement is dealt with under regulation 55 of the Regulations which requires the Administering Authority to include within its governance compliance statement details of the terms, structure and operational procedures relating to its Local Pension Board. This Governance Compliance Statement must be published by the Administering Authority.
- 8.36 Current governance compliance statements will need to be revised to include this new information. The Administering Authority will firstly need to consult with such persons as it thinks necessary about the revised statement and then publish it once it has been revised.

External Reporting - The Regulator

- 8.37 If the Regulator has reasonable grounds to suspect or believe that a member of a Local Pension Board:
- 8.37.1 has misappropriated any assets of the Fund or is likely to do so;
or
 - 8.37.2 has a conflict of interest in relation to the investment of assets of the Fund,

the Regulator must report the matter to the Administering Authority. However, given that a Board member should not have access to Fund assets or be involved in the investment of Fund assets then the exercise of this duty should be rare in practice.

Action Points:

- An Administering Authority should agree the ongoing reporting arrangements between the Local Pension Board and the Administering Authority.
- A Local Pension Board should understand the Administering Authority's requirements, controls and policies for FOIA compliance so that the Local Pension Board is aware of them and can comply with them.
- A Local Pension Board should put in place arrangements to meet the duty of its members to report breaches of law.
- A Local Pension Board should consider (with its Administering Authority) the need to publish an annual report of its activities.
- An Administering Authority should consult on, revise and publish its governance compliance statement to include details of the terms, structure and operational procedures relating to its Local Pension Board.

9. Resourcing and Funding

Resourcing of Local Pension Boards

- 9.1 It is appropriate that a Local Pension Board is given adequate resources to fulfil its task, in the same way that statutory officers of the Administering Authority and scrutiny committees are entitled.
- 9.2 As a minimum, the Board will require:
- 9.2.1 allowances and expenses for Board members (where this has been agreed and confirmed in the Board's terms of reference);
 - 9.2.2 accommodation and administrative support to conduct its meetings and other business;
 - 9.2.3 training; and
 - 9.2.4 legal, technical and other professional advice (where required).
- 9.3 Regulation 106(8) provides that the Board has the power to do anything which is calculated to facilitate, or is conducive or incidental to, the discharge of any of its functions. In line with the provisions of this regulation when determining its budget, consideration will need to be given to whether the Board requires an allocation for using advisors. Advisors, if used may be called upon on an adhoc or ongoing basis to assist in areas of technical, legal or policy matters. Such advisors would not be members of the Local Pension Board.
- 9.4 Given the role of a Local Pension Board to assist the Administering Authority to secure compliance with legal and regulatory matters and to ensure the effective and efficient governance and administration of the LGPS, the need for the Local Pension Board to seek its own legal, technical and other professional advice cannot be discounted.

Funding of Local Pension Boards

- 9.5 Regulation 106(9) of the Regulations specifies that the expenses of a Local Pension Board shall be regarded as part of the costs of administration of the Fund.
- 9.6 These expenses will include (but are not limited to) the cost of secretarial support and any necessary advisory support, overheads attaching to the arranging of meetings and, if the Administering Authority makes provision,

payment of allowances and/or expenses to members of the Local Pension Board (see paragraph 5.34.17).

- 9.7 The Administering Authority will also need to give early consideration to how the arrangements for meeting the Local Pension Board's expenditure will be administered. The options include:
- 9.7.1 allocating a budget which is managed by the Local Pension Board; or
 - 9.7.2 requiring the Local Pension Board to seek approval from the Administering Authority for expenditure.
- 9.8 Given the statutory responsibilities of the Local Pension Board and its relationship with the Administering Authority, it will be a matter for early consideration by the Local Pension Board as to compiling its budget.
- 9.9 In considering the budget for a Local Pension Board that budget should also set out to whom the Local Pension Board will be financially accountable to. This would be expected to be the Administering Authority (rather than the Pensions Committee). In addition a timetable for approving the Local Pension Board's budget should be set out in the Board's terms of reference.
- 9.10 Consideration should be given by the Administering Authority to whether or not members of the Local Pension Board are paid allowances or reimbursed expenses. One option would be to set levels of allowance in a similar way to the elected members allowances scheme, perhaps with regard to allowances for co-opted members, and in accordance with established processes for declaring allowances which have been received in an open and transparent way. In deciding whether to award an allowance, and if so how much, the Administering Authority may wish to consider some or all of the following matters:
- whether the Board members are carrying out duties (including preparation and/or training) during personal time or whether it is during a period of authorised paid absence,
 - whether a Board member who has taken on the role of Chair is carrying out a range of additional responsibilities that merit additional payment,

- whether an annual or per meeting allowance is more appropriate, and how a per meeting allowance should be extended to attendance at training and
- whether employers whose staff sit on a Local Pension Board and spend work time on Local Pension Board matters wish to reclaim that cost from the Local Pension Board through allowances/expenses.

10. Other possible structures

Combining a Local Pension Board and a Pension Committee

- 10.1 Where an Administering Authority discharges its pensions functions through a committee, it can, with the approval of the Secretary of State, appoint the existing committee as the Local Pension Board.
- 10.2 Where an Administering Authority chooses to use an existing committee (subject to the approval of the Secretary of State) careful consideration will need to be given to the membership of the committee so that it complies with the requirement in regulation 107 of the Regulations, to designate an equal number of employer and member representatives and to include at least two employer and two member representatives. These individuals must have the capacity to represent members and employers, as appropriate. ~~Officers or members who have responsibilities for functions under the Regulations cannot be appointed.~~ It is likely that the employee representatives will be co-opted members.
- 10.3 As well as complying with the Regulations, a Local Pension Board which is established as a local authority Pensions Committee will be subject to general requirements in the 1972 Act and the 1989 Act. We have summarised in Schedule C the key legal requirements which need to be considered where an authority wishes to seek approval from the Secretary of State to use an existing committee. This is a complex area and any authority intending to follow this route will need to take legal advice from their monitoring officer to make sure the plans comply with the different legal duties and their own Constitution.
- 10.4 At first sight it might seem attractive to combine the functions of a Local Pension Board and a Pension Committee to enable the Board to be included in existing decision making processes, including delegation to officers and publication of agendas and minutes. However, in practice it may be difficult to meet the requirements of the 1972 Act, the 1989 Act, the 2013 Act and the Regulations when combining a Local Pension Board and a local authority Pension Committee.
- 10.5 Firstly, if the Local Pension Board is to be a Pension Committee this can only be where written approval has been obtained from the Secretary of State.

- 10.6 Secretary of State approval may be given subject to such conditions as the Secretary of State thinks fit and equally may be withdrawn if such conditions are not met. The Secretary of State may also withdraw approval if in his or her opinion it is no longer appropriate for the Local Pension Board to be the Pension Committee.
- 10.7 Where an Administering Authority has delegated pension functions to more than one committee and it does not wish to create a separate Local Pension Board, it will be necessary to determine which of its committees is most appropriate to undertake the function of the Board.
- 10.8 It will also be necessary to review the membership of the existing Pension Committee as regulation 107 of the Regulations says that the Pension Committee must designate at least two employer and two member representatives to act as Local Pension Board members.
- 10.9 If the Local Pension Board is to be a Pension Committee, it is difficult to see how the Local Pension Board can effectively and objectively fulfil its statutory function of assisting itself (as the Pensions Committee) to secure compliance with legal and regulatory matters and to ensure the effective and efficient governance and administration of the LGPS (which is the prime responsibility of the Pension Committee).

Joint Pension Boards

- 10.10 Where the administration and management of a scheme is wholly or mainly shared by two or more Administering Authorities, those Administering Authorities may establish a joint local pension board, with the approval of the Secretary of State.
- 10.11 In practice there are no current situations which meet the requirement of regulation 106(3).
- 10.12 In order to meet the regulation two or more Administering Authorities will have to demonstrate to the Secretary of State that either the entirety or the significant elements of the management and administration (including investments) are formally delegated (with appropriate legal arrangements) to a single body. For example, this could be best evidenced by the existence of a joint committee established under section 102 of the 1972 Act which exercises the functions on behalf of constituent authorities.
- 10.13 In support of the above the Administering Authorities will need to provide documentary evidence of the existence of and the delegations to the joint

committee. Such evidence should also include details of how such a joint pension board fully represents the members and employers of all the constituent Administering Authorities as well as the structure of the reporting lines necessary to ensure that all relevant stakeholders fully aware of the work of the Joint Pension Board.

- 10.14 Where the Secretary of State is satisfied by this evidence then approval for the formation of a Joint Pension Board to cover the functions of the constituent Administering Authorities may be granted.
- 10.15 Secretary of State approval may be given subject to such conditions as the Secretary of State thinks fit and equally may be withdrawn if such conditions are not met. The Secretary of State may also withdraw approval if in his or her opinion it is no longer appropriate for the Local Pension Board to be a Joint Pension Board.

11. **Other guidance**

- The Pensions Regulator's Code of Practice no. 14 Governance and Administration of public service pension schemes.

<http://www.thepensionsregulator.gov.uk/public-service-schemes/regulating-public-service-pension-schemes.aspx>

- The Pensions Regulator's website:

www.thepensionsregulator.gov.uk

- Dedicated Public Service Pension Scheme area on the Pensions Regulator's website:

www.thepensionsregulator.gov.uk/public-service-schemes.aspx

- The Pensions Regulator's Pension Board member toolkit:

www.trusteetoolkit.com/arena/index.dfm

SCHEDULE A

Example of a remit of a Local Pension Board

Administering Authorities should remember that the Local Pension Board does not replace the Administering Authority or make decisions or carry out other duties which are the responsibility of the Administering Authority.

The first core function of the Board is to assist the Administering Authority in securing compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

- a) Review regular compliance monitoring reports which shall include reports to and decisions made under the Regulations by the Committee.
- b) Review management, administrative and governance processes and procedures in order to ensure they remain compliant with the Regulations, relevant legislation and in particular the Code of Practice.
- c) Review the compliance of scheme employers with their duties under the Regulations and relevant legislation.
- d) Assist with the development of and continually review such documentation as is required by the Regulations including Governance Compliance Statement, Funding Strategy Statement and Statement of Investment Principles.
- e) Assist with the development of and continually review scheme member and employer communications as required by the Regulations and relevant legislation.
- f) Monitor complaints and performance on the administration and governance of the scheme.
- g) Assist with the application of the Internal Dispute Resolution Process.
- h) Review the complete and proper exercise of Pensions Ombudsman cases.

- i) Review the implementation of revised policies and procedures following changes to the Scheme.
- j) Review the arrangements for the training of Board members and those elected members and officers with delegated responsibilities for the management and administration of the Scheme.
- k) Review the complete and proper exercise of employer and administering authority discretions.
- l) Review the outcome of internal and external audit reports.
- m) Review draft accounts and scheme annual report.
- n) Review the compliance of particular cases, projects or process on request of the Committee.
- o) Any other area within the core function (i.e. assisting the Administering Authority) the Board deems appropriate.

The second core function of the Board is to ensure the effective and efficient governance and administration of the Scheme. Within this extent of this core function the Board may determine the areas it wishes to consider including but not restricted to:

- a) Assist with the development of improved customer services.
- b) Monitor performance of administration, governance and investments against key performance targets and indicators.
- c) Review the effectiveness of processes for the appointment of advisors and suppliers to the Administering Authority.
- d) Monitor investment costs including custodian and transaction costs.
- e) Monitor internal and external audit reports.
- f) Review the risk register as it relates to the scheme manager function of the authority.
- g) Assist with the development of improved management, administration and governance structures and policies.
- h) Review the outcome of actuarial reporting and valuations.

- i) Assist in the development and monitoring of process improvements on request of Committee.
- j) Assist in the development of asset voting and engagement processes and compliance with the UK Stewardship Code.
- k) Any other area within the core function (i.e. ensuring effective and efficient governance of the Scheme) the Board deems appropriate.

In support of its core functions the Local Pension Board may make a request for information to Committee with regard to any aspect of the Administering Authority function. Any such request should be reasonably complied with in both scope and timing.

In support of its core functions the Local Pension Board may make recommendations to Committee which should be considered and a response made to the Board on the outcome within a reasonable period of time.

***Schedule A has been added as an example only - it should not be considered an exhaustive list and full consideration should be given locally to the remit of the Local Pension Board.**

Schedule B

PART 1

Examples of documents recording policy about the administration of the scheme (please read in conjunction with paragraphs 6.16 and 6.17)

| | | |
|----|---|--|
| 1. | Member booklets, announcements and other key member and employer communications, which describe the Fund's policies and procedures (including any separate AVC guides) including documents available on the Fund's website | |
| 2. | Any relevant policies of the Administering Authority and/or Pension Committee, for example policies on: <ul style="list-style-type: none"> • conflicts of interests • record-keeping • data protection and freedom of information • internal dispute resolution procedure | |

| | | |
|-----|--|--|
| | <ul style="list-style-type: none"> reporting breaches | |
| 3. | The Administering Authority's governance compliance statement (as required by regulation 55 of the Regulations) | |
| 4. | The Administering Authority's funding strategy statement (as required by regulation 58 of the Regulations) | |
| 5. | The Administering Authority's pension administration statement (as required by regulation 59 of the Regulations) | |
| 6. | The Administering Authority's discretionary policy statement (as required by regulation 60 of the Regulations) | |
| 7. | The Administering Authority's communications policy statement (as required by regulation 61 of the Regulations) | |
| 8. | The Administering Authority's statement of investment principles (as required by regulation 12 of the Investment Regulations) | |
| 9. | The Administering Authority's internal controls risk register (for the purposes of section 249B of the 2013 Act) | |
| 10. | The Fund's actuarial valuation report and rates and adjustment certificate (as required by regulation 62 of the Regulations) | |
| 11. | The Fund's annual report and accounts (as required by regulation 57 of the Regulations) including any summary report (as required by regulation 56 of the Regulations) | |
| 12. | Any accounting requirements relevant to the Fund | |
| 13. | Any third party contracts and service level agreements | |
| 14. | Any internal control report produced by third party service providers and investment managers | |
| 15. | The Fund's standard form of admission agreement and bond and related policies and guidance | |

PART 2

**Examples of knowledge and understanding of the law relating to pensions
(please read in conjunction with paragraphs 6.18 and 6.19)**

| | | |
|----|--|--|
| 1. | Background and Understanding of the Legislative Framework of the LGPS | |
| | <ul style="list-style-type: none"> • Differences between public service pension schemes like the LGPS and private sector trust-based schemes • Role of the IPSPC and its recommendations • Key provisions of the 2013 Act • The structure of the LGPS and the main bodies involved including the Responsible Authority, the Administering Authority, the Scheme Advisory Board, the Local Pension Board and the LGPS employers • An overview of local authority law and how Administering Authorities are constituted and operate • LGPS rules overview (including the Regulations, the Transitional Regulations and the Investment Regulations) | |
| 2. | General pensions legislation applicable to the LGPS | |
| | <p>An overview of wider legislation relevant to the LGPS including:</p> <ul style="list-style-type: none"> • Automatic Enrolment (Pensions Act 2008) • Contracting out (Pension Schemes Act 1993) • Data protection (Data Protection Act 1998) • Employment legislation including anti-discrimination, equal treatment, family related leave and redundancy rights • Freedom of Information (Freedom of Information Act 2000) • Pensions sharing on divorce (Welfare Reform and Pensions Act 1999) • Tax (Finance Act 2004) | |

| | | |
|----|---|--|
| | <ul style="list-style-type: none"> • IORP Directive | |
| 3. | Role and responsibilities of the Local Pension Board | |
| | <ul style="list-style-type: none"> • Role of the Local Pension Board • Conduct and conflicts • Reporting of breaches • Knowledge and understanding • Data protection | |
| 4. | Role and responsibilities of the Administering Authority | |
| | <ul style="list-style-type: none"> • Membership and eligibility • Benefits and the payment of benefits • Decisions and discretions • Disclosure of information • Record keeping • Internal controls • Internal dispute resolution • Reporting of breaches • Statements, reports and accounts | |
| 5. | Funding and Investment | |
| | <ul style="list-style-type: none"> • Requirement for triennial and other valuations • Rates and adjustments certificate • Funding strategy statement • Bulk transfers • Permitted investments | |

| | | |
|----|---|--|
| | <ul style="list-style-type: none"> • Restrictions on investments • Statement of investment principles • CIPFA guidance • Appointment of investment managers • Role of the custodian | |
| 6. | Role and responsibilities of Scheme Employers | |
| | <ul style="list-style-type: none"> • Explanation of different types of employers • Additional requirements for admission bodies • Automatic Enrolment • Deduction and payment of contributions • Special contributions • Employer decisions and discretions • Redundancies and restructuring (including the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006) • TUPE and outsourcing (including Fair Deal and the Best Value Authorities Staff Transfers (Pensions) Direction 2007) | |
| 7. | Tax and Contracting Out | |
| | <ul style="list-style-type: none"> • Finance Act 2004 • Role of HMRC • Registration • Role of 'scheme administrator' • Tax relief on contributions • Taxation of benefits | |

| | | |
|----|---|--|
| | <ul style="list-style-type: none"> • Annual and lifetime allowances • Member protections • National Insurance • Contracting out (Pensions Scheme Act 1993) • Impact of abolition of contracting out in 2016 • VAT and investments | |
| 8. | Role of advisors and key persons | |
| | <ul style="list-style-type: none"> • Officers of the Administering Authority • Fund actuary • Auditor • Lawyers • Investment managers • Custodians • Administrators – in house v. third party • Procurement of services • Contracts with third parties | |
| 9. | Key Bodies connected to the LGPS | |
| | <p>An understanding of the roles and powers of:</p> <ul style="list-style-type: none"> • Courts • Financial Services Authority • HMRC • Information Commissioner • Pensions Advisory Service | |

| | | |
|--|---|--|
| | <ul style="list-style-type: none"> • Pensions Ombudsman • The Pensions Regulator (including powers in relation to Local Pension Boards) | |
|--|---|--|

SCHEDULE C

Summary of Legal Provisions to consider where an Administering Authority wishes to use an existing pensions committee as its Local Pension Board

If you wish to use your existing pensions committee as the Local Pension Board you should take legal advice to ensure that the following provisions are complied with:

1. The provisions of Section 101 – Section 107 of the Local Government Act (the 1972 Act) which provides for the arrangements for the discharge of functions by local authorities. This enables non-executive functions to be discharged by a committee, a sub-committee, a joint committee, another local authority or delegated to officers.
2. Section 102 (3) of the 1972 Act allows for people other than elected members to be co-opted to a committee. This is not permitted where a committee is responsible for regulating or controlling the finances of a local authority.
3. Section 102 (4) allows a local authority to appoint an advisory committee.
4. Section 106 provides for the procedures and quorum of meetings to be determined in Standing Orders or where provisions are not made in Standing Orders for the committee to determine its procedures.
5. Section 13 of the Local Government and Housing Act 1989 describes the voting rights for co-opted members of committees and gives rights of voting to co-opted members in specified circumstances. The general proposition is that co-opted members do not have voting rights. The provisions in section 13 which make exceptions to this rule are complex and their application will differ depending on whether functions are discharged by a committee or sub committee and whether a committee is decision making or advisory. There are exceptions for advisory committees and also where committees are established in accordance with regulations under the Superannuation Act 1972 (i.e. co-opted members have voting rights on these committees) and the Public Service Pensions Act 2013.
6. The provisions of regulation 106 (establishment) and regulation 107 (membership) of the LGPS Regulations 2013 (as amended) relating to Local Pension Boards.

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Terms of Reference – City of Westminster Pension Board March 2015

The purpose of this document is to set out the terms of reference for the local Pension Board of the City of Westminster Pension Fund.

1. Role of the Local Pension Board

The role of the local Pension Board is defined by section 5 of the Public Service Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme (LGPS) Governance Regulations 2013. It is to assist the administering authority (the Council) with:

- Securing compliance with the LGPS Governance regulations and any other legislation relating to the governance and administration of the LGPS
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the scheme and
- Ensuring effective and efficient governance and administration of the scheme-recommendations to the Pensions Committee.

2. Membership

a. Appointment process

The Pension Board shall consist of six members and be constituted as follows:

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

The process for selecting non-Council nominated employer members of the Pension Board is set out in a separate document “Selection of Pension Board members”.

b. Quorum

The Pension Board shall be quorate when three Pension Board Members are in attendance.

c. Chairman of the Board

The Chairman and Vice Chairman of the Board will be appointed by members of the Board as the first business at their first meeting.

d. Substitute members

Each Scheme Member representative may agree a nominate substitute at the first meeting who would act in the Board member's absence.

Each Employer representative is there on behalf of the employer so may be replaced by the nominating body with another individual representing the same employer.

e. Periods of office

Each Board member shall be appointed for a fixed period of three years, which can be extended for a further three year period subject to re-nomination.

f. Termination

Each Board member should endeavour to attend all Board meetings during the year and is required to attend at least two meetings each year. In the event of consistent non-attendance by any Board member, then the membership of that particular Board member should be reviewed by the other Board members with advice from Officers

Other than by ceasing to be eligible as set out above, a Board member may only be removed from office during a term of appointment by the unanimous agreement of all the other Board members present at the meeting.

A Board member may choose not to continue in their role, and so shall notify the Board accordingly following which the process for a replacement shall start.

3. Board meetings

a. Frequency of meetings

The Board shall as a minimum meet twice a year, and where possible, should aim to do so four weeks before the Pensions Committee meets. Meetings shall take place at a time and place agreed by the Pensions Board on an annual basis.

b. Voting rights

Each Board member will be entitled to vote and where a vote is taken the matter will be decided by a majority of the Board members present and voting but it is expected that the Pension Board will as far as possible reach a consensus. In the event of an equality of votes, the Chairman will have a second and or a casting vote.

c. Notice and circulation of papers

The papers for each Board meeting shall be circulated to all Board members one calendar week in advance of each meeting. The papers shall be published on the Council's website unless they contain material considered to be exempt or confidential, as defined by the Local Government Act 1972 and subsequently agreed as such by the Board.

d. Minutes

Minutes of all non-confidential or non-exempt parts of the Board's meetings shall be recorded and published on the Council's website.

e. Secretariat service

Council officers will provide the Board with the secretariat services required.

4. Role of Advisers

a. Access to Council advisers

The Board may request that one of the Council's advisers attends a Board meeting to provide advice or information to the Board. The request should be submitted to the Chief Executive.

- b. Appointment of advisers specifically for the Board
If the Board requires advice outside that already provided to the Council, then the request should be made to the Pensions Committee and Council officers.
- 5. Budget and Expenses
 - a. Budget
An annual budget will be agreed by the Board for professional advice, training or other purposes if such matters are required and Officers being authorised to incur expenditure to implement the programme.
 - b. Expenses
Each Board member may claim, upon production of the relevant receipts, travel expenses directly incurred in the work of the Pension Board.
- 6. Additional policies relating to the Board operations
 - a. Code of Conduct
The role of Pension Board members requires the highest standards of conduct and therefore, all Board members are required to abide by the Pension Board Code of Conduct.
 - b. Conflict of Interests
The Board is required to always act within these terms of reference. Board members should abide by the separately prepared Conflicts Policy and keep the policy under review.
 - c. Knowledge and understanding
All Board members are required to have sufficient knowledge and understanding of pensions matters to undertake their roles. Board members are expected to comply with the separate policy on knowledge and understanding and maintain appropriate records.
- 7. Reporting
 - a. Annual report on activity
The Pension Board should prepare an annual report on its activities and its compliance with these terms of reference and the associated policies. This report should be addressed to full Council each year, in the first six months of the financial year, reporting on the activities of the Pension Board for the previous financial year. Such a report will be submitted to the Pension Committee for noting prior to submission to Council.
 - b. Reporting recommendations
If the Pension Board determines that it wishes to make recommendations to the Pension Committee, such recommendations should be reported to the next meeting of the Pension Committee. The Pension Committee's response to the recommendation will be reported to the next meeting of the Pension Board.

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Pension Board

| | |
|---------------------------|---|
| Date: | 27 July 2015 |
| Classification: | General Release |
| Title: | Pension Fund Committee |
| Report of: | Steve Mair <i>City Treasurer</i> |
| Wards Involved: | All |
| Policy Context: | Effective Control over Council Activities |
| Financial Summary: | There are no financial implications arising from this report |

1. Executive Summary

- 1.1 This report advises the Board of the powers and duties of the Council's Pension Fund Committee. To assist the Board in understanding these powers and duties, the agenda and minutes of a recent meeting of the Committee is attached.

2. Key Matters for the Board

- 2.1 The Board note the contents of this paper
- 2.2 The Board members consider attending the next Pension Fund Committee meeting

3. Background

- 3.1 As laid out in its Terms of Reference, the Pension Fund Committee (previously known as the Superannuation Committee) has responsibility for all aspects of the investment and other management activity of the Council's Superannuation Fund, including, but not limited to, the following matters:
 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 accounts and balance sheet 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 administration arrangements, material contracts and policies and procedures of the Council for the payment of pensions, compensation payments 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).
 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 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).
-
- 3.2 The current membership of the Pension Fund Committee are:
 - Councillor Suhail Rahuja (Chair)
 - Councillor Antonia Cox
 - Councillor Patricia McAllister
 - Councillor Ian Rowley
 - 3.3 The Pension Fund Committee meetings for the remainder of this municipal year are scheduled to take place on the following dates:
 - 8 September 2015
 - 16 November 2015
 - 22 March 2016
 - 3.4 The Pension Board members are welcome to attend the next meeting to be held at City Hall on 8 September 2015 at 7pm.

**If you have any queries about this Report or wish to inspect any of the
Background Papers please contact:**

Nikki Parsons

Pension Fund Officer

Email: nparsons@westminster.gov.uk

Telephone: 020 8641 6925

BACKGROUND PAPERS:

None

APPENDIX 1:

Pension Fund Committee Agenda – 25/03/2015

APPENDIX 2:

Pension Fund Committee Minutes – 25/03/2015



City of Westminster

Committee Agenda

Title:

PENSION FUND COMMITTEE

Meeting Date:

Wednesday 25th March 2015

Time:

19.00

Venue:

**COMMITTEE ROOMS 3 & 4, 17TH FLOOR,
CITY HALL, 64 VICTORIA STREET, SW1**

Members:

Councillors:

Ian Rowley
Antonia Cox
Adnan Mohammed
Patricia McAllister



Members of the public are welcome to attend the meeting and listen to the discussion, but are likely to be excluded once the Committee reaches Agenda item 4. If you have a disability and require any special assistance please contact the Senior Committee and Governance Officer, Joseph McBride in advance of the meeting (details below)

Admission to the public gallery is by ticket, issued from the ground floor reception at City Hall from 6.30pm



An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee and Scrutiny Officer, Joseph McBride, on:

Tel: 020 7641 2341

Email: jmcbride@westminster.gov.uk

Corporate Website: www.westminster.gov.uk

Note for Members: Members are reminded that Officer contacts are shown at the end of each report and Members are welcome to raise questions in advance of the meeting. With regard to item 2, guidance on declarations of interests is included in the Code of Governance; if Members and Officers have any particular questions they should contact the Head of Legal Services in advance of the meeting.

AGENDA

PART 1 IN PUBLIC

1. MEMBERSHIP

- 1.1 To report any changes to the membership of the Committee.
- 1.2 To report a Chairman

2. DECLARATIONS OF INTEREST

To receive declarations of interest by Members and Officers of any personal or prejudicial interests.

3. MINUTES

To approve the confidential Minutes of the meeting of the Pension Fund Committee held on 17 November 2014.

4. QUARTERLY PERFORMANCE UPDATE

Report of the Director of Corporate Finance and Investment

5. ESTABLISHMENT OF PENSION BOARD

Report of the Director of Corporate Finance and Investment

6. STATEMENT OF INVESTMENT PRICIPALS

Report of the Director of Corporate Finance and Investment

PART 2 IN PRIVATE

7. MINUTES

To approve the confidential Minutes of the meeting of the Pension Fund Committee held on 17 November 2014.

8. UPDATE ON INVESTMENT MANAGERS AND MANDATES

Report of the Director of Corporate Finance and Investment

PETER LARGE
HEAD OF LEGAL & DEMOCRATIC SERVICES
17 March 2015

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Committee Report

Date: 25 March 2015

Classification: For General Release

Title: The Establishment of a Pension Board

Report of: Director of Corporate Finance and Investment

Financial Summary: There are no significant financial implications

Report Author and Contact Details: Jonathan Hunt,
jonathanhunt@westminster.gov.uk
Tel: 020 7641 1804

1. Executive Summary

- 1.1 The Public Service Pensions Act 2013 provides that the Secretary of State may by regulations establish schemes for the payment of pensions and other benefits for various categories of worker including local government workers. Such regulations for a scheme ("scheme regulations") must provide for the establishment of a Pension Board to assist the scheme manager (i.e. the Council or the committees to which such responsibility has been delegated), to monitor and ensure compliance with the regulations and other legislation relating to the management of the Pension Fund.
- 1.2. The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 are due to come into effect on 20th February 2015 and require a Pension Board to be established by 1 April 2015.

2. Recommendation

- 2.1 That the Committee note that the establishment of a Pension Board, as required by the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 was agreed by the General Purposes Committee on 25 February 2015.
- 2.2. That the Committee note that the Pension Board Code of Conduct, Conflicts of Interests Policy, Training Policy and the process for selecting non-councillor members of the Board was delegated to the Chief Executive following consultation with the Chair of the General Purposes Committee and Chair of the Pensions Committee by the General Purposes Committee on 25 February 2015.

3. Background

- 3.1 The Public Service Pensions Act 2013 (the “Act”) together with the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 provide that each administering authority must establish a Pension Board by 1st April 2015. The role of the Board is to assist the scheme manager with the effective and efficient management and administration of the Local Government Pension Scheme.
- 3.2 The Department for Communities and Local Government have been consulting on the implementation of Pension Boards, as required by the Public Sector Pensions Act 2013. This was initially reported to the Pensions Committee in September 2014 and November. The final Regulations were laid before Parliament and the final version of the guidance issued on 28th January 2015.
- 3.3 The Act and the regulations provide that the “scheme manager” will be responsible for administering, investing and managing the pension fund and may delegate these responsibilities to a committee, an officer or an investment manager (as appropriate). In the case of the City of Westminster, it proposed that the Pensions Committee will continue to deal with these matters and make decisions regarding them.
- 3.4 The Act states that the scheme regulations will provide for the establishment of the pension board which will be responsible for assisting the scheme manager (in WCC’s case, the Pensions Committee) in securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme. The guidance has provided some further suggestions about what the Board will do, but leaving it very much up to local determination. It is however clear that, while the Board can make recommendations to the Pensions Committee, it will be up to the Committee whether to action the recommendations. The Board will not be a decision making body but will contribute to the governance of the pension scheme by providing advice and scrutiny.
- 3.5 The proposed terms of reference, attached as Appendix 1, do not go into great detail on the specific areas the Board will focus on as part of its role. Suggestions as to areas of work have been published by DCLG and it is proposed that Officers review the proposals and discuss with the Board when established to determine which areas it wishes to include in its work plan.
- 3.6 The consultation in the summer on regulations raised the possibility of joint pension boards. The shared service response argued that such an arrangement for the three funds would allow for efficiencies and it would be advantageous for it to be available as an option. The Regulations provide that where the administration and management of a scheme is wholly or mainly shared by two or more administering authorities those administering authorities may establish a joint pension board if approval in writing has been obtained from the Secretary of State. This will be explored however in the interim three separate Boards are being set up for the tri-borough councils.

- 3.7 The regulations require pension boards to have an equal number of employer representatives and scheme member representatives, the total of which cannot be less than four. One clarification that has arisen from the final regulations is that Councillors may now be members of the Pension Board as long as they do not have any direct involvement in the running of the pension fund. The proposed terms of reference in Appendix 1 propose a membership of six to ensure that a quorum is easily achieved at each meeting.
- 3.8 The terms of reference contain a number of provisions concerning training and knowledge requirements for the members of the Board, conflicts of interest, the management and reporting of meetings. The terms of reference also refer to a number of separate policy documents relating to the operation of the Board. These are currently being drafted and it is proposed that approval of these documents is delegated to the Chief Executive following consultation with the Chair of the General Purposes Committee and Chair of the Pensions Committee.
- 3.9 All costs arising from the operation of the Pension Board will be met by the Pension Fund as required by the regulations.

4. Financial Implications

- 4.1 The establishment of a Pension Board is a legal requirement and the costs of supporting and staffing the work related to the Pension Board will be met by the pension fund – since the work directly and solely relates to the running of the pension fund.

5. Legal Implications

- 5.1 The Public Service Pensions Act 2013 and the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 require the Council to establish a Pension Board by 1 April 2015. The proposed terms of reference comply with the requirements of the legislation and due regard has been paid to the guidance. In order to exercise their functions it may be necessary for members of the Pension Board to receive exempt information or reports. Any such information would be provided specifically for that purpose and should not be disclosed by the Board to any other party. This is a matter which will be dealt with in the Pension Board Code of Conduct

6. Conclusion

- 6.1 Given the legal and regulatory requirement, the Committee is asked to approve, and that Council then approves the establishment of the Pension Board as set out in this paper.

If you have any questions about this report, or wish to inspect one of the background papers, please contact: Jonathan Hunt; 7641 1840

Appendix 1: Proposed Terms of Reference for Pension Board

Terms of Reference – City of Westminster

The purpose of this document is to set out the terms of reference for the local Pension Board of the City of Westminster Pension Fund.

1. Role of the Local Pension Board

The role of the local Pension Board is defined by section 5 of the Public Service Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme (LGPS) Governance Regulations 2013. It is to assist the administering authority (the Council) with:

- Securing compliance with the LGPS Governance regulations and any other legislation relating to the governance and administration of the LGPS
- Securing compliance with any requirements imposed by the Pensions Regulator in relation to the scheme and
- Ensuring effective and efficient governance and administration of the scheme-recommendations to the Pensions Committee.

2. Membership

a. Appointment process

The Pension Board shall consist of six members and be constituted as follows:

- Three employer representatives comprising one from an admitted or scheduled body and two nominated by the Council who shall be elected Councillors; and
- Three scheme member representatives whether from the Council or an admitted or scheduled body.

The process for selecting non-Council nominated employer members of the Pension Board is set out in a separate document “Selection of Pension Board members”.

b. Quorum

The Pension Board shall be quorate when three Pension Board Members are in attendance.

c. Chairman of the Board

The Chairman and Vice Chairman of the Board will be appointed by members of the Board as the first business at their first meeting.

d. Substitute members

Each Scheme Member representative may agree a nominate substitute at the first meeting who would act in the Board member’s absence.

Each Employer representative is there on behalf of the employer so may be replaced by the nominating body with another individual representing the same employer.

e. Periods of office

Each Board member shall be appointed for a fixed period of three years, which can be extended for a further three year period subject to re-nomination.

f. Termination

Each Board member should endeavour to attend all Board meetings during the year and is required to attend at least two meetings each year. In the event of consistent non-attendance by any Board member, then the membership of that particular Board member should be reviewed by the other Board members with advice from Officers

Other than by ceasing to be eligible as set out above, a Board member may only be removed from office during a term of appointment by the unanimous agreement of all the other Board members present at the meeting.

A Board member may choose not to continue in their role, and so shall notify the Board accordingly following which the process for a replacement shall start.

3. Board meetings

a. Frequency of meetings

The Board shall as a minimum meet twice a year, and where possible, should aim to do so four weeks before the Pensions Committee meets. Meetings shall take place at a time and place agreed by the Pensions Board on an annual basis.

b. Voting rights

Each Board member will be entitled to vote and where a vote is taken the matter will be decided by a majority of the Board members present and voting but it is expected that the Pension Board will as far as possible reach a consensus. In the event of an equality of votes, the Chairman will have a second and or a casting vote.

c. Notice and circulation of papers

The papers for each Board meeting shall be circulated to all Board members one calendar week in advance of each meeting. The papers shall be published on the Council's website unless they contain material considered to be exempt or confidential, as defined by the Local Government Act 1972 and subsequently agreed as such by the Board.

d. Minutes

Minutes of all non-confidential or non-exempt parts of the Board's meetings shall be recorded and published on the Council's website.

e. Secretariat service

Council officers will provide the Board with the secretariat services required.

4. Role of Advisers

a. Access to Council advisers

The Board may request that one of the Council's advisers attends a Board meeting to provide advice or information to the Board. The request should be submitted to the Chief Executive.

b. Appointment of advisers specifically for the Board

If the Board requires advice outside that already provided to the Council, then the request should be made to the Pensions Committee and Council officers.

5. Budget and Expenses

a. Budget

An annual budget will be agreed by the Board for professional advice, training or other purposes if such matters are required and Officers being authorised to incur expenditure to implement the programme.

b. Expenses

Each Board member may claim, upon production of the relevant receipts, travel expenses directly incurred in the work of the Pension Board.

6. Additional policies relating to the Board operations

a. Code of Conduct

The role of Pension Board members requires the highest standards of conduct and therefore, all Board members are required to abide by the Pension Board Code of Conduct.

b. Conflict of Interests

The Board is required to always act within these terms of reference. Board members should abide by the separately prepared Conflicts Policy and keep the policy under review.

c. Knowledge and understanding

All Board members are required to have sufficient knowledge and understanding of pensions matters to undertake their roles. Board members are expected to comply with the separate policy on knowledge and understanding and maintain appropriate records.

7. Reporting

a. Annual report on activity

The Pension Board should prepare an annual report on its activities and its compliance with these terms of reference and the associated policies. This report should be addressed to full Council each year, in the first six months of the financial year, reporting on the activities of the Pension Board for the previous financial year. Such a report will be submitted to the Pension Committee for noting prior to submission to Council.

b. Reporting recommendations

If the Pension Board determines that it wishes to make recommendations to the Pension Committee, such recommendations should be reported to the next meeting of the Pension Committee. The Pension Committee's response to the recommendation will be reported to the next meeting of the Pension Board.

Minutes

Meeting:

Pension Fund Committee

Date of meeting:

Wednesday 25 March at 7.00pm

Attendees:

Councillors:

Ian Rowley (Acting Chairman)

Antonia Cox

Patricia McAllister

Adnan Mohammed

Officers:

Jonathan Hunt (Director of Corporate Finance & Investment)

Carolyn Beech (Director of Human Resources)

Nikki Parsons (Pension Fund Officer)

Joseph McBride (Committee & Governance Officer)

Also Present:

Alistair Sutherland (Deloitte)

Chris Smith (Unison)

Apologies:

Contact:

Joe McBride

Committee & Governance Officer

Details:

Tel: 020 7641 2341

Email: jmcbride@westminster.gov.uk

1. MEMBERSHIP OF THE COMMITTEE

- 1.1 Councillor Suhail Rahuja was replaced by Councillor Adnan Mohammed. Cllr Rowley was elected as Chairman in his absence.

2. DECLARATIONS OF INTEREST

- 2.1 No declarations of interest were made.

3. MINUTES

- 3.1 The Minutes of the Superannuation Committee meetings held on 17 November 2014 were agreed as a correct record and signed by the Chairman.

4. PERFORMANCE AND MANAGEMENT OF THE COUNCIL'S PENSION FUND

- 4.1 Jonathan Hunt (Director of Corporate Finance & Investment) presented a report which provided a summary of the Fund's performance over the three month period to 31 December 2014 and stated that Westminster's Fund was complying with statutory requirements. The investment report was prepared by Deloitte, the Fund's investment adviser. Alistair Sunderland, in attendance, made himself available to answer questions from the Committee and to clarify key points.
- 4.2 The Committee also received a funding update provided by the Fund Actuary, Barnett Waddingham, and noted that the funding level of the Fund had improved from 74% at the last triennial valuation at 31 March 2013, to 78% at 31 December 2014.
- 4.3 The Committee were reminded that the Fund's current actuary is Barnett Waddingham, who were awarded the contract in November 2012 to 31 December 2020, but with a break clause that enabled WCC to retender at the same time as RBKC and LBHF – planned to be early autumn 2015. Officers intend to exercise the break and carry out a Tri-Borough procurement of the actuarial contract, using the National LGPS Frameworks as the Council did in autumn 2012.
- 4.4 The Committee requested a breakdown of investments within the portfolio, including the top 20 stock holdings. Mr Hunt explained that most investments are in pooled funds which would complicate the provision of this overview but that it would certainly be possible in segregated investments.
- 4.5 **RESOLVED:** That the report on the performance and management of Westminster's Pension Fund be noted.

5. Establishment of a Pension Board

- 5.1 Jonathan Hunt explained to the Committee that the Public Service Pensions Act 2013 provides that the Secretary of State may by regulations establish schemes for the payment of pensions and other benefits for various categories of worker including local government workers. Such regulations for a scheme ("scheme regulations") must provide for the establishment of a Pension Board to assist the scheme manager (i.e. the Council or the committees to which such responsibility has been delegated), to monitor and ensure compliance with the regulations and other legislation relating to the management of the Pension Fund.
- 5.2 The Committee noted that the establishment of a Pension Board, as required by the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 was agreed by the General Purposes Committee on 25 February 2015.
- 5.3 The Committee enquired what the selection process would be for Members of the new for the Pension Board. Carolyn Beech (Director of Human Resources) explained that the regulations require pension boards to have an equal number of employer representatives and scheme member representatives, the total of which cannot be less than four. One clarification that has arisen from the final regulations is that Councillors may now be members of the Pension Board as long as they do not have any direct involvement in the running of the pension fund.
- 5.4 Carolyn Beech informed the Committee that the Council writes to pensioners every year to inform them what their pension would be for the forthcoming year. In the letter, to be sent within the next 10 days, a communication would also be included informing pensioners of the new regulations regarding pension boards and their right to apply to sit on the Board. All other members of the fund would also receive this Background information and motivation for application will be requested as part of the application process. If more than three responses are received then a selection process will be required.
- 5.5 The terms of reference contain a number of provisions concerning training and knowledge requirements for the members of the Board, conflicts of interest, the management and reporting of meetings. The terms of reference also refer to a number of separate policy documents relating to the operation of the Board. These are currently being drafted and it is proposed that approval of these documents is delegated to the Chief Executive following consultation with the Chair of the General Purposes Committee and Chair of the Pensions Committee. All costs arising from the operation of the Pension Board will be met by the Pension Fund as required by the regulations.
- 5.6 Carolyn Beech explained that union representatives would be able to express an interest in being a Member and should be in a good position to secure a place as they would have some knowledge of the way Boards would operate.

5.7 Councillor Mohammed asked what the procedures would be in the case that recommendations of the Pension Board were not followed through by the Pension Fund Committee. It was unclear whether the decision would be escalated to the relevant Policy and Scrutiny Committee or to the General Purposes Committee. Jonathan Hunt advised that clarification was sought from Mick Steward, Head of Committee and Governance Services.

5.8 **RESOLVED:**

- 1) That clarification on the escalation process is sought from Head of Governance and Committee Services.
- 2) That the report on the establishment of a Pension Board be noted.

6. Statement of Investment Principles

6.1 Jonathan Hunt (Director of Corporate Finance & Investment) presented a summary of the Local Government Pension Scheme (LGPS) Management and Investment of Funds 2009 regulations that require Pension Funds to prepare, publish and maintain a Statement of Investment Principles.

6.2 Jonathan Hunt recommended that the existing statement is updated to reflect recent changes in investment strategy. He also recommended that an increase in certain limits on investment are recommended to give the Fund flexibility in the choice of investments in the future.

6.3 A draft Statement of Investment Principles seeks to reflect the decision taken by the Committee in January to change the asset allocation. It reflects the decisions the Committee have already taken about investment products and managers. The draft proposes that the Committee adopt a whole Fund benchmark which reflects the target asset allocation for the Fund and will enable the Committee to monitor whether the overall strategy is meeting expectations.

6.4 Councillor Ian Rowley asked if the Committee would receive a regular report detailing compliance with the Statement of Investment Principles. It was agreed that this could be provided on a quarterly basis.

6.5 **RESOLVED:** That the existing statement is updated to reflect recent changes in investment strategy.

7. CLOSE OF MEETING

7.1 The meeting closed at 8.42 pm.

CHAIRMAN: DATE:



Pension Board

| | |
|---------------------------|---|
| Date: | 27 July 2015 |
| Classification: | General Release |
| Title: | Code of Conduct Policy |
| Report of: | Steve Mair <i>City Treasurer</i> |
| Wards Involved: | All |
| Policy Context: | Effective Control over Council Activities |
| Financial Summary: | There are no financial implications arising from this report |

1. Executive Summary

1.1 This report sets out the Board's Code of Conduct Policy

2. Key Matters for the Board

2.1 The Board are asked to confirm that they will abide by the Code of Conduct Policy

3. Background

3.1 The Terms of Reference of the Pension Board state that the members are required to abide by the Code of Conduct Policy.

3.2 A copy of the Policy is attached and members will be asked to confirm they will abide by it.

**If you have any queries about this Report or wish to inspect any of the
Background Papers please contact:**

Nikki Parsons

Pension Fund Officer

Email: nparsons@westminster.gov.uk

Telephone: 020 8641 6925

BACKGROUND PAPERS:

None

APPENDIX 1:

Code of Conduct – City of Westminster Pension Board

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Code of Conduct – City of Westminster Pension Board

The role of the members of the City of Westminster Pension Board requires the highest standards of conduct. Therefore all Pension Board members are expected in act in accordance with this Code of Conduct.

In performing their role, Board members should apply the “Seven principles of public life” in all their dealings. They are:

SELFLESSNESS: Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other material benefits for themselves, their family, or their friends.

INTEGRITY: Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.

OBJECTIVITY: In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.

ACCOUNTABILITY: Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.

OPENNESS: Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.

HONESTY: Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.

LEADERSHIP: Holders of public office should promote and support these principles by leadership and example.

In addition members of the City of Westminster Pension Board should also apply the following standards of conduct when undertaking their role. Pension Board members should:

- Recognise that they have a responsibility to represent scheme employers or scheme members in the Fund as applicable to their appointment.
- Work constructively with fellow board members, officers, councillors, advisers and organisations which provide services to the Pension Fund.

- Listen to the interests of all parties, including relevant advice from statutory and other professional officers, taking all relevant information into consideration, remaining objective in making recommendations.
- Contribute to making the Board's governance processes as open and transparent as possible to enable all stakeholders to be as informed as possible, but restricting access to information when the wider public interest or the law requires it.
- Behave in accordance with all legal obligations, alongside any requirements contained within the Pension Board and Pension Fund's policies, protocols and procedures, including on the use of the Pension Fund's resources.
- Value fellow Board members, officers and advisers engaging with them in an appropriate manner and one that underpins the mutual respect that is essential to good local government.
- Comply with the City of Westminster's Information Security Policy and not misusing the Pension Fund's resources for unacceptable personal use.

In addition to this policy, all Pension Board members who are also councillors are required to adhere to the City of Westminster's Code of Conduct in all aspects of their role as Pension Board members.



Pension Board

| | |
|---------------------------|---|
| Date: | 27 July 2015 |
| Classification: | General Release |
| Title: | Pension Board Training Strategy |
| Report of: | Carolyn Beech Director of Human Resources |
| Wards Involved: | All |
| Policy Context: | Effective Control over Council Activities |
| Financial Summary: | There are no financial implications arising from this report |

1. Executive Summary

- 1.1 There is a legal commitment to provide training to Pension Board members, this report proposes the approach to satisfy that requirement

2. Recommendation

- 2.1 That the board notes the contents of this paper
- 2.2 That the board approves in principle the training strategy outlined in this report
- 2.3 That the board specifically approves the initial one day training.

3. Background

- 3.1 In order to be effective it is important that Pension Board members have a good understanding of the requirements of the pension scheme and the policies that surround the City of Westminster Pension Fund.
- 3.2 They must also be able demonstrate that they have retained and can implement the knowledge.
- 3.3 Specifically there is a legal requirement for Pension Board members to have knowledge and understanding of the follow areas:

- The scheme rules e.g. eligibility for the scheme and scheme benefits;
- All documents recording policies of the City of Westminster Pension Fund;
- The law relating to pensions.

3.4 It is also good practice for the Board members to have a broader understanding of all Pension Fund matters they may consider to enable them to perform their role effectively.

3.5 A review of the market place has identified a number of potential training providers

3.6 The preferred approach has been submitted by Barnett-Waddingham the detail of the proposal is:

- An initial one day training programme for board members covering pension's legislation and guidance; policies, procedures and working arrangements; overriding legislation and interacting statutory organisations; investments and funding.
- At a later date to carry out:
 - (a) an assessment of individual Pension Board member knowledge, understanding and skills assessment.
 - (b) on-going and subject specific training such as regulatory changes and triennial valuations
 - (c) annual refresher training and updates
 - (d) member requested training with bespoke and open courses aimed at retention of knowledge and development of best practice
 - (e) on-going individual Pension Board member assessment with monitoring of training and development attendance and progress, maintaining records and reporting.

**If you have any queries about this Report or wish to inspect any of the
Background Papers please contact:**

Trevor Webster

Senior Human Resources Manager

Email: twebster@westminster.gov.uk

Telephone: 020 7641 2803

BACKGROUND PAPERS:

- Knowledge and Skills policy

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Knowledge and Skills policy – City of Westminster Pension Board

In order to be effective it is important that Pension Board members have a good understanding of how the pension scheme works and what policies are in place in the City of Westminster Pension Fund.

Legal framework

There is a legal requirement for Pension Board members to have knowledge and understanding of the follow areas:

- The scheme rules e.g. eligibility for the scheme and scheme benefits;
- All documents recording policies of the City of Westminster Pension Fund;
- The law relating to pensions.

However it is good practice for the Board members to have a broader understanding of all Pension Fund matters they may consider to enable them to perform their role effectively and so this policy considers training on aspects of pensions.

Information to be provided on appointment to the Board

On appointment to the Board, all members will be provided with the following policies of the Pension Fund:

Governance and Compliance Statement
Statement of Investment Principles
Funding Strategy Statement
Communication Policy Statement

In addition they will be provided with the most up to date versions of the:

Annual Report and Accounts for the Fund
Quarterly Fund Performance Data
Risk Register.

Assessment of training needs

On appointment to the Board, all members will be required to complete a training needs analysis in order to determine the areas in which training is required. This will cover the following areas:

Pensions legislative context and the role of the Board
Local Government Pension Scheme rules
Pension Fund investments
Actuarial matters including funding strategy

Appropriate training will then be provided alongside members of the Pension Fund Committee, who require the same training. This will be led by officers and the advisers to the Fund.

This assessment will be repeated on an annual basis to enable any gaps in knowledge to be identified and addressed.

External training events

When relevant external training events are published, officers will forward invitations to Pension Board members for them to decide to attend if they feel the events will be useful for developing their knowledge.

Internal training sessions / provision of information

Officers will arrange training or the provision of additional information on new or topical issues as they arise. Board members should contact the Shared Services Pensions team pensionfund@westminster.gov.uk if they have any additional specific requests for training or information.

Records of training

The Shared Services Pensions team will maintain a record of all training undertaken by members of the Pension Board. Members should email pensionfund@westminster.gov.uk details of all external pension related training and events they attend to facilitate this.

Annual Report

In addition to reporting on the activities of the Pension Board, the Pension Fund annual report will report on the compliance of members with the knowledge and skills policy based on the records maintained.



Pension Board

| | |
|---------------------------|---|
| Date: | 27 July 2015 |
| Classification: | General Release |
| Title: | Key Documents |
| Report of: | Steve Mair <i>City Treasurer</i> |
| Wards Involved: | All |
| Policy Context: | Effective Control over Council Activities |
| Financial Summary: | There are no financial implications arising from this report |

1. Executive Summary

- 1.1 Attached for information are various key documents on which the Board may wish to comment at future meetings

2. Key Matters for the Board

- 2.1 The Board note the contents of this paper

3. Background

- 3.1 The Knowledge and Skills Policy states that on appointment to the Board, all members will be provided with the following policies of the Pension Fund:

Governance and Compliance Statement (Appendix 1)

This statement is required by regulation 55 of the Local Government Pension Scheme ('LGPS') (Administration) Regulations 2013 and provides an overview of the City of Westminster's approach towards the governance of the Pension Fund. The statement is currently under review and the updated version will be presented to the Pension Fund Committee for approval at their next meeting.

Statement of Investment Principles (Appendix 2)

This statement is required by regulation 12(1) of the LGPS (Management and Investment of Funds) Regulations 2009 and states the City of Westminster's principles governing their decisions about the investment of Pension Fund money.

Funding Strategy Statement (Appendix 3)

This statement is required by regulation 58 of the LGPS (Administration) Regulations 2013 and explains the funding objectives of the Fund.

Communication Policy Statement (Appendix 4)

This policy is required by regulation 61 of the LGPS (Administration) Regulations 2013 and sets out the City of Westminster's strategy for communicating with scheme members, members' representatives, prospective members and other employers participating in the Fund. The policy is currently under review and the updated version will be presented to the Pension Fund Committee for approval at their next meeting.

- 3.2 In addition, members of the Board are also provided with the most up to date versions of the following documents:

Pension Fund Annual Report and Accounts (Appendix 5)

The Pension Fund Annual Report is required by regulation 57 of the LGPS (Administration) Regulations 2013 and gives the Council the opportunity to demonstrate the standard of governance and supervision of the fund. It also brings together a number of separate reporting strands into one comprehensive document that enables both the public and employees to see how the fund is managed and how it is performing.

Quarterly Fund Performance Data (Appendices 6 and 7)

One of the functions of the Pension Fund Committee is to monitor performance of the Pension Fund. The Investment report (Appendix 6) and the Funding Update Report (Appendix 7) presents a summary of the Fund's performance and estimated funding level to 31 March 2015 and have been reviewed by the Pension Fund Committee.

Risk Register (Appendix 8)

It is best practice for Pension Funds to maintain a risk register to ensure that the risks the Fund faces are properly understood and where appropriate action is taken to mitigate them. The risk register was reported to the Pension Fund

Committee at their last meeting and will form part of their quarterly reporting cycle.

**If you have any queries about this Report or wish to inspect any of the
Background Papers please contact:**

Nikki Parsons

Pension Fund Officer

Email: nparsons@westminster.gov.uk

Telephone: 020 8641 6925

BACKGROUND PAPERS:

None

APPENDIX 1:

Governance and Compliance Statement

APPENDIX 2:

Statement of Investment Principles

APPENDIX 3:

Funding Strategy Statement

APPENDIX 4:

Communication Policy

APPENDIX 5:

Pension Fund Annual Report and Accounts

APPENDIX 6:

Deloitte Investment Report
Quarter End to 31 March 2015

APPENDIX 7:

Barnett Waddingham Funding Update Report
As at 31 March 2015

APPENDIX 8:

Pension Fund Risk Register

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Pension Fund

Governance Compliance Statement

Background

The Local Government Pension Scheme Regulations require administering authorities to prepare a written statement setting out compliance with best practice governance principles.

The following statement sets out in turn:

- (a) the principles against which compliance is to be measured;
- (b) a table showing whether the City of Westminster Pension Fund is compliant;
- (c) if appropriate, reasons for non-compliance and comments.

A - Structure

- a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.
- b) 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.
- c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.
- d) 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 Compliant | | | | Fully Compliant |
|----|---------------|--|---|--|-----------------|
| a) | | | | | √ |
| b) | | | √ | | |
| c) | | | | | N/A |
| d) | | | | | N/A |

Reason for non-compliance:

b) Admitted bodies are not represented at Committee meetings but are consulted on a regular basis. Pensioners and deferred members are not formally represented, though a union representative is entitled to attend all meetings as an observer.

Comments on ratings given above:

a) The Superannuation Investments Committee consists of 6 Members of the Council, with membership allocated proportionally to party political representation on the Full Council.

The Terms of Reference of the Committee are as follows:

- The investment and other management of the Superannuation Fund.
- To agree the investment strategy having regard to the advice of the Fund's managers and the independent adviser, to monitor performance.
- To monitor performance.
- To determine the Fund management arrangements and appointments of Fund Managers, Custodians and Fund Advisers, and to agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement and the Communications Policy Statement and to ensure compliance with these.
- To ensure compliance with all relevant statutes, regulations and best practices with both the Public and Private Sectors.

B - Representation

a) That all key stakeholders are afforded the opportunity to be represented. Within the main or secondary committee structure; these include:-

- i) Employing authorities (including non-scheme employers, e.g., admitted bodies);
- ii) Scheme members (including deferred and pensioner scheme members),
- iii) Independent professional observers
- IV) Expert advisors (on an ad-hoc basis).

b) 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 Compliant | | | | Fully Compliant |
|----|---------------|--|---|--|-----------------|
| a) | | | √ | | |
| b) | | | | | N/A |

Reason for non-compliance:

a) Admitted bodies are not represented at Committee meetings but are consulted on a regular basis. Pensioners and deferred members are not formally represented.

Comments on ratings given above:

- a) Professional advice is provided at the Committee by the Director of Finance and the Director of Legal and Administrative Services. In addition, specialist advice on pension matters is provided by independent investment advisors who can assist in terms of compliance against Myners' principles and the management of risk.
- b) Councillor members are treated equally in accordance with the governance principles. There are no lay members (in the sense of 'non-Councillor members').

C – Selection and role of lay members

a) 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.

| | | | | | |
|----|---------------|--|--|--|-----------------|
| | Not Compliant | | | | Fully Compliant |
| a) | | | | | N/A |

Reason for non-compliance:

Comments on ratings given above:

a) Councillor members are made aware of their status, role and function.
There are no lay members (in the sense of 'non- Councillor members').

D – Voting

a) 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.

| | | | | | |
|----|---------------|--|--|--|-----------------|
| | Not Compliant | | | | Fully Compliant |
| a) | | | | | √ |

Reason for non-compliance:

Comments on ratings given above:

Voting is in accordance with the Council's Standing Orders, namely a simple majority of those present who can vote with the Chairman having a second or casting vote.

E – Training / Facility time / Expenses

a) 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.

b) 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.

| | | | | | |
|----|---------------|--|---|--|-----------------|
| | Not Compliant | | | | Fully Compliant |
| a) | | | √ | | |
| b) | | | | | √ |

Reason for non-compliance:

a) There is no specific policy on facility time or re-imbursement of expenses for the Superannuation Investments Committee - the Council's general guidance to members applies. Members receive allowances and Committee meetings take place at a time that is convenient for members.

Comments on ratings given above:

Members are required to attend appropriate training. The training is provided by the Fund's investment advisers.

F - Meetings (frequency/quorum)

a) That an administering authority's main committee or committees meet at least quarterly.

b) 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.

c) 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

| | Not Compliant | | | | Fully Compliant |
|----|---------------|--|---|--|-----------------|
| a) | | | | | √ |
| b) | | | | | N/A |
| c) | | | √ | | |

Reason for non-compliance:

c) There are no lay members (in the sense of 'non- Councillor members') but a union representative is entitled to attend all meetings as an observer.

Comments on ratings given above:

The Superannuation Investments Committee meets quarterly.

G - Access

a) 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.

| | | | | | |
|----|---------------|--|--|--|-----------------|
| | Not Compliant | | | | Fully Compliant |
| a) | | | | | √ |

Reason for non-compliance:

Comments on ratings given above:

H - Scope

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements

| | | | | | |
|----|---------------|--|---|--|-----------------|
| | Not Compliant | | | | Fully Compliant |
| a) | | | √ | | |

Reason for non-compliance:

Comments on ratings given above:

The Superannuation Investments Committee considers wider issues from time to time as part of its work programme. The remit of the Committee needs to reflect formally the scope of these wider issues.

I - Publicity

a) 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.

| | | | | | |
|----|---------------|--|--|--|-----------------|
| | Not Compliant | | | | Fully Compliant |
| a) | | | | | √ |

Reason for non-compliance:

Comments on ratings given above:

The Fund has published a Communications Policy that sets out how it communicates with stakeholders. In addition, this Compliance Statement will be published on the Council's website and will be included in the Pension Fund Annual Report which will be published on or before 1 December 2008.

CITY OF WESTMINSTER PENSION FUND
STATEMENT OF INVESTMENT PRINCIPLES
MARCH 2015

1. Background

1.1. Legal

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

1.2. The Scheme

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

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

1.3 Pension Fund Committee

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

1.4 Advice

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

1.5. Investment Managers

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

2. Investment responsibilities

2.1. Pension Funds Committee

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

- To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.
- To monitor performance of the 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).

2.2. Pension Fund Officers

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

- Monitoring compliance with statutory requirements and the investment principles set out in the document and reporting any breaches to the Pension Fund Committee.
- Ensuring this document is regularly reviewed and updated in accordance with the LGPS regulations.
- Investment accounting, preparing the annual accounts and report of the Fund and all day to day administration.
- Ensuring proper resources are available to meet the Council's responsibilities.

2.3. Investment Managers

The investment managers are responsible for:

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

2.4. Custodian

The custodian is responsible for:

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

2.5. Investment Adviser

The investment adviser is responsible for:

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

2.6. Fund Actuary

The Fund Actuary is responsible for:

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

3. Pension Fund Liabilities

3.1. Overview

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

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

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

3.2. Scheme Benefits

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

3.3. Funding the Benefits

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

3.4. Actuarial Valuation

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

4. Investment Strategy

4.1. Aims and Purpose of the Fund

The aims of the Fund are to:

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

The purpose of the Fund is to:

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

4.2. Investment Strategy

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

4.3. Strategic Benchmark

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

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

4.4. Performance targets

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

4.5. Reporting

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

4.6. Review

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

5. **Investments**

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

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

5.3. Statutory Investment Limits

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

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

5.4. Risks

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

- **The risk of failing to meet the objectives** – the Committee regularly takes advice and monitors the investments and funding level to mitigate this risk.

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

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

5.5 Rate of return

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

5.6. Realisation of investments

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

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

5.7. Stock Lending

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

5.8. Investment Managers

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

selected funds. The current investment management arrangements for the Fund are:

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

6. Social, Environmental and Ethical Policy

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

7. Voting Rights

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.

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

8. Compliance with Myners' Principles of Investment Decision Making

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

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

| <i>Compliance Requirement</i> | <i>Compliance</i> | <i>Notes</i> |
|--|-------------------|--|
| Principle 1: Effective Decision Making | | |
| Administering Authorities should ensure that decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation. | Fully compliant | Decisions are made by the Pension Fund Committee, with advice from the Fund's investment adviser, Fund Actuary and officers. The Committee members receive quarterly reports on investment performance from the Investment Adviser. |
| The persons and organisations involved responsible for decisions should have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest. | Fully compliant | The Pension Fund Committee members collectively have the necessary experience and ability to challenge the advice they receive. The declaration of conflicts of interest is the first item on the agenda at each Pension Fund Committee meeting. |
| Principle 2: Clear Objectives | | |
| An overall investment objective(s) should be set for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the | Fully compliant | The objectives are set out clearly and take into account the requirement to maintain an employer contribution rate as constant as possible over the long term. These are communicated to advisers and investment |

| <i>Compliance Requirement</i> | <i>Compliance</i> | <i>Notes</i> |
|---|---------------------|---|
| administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers. | | managers. |
| Principle 3: Risk and Liabilities | | |
| In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities. These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk | Fully compliant | The structure of the liabilities has been considered in setting an investment strategy which recognises the need to mitigate against the risk of inflation and interest rates, which drive the liabilities, as well generate sufficient investment return to assist in achieving full funding. |
| Principle 4: Performance Assessment | | |
| Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers. | Fully compliant | The Custodian independently measures the performance of the investment managers' portfolios and a summary of investment performance is provided to the Committee by the investment adviser quarterly. |
| Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to the scheme members. | Partially compliant | The investment adviser and Fund Actuary are appointed on fixed term contracts following tender processes and the quality of service is assessed through contract monitoring. The Committee does not periodically make a formal assessment of its own effectiveness as a decision making body. However the performance of the Fund is reported in the Annual Report published on the website. |
| Principle 5: Responsible Ownership | | |
| Administering authorities should: recognise and ensure their partners in the investment chain adopt, the FRC's UK Stewardship Code | Fully compliant | The Fund's investment managers have adopted the FRC's UK Stewardship Code. |
| Include a statement of their policy on responsible ownership in their statement of investment principles | Fully compliant | See section 6 of this document |
| Report periodically to scheme members on the discharge of these responsibilities | Fully compliant | As this Statement of Investment Principles forms part of the Annual Report and Accounts, the statements above comply with this requirement. |

| <i>Compliance Requirement</i> | <i>Compliance</i> | <i>Notes</i> |
|--|-------------------|---|
| Principle 6: Transparency and Reporting | | |
| Administering authorities should: act in a transparent manner, communicating with stakeholders on issues relating to their management of investments, its governance and risks, including performance against stated objectives. | Fully compliant | The information is provided in the Pension Fund Annual Report and Accounts which is available through the website. |
| Provide regular communication to scheme members in the form they consider most appropriate. | Fully compliant | The published annual report and accounts are considered sufficient, since the benefits of the scheme are defined and guaranteed by statute. |

City of Westminster Superannuation Fund

Funding Strategy Statement

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

1. Purpose of the Funding Strategy Statement

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

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

2. Aims and Purpose of the Fund

2.1 The aims of the Fund are to:

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

2.2 The purpose of the Fund is to:

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

3. Responsibilities of Key Parties

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

The Administering Authority

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

- Collect employer and employee contributions from all employers;
- Pay benefits to scheme members;
- Ensure cash is available to meet benefit payments when they fall due;
- Invest the Fund's assets;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;

- Prepare and maintain a Funding Strategy Statement and Statement of Investment Principles in consultation with interested parties;
- Monitor all aspects of the Fund's performance.

Individual Employers

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

The Fund Actuary

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

4. Funding Target, Solvency and Methods

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

- The future service funding rate which is the level of contributions required from the individual employers, which in combination with employee contributions, is expected to support the cost of benefits accruing in future.
- 4.4 For employers closed to new entrants, the funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over the remaining expected working lifetime of active members.
- 4.5 The introduction of the revised Local Government Pension Scheme (LGPS 2014) from 1st April 2014 was incorporated into the Fund Actuary's calculations of future service funding rates at the 2013 valuation.

5. Valuation Assumptions

- 5.1 In undertaking the actuarial valuation calculations, it is necessary to make a number of assumptions about the future. These can be categorised as:
- Financial assumptions which determine the estimates of the amount of benefits and contributions payable and their current or present value; and
 - Statistical assumptions which are estimates of the likelihood of benefits and contributions being paid.

Financial Assumptions: Future Price Inflation

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

Financial Assumptions: Future Pay Inflation

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

Financial Assumptions: Pension Increases

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

Financial Assumptions: Future Investment Returns/Discount Rate

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

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

Financial Assumptions: Value of Assets

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

Statistical Assumptions

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

6. Deficit Recovery or Surplus Amortisation periods

- 6.1 Whilst the funding target for the Fund is to have sufficient assets in the Fund to meet all liabilities, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally be either in deficit or surplus.
- 6.2 Where the actuarial valuation discloses a deficit, the period of time over which the deficit will be funded is set – this is the deficit recovery period. The deficit recovery period varies according to the type of employer, but is never more than the period set for the overall Fund. The table overleaf describes the general approach, but the approach for each employer will be determined by their particular circumstances.

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

- 6.3 If the actuarial valuation shows a significant surplus, the relevant employers' contribution rates will be adjusted to amortise it over a period of time agreed with the Fund Actuary. However, if the surplus is not significant relative to the

employer's liabilities or there is any concern about the strength of the covenant of the employer, then it will remain in the Fund.

7. Pooling of employers

- 7.1 The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.
- 7.2 However, certain groups of individual employers may be pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of scheme members is small. The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst, recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.
- 7.3 Employers can request to be considered as part of a pool and the decision to permit this will be made by the Administering Authority in conjunction with the Fund Actuary. Once an employer is part of a pool, it can only opt to exit it in exceptional circumstances.

8. Admission of New Employers

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

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

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

9. Cessation Valuations

- 9.1 On the cessation of an employer's participation in the Fund, the Fund Actuary will be asked to make a termination assessment, in accordance with the requirements of the Local Government Pension Scheme Regulations. If another employer in the Fund is taking over responsibility for the liabilities of the

departing employer, they will be transferred to that employer on an on-going basis applying the discount rate applicable to the Fund as a whole.

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

10. Links to the Statement of Investment Principles

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

11. Key Risks and Controls

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

Financial Risks

- 11.2 The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.
- 11.3 To mitigate this risk, the Superannuation Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the investment advisers and officers on investment strategy. The Committee may also seek advice from the Fund Actuary on valuation related matters.
- 11.4 In addition, from 2014, the Fund Actuary will be providing regular funding updates between valuations to enable the Committee to see whether the funding strategy continues to be on track to meet the funding target.

Demographic Risks

- 11.5 Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity.
- 11.6 The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.
- 11.7 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements. However, the Administering Authority monitors the incidence of early retirements; and additional contributions towards the costs are collected from employers as appropriate.

Regulatory Risks

- 11.8 The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by central government. The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.
- 11.9 The Administering Authority participates in the consultation process of any proposed changes in regulations to attempt to mitigate this risk and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

Governance Risks

- 11.10 Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:
- Structural changes in an individual employer's membership;
 - An individual employer deciding to close the Scheme to new employees; or
 - An employer ceasing to exist without having fully funded their pension liabilities.
- 11.11 To mitigate this risk, the Administering Authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.
- 11.12 In addition, the Administering Authority keeps in close touch with all individual employers participating in the Fund to ensure that, as Administering Authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

12. Monitoring

- 12.1 This Funding Strategy Statement is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process. However it will be updated in the interim if required.
- 12.2 The Administering Authority monitors the investment performance and funding level of the Fund on a quarterly basis through the Superannuation Committee and keeps the strength of covenant of the employers under continuous review.

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City of Westminster

SUPERANNUATION FUND COMMUNICATIONS POLICY

City of Westminster Superannuation Fund

CITY OF WESTMINSTER SUPERANNUATION FUND

COMMUNICATIONS POLICY

Background

The Local Government Pension Scheme (Administration) Regulations 2008, regulation 67 requires administering authorities like Westminster City Council (WCC) to prepare, publish and maintain a policy statement setting out our strategy for communicating with

- Scheme Members,
- Members' Representatives
- Prospective members
- Other employers participating in the Fund.

This document sets out the mechanisms that we use to meet our communication needs. We aim to use the easiest communication methods and language at all times keeping the needs of the customer in mind.

This may involve us using more than one medium of communication.

General Communication

Correspondence:-

The Fund Administrator (The London Pension Fund Authority [LPFA]) will accept hard copy mail and soft copy e-mails from members and retired members. It will usually adopt the same methods as the originator when replying.

Telephone:-

The LPFA will display their contact information in the scheme literature and on the pension website, and will make themselves available to answer queries over the telephone. It should be noted that for data protection purposes reasonable identity checks will be made.

Pension briefing sessions and surgeries:-

The WCC Human Resources Team will periodically organise open house pension briefing sessions and individual pension surgeries to ensure staff have access to both personal and general scheme information.

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

Pension's Intranet site:-

We have a website to communicate and promote the benefits of the Local Government Pension Scheme (LGPS), 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.

Will also have information about recent scheme updates, provide fund Investment information, and have the LPFAs contact information.

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 keys methods of communication.

www.yourpension.org.uk/Agencies/westminster

Online forms/access:-

The LPFA have also produced a site where other employers in the scheme are requested to submit online forms (instead of paper copies), more information can be found at (add link here).

Pensions Panel:-

We have a Pension's Panel including representatives from the Trade Unions, Human Resources, Finance and scheme members. The aim is to ensure the Scheme is understood by all interested parties through simple and clear communication.

The panel meets quarterly.

Scheme Guides:-

Scheme guides will be available on the website or can be requested by the member form the LPFA.

We will promote to all potential members the benefits of the LGPS via frequent poster campaigns and information posted on the website.

Auto enrolment

We will publicise information regarding Auto-enrolment to all staff via the website, e-mails and a poster campaign as the start date gets nearer.

Human Resources will liaise with all other scheme employers to remind them of their responsibilities to members on Auto-enrolment and to offer support.

Other Employers in the Scheme

Employer Forums meetings are held periodically for employers; specifically this is used as a mechanism for communicating major strategic issues, significant legislation changes, triennial valuation matters and the Funding Strategy Statement.

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

Employers' Guide:-

An Employers' guide has been produced in Partnership with the LPFA to assist the smaller employers in discharging their pension administration responsibilities, this is published on the website:-

www.yourpension.org.uk/Agencies/westminster/employerguide.htm

Publications

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 |
| Superannuation Investment Committee | √ | √ | √ | Quarterly | Quarterly |
| Communication Policy | √ | √ | √ | Upon request | Quarterly |
| Governance Policy | √ | √ | √ | Upon Request | Quarterly |

Other relevant groups

London Pensions Officer's Group

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

National Association of Pension Funds (NAPF):-

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

Seminars

Representatives of WCC regularly participate at seminars and conferences.

Further Information

If you need more information about the Scheme you should contact the LPFA at the following address:

London Pension Fund Authority

Westminster Pensions Team
Dexter House
4 Royal Mint Court
Tower Hill
London
EC3N 4LP
Email: westminster@lpfa.org.uk

General enquiries and complaints: 0207 369 6229
Pensioner payroll queries: 0207 369 6060
Text phone: 020 7 369 6119
Fax: 0207 369 6242

Westminster City Council

Trevor Webster
Strategic HR Manager
Westminster City Council,
Human Resources,
City Hall,
64 Victoria Street,
London
SW1E 6QP

Tel: 0207 641 2803
Email: twebster@westminster.gov.uk

City of Westminster Pension Fund

Funding Update Report

as at 31 March 2015

Graeme D Muir FFA
Barnett Waddingham LLP

6 May 2015

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1. Introduction

- 1.1. We have carried out a quarterly monitoring assessment of the City of Westminster Pension Fund (the Fund) as at 31 March 2015. The purpose of this assessment is to provide an update on the funding position.
- 1.2. We assess the funding position on a smoothed basis which is an estimate of the average position over a six month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until three months after the reporting date. The smoothed results are indicative of the underlying trend.
- 1.3. In addition, we assess the funding position on an unsmoothed basis where assets are taken at market value and discount rates are taken as the spot rates at the reporting date.

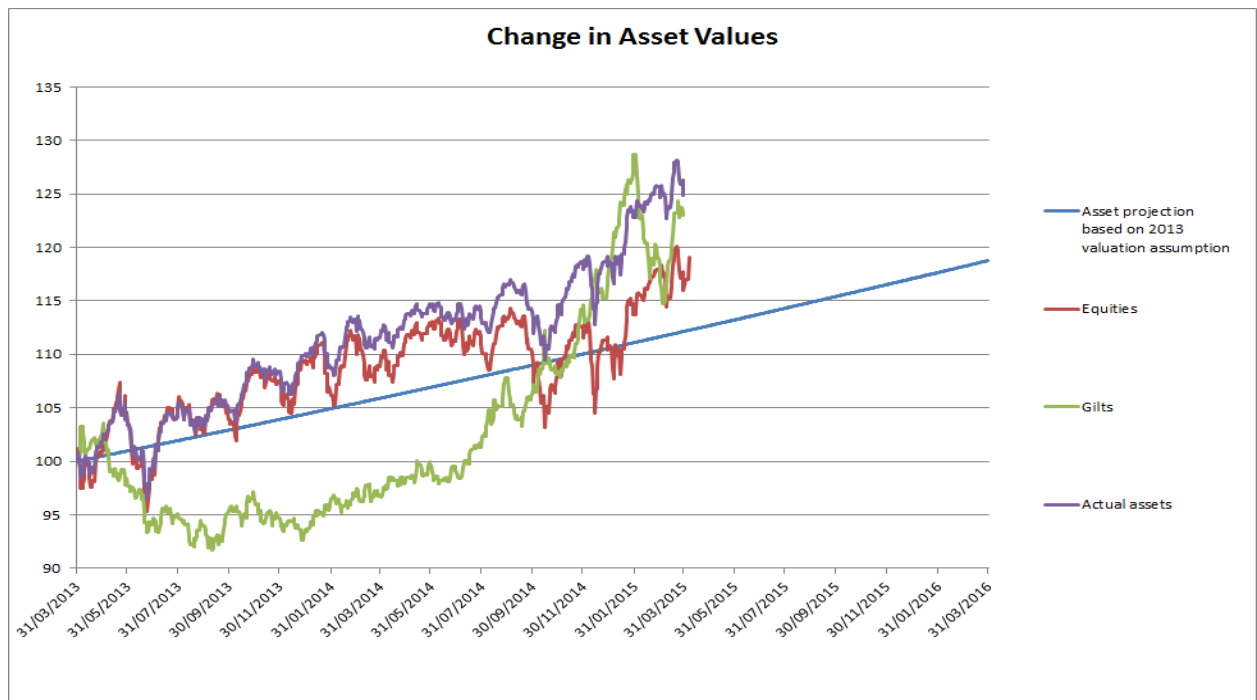
2. Assets

2.1. The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 31 March 2015 is as follows:

| Assets (Market Value) | 31 March 2015 | | 31 December 2014 | | 31 March 2013 | |
|--------------------------|------------------|-------------|------------------|-------------|----------------|-------------|
| | £000's | % | £000's | % | £000's | % |
| UK and Overseas Equities | 851,448 | 77.5% | 797,180 | 76.1% | 643,179 | 73.6% |
| Bonds | 127,640 | 11.6% | 128,058 | 12.2% | 111,092 | 12.7% |
| Property | 97,340 | 8.9% | 90,632 | 8.7% | 35,787 | 4.1% |
| Gilts | 17,786 | 1.6% | 17,438 | 1.7% | 49,821 | 5.7% |
| Cash and Accruals | 4,758 | 0.4% | 13,946 | 1.3% | 34,303 | 3.9% |
| Total Assets | 1,098,972 | 100% | 1,047,254 | 100% | 874,182 | 100% |

2.2. The investment return achieved by the Fund's assets in market value terms for the quarter to 31 March 2015 is estimated to be 5.2%. The return achieved since the previous valuation is estimated to be 24.9% (which is equivalent to 11.7% p.a.).

2.3. The following chart shows the changes in equity and bond markets since the previous actuarial valuation and compares them with the estimated actual fund returns and the expected fund returns assumed at the previous valuation:



2.4. As we can see the asset value as at 31 March 2015 in market value terms is more than where it was projected to be at the previous valuation.

3. Changes in market conditions – market yields and discount rates

- 3.1. The actual investment returns earned by the Fund will affect the value of the Fund's assets. The value of the Fund's liabilities, however, is dependent on the assumptions used to value the future benefits payable. The following table show how these assumptions have changed since the last triennial valuation:

| Assumptions (Smoothed) | 31 March 2015 | | 31 December 2014 | | 31 March 2013 | |
|--|---------------|-------|------------------|-------|---------------|-------|
| | Nominal | Real | Nominal | Real | Nominal | Real |
| | %p.a. | | %p.a. | | %p.a. | |
| Pension Increases | 2.46% | - | 2.53% | - | 2.74% | - |
| Salary Increases | 4.26% | 1.80% | 4.33% | 1.80% | 4.54% | 1.80% |
| Discount Rate | | | | | | |
| <i>Scheduled Bodies</i> | 5.74% | 3.28% | 5.83% | 3.30% | 5.90% | 3.16% |
| <i>Admission Bodies (in service)</i> | 4.48% | 2.02% | 4.62% | 2.09% | 4.90% | 2.16% |
| <i>Admission Bodies (left service)</i> | 2.72% | 0.26% | 2.93% | 0.40% | 3.50% | 0.76% |

| Assumptions (Unsmoothed) | 31 March 2015 | | 31 December 2014 | | 31 March 2013 | |
|--|---------------|-------|------------------|-------|---------------|-------|
| | Nominal | Real | Nominal | Real | Nominal | Real |
| | %p.a. | | %p.a. | | %p.a. | |
| Pension Increases | 2.48% | - | 2.52% | - | 2.80% | - |
| Salary Increases | 4.28% | 1.80% | 4.32% | 1.80% | 4.60% | 1.80% |
| Discount Rate | | | | | | |
| <i>Scheduled Bodies</i> | 5.79% | 3.31% | 5.84% | 3.31% | 5.91% | 3.11% |
| <i>Admission Bodies (in service)</i> | 4.49% | 2.02% | 4.59% | 2.07% | 4.86% | 2.06% |
| <i>Admission Bodies (left service)</i> | 2.68% | 0.21% | 2.85% | 0.33% | 3.40% | 0.59% |

- 3.2. The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate – the higher the real discount rate the lower the value of liabilities. As we see the real discount rates are broadly similar as at the 2013 valuation, maintaining the value of liabilities used for funding purposes.

4. Summary of results

4.1. The results of our assessment indicate that:

- the current projection of the smoothed funding level as at 31 March 2015 is 80% and the average required employer contribution would be 31.3% of payroll assuming the deficit is to be paid by 2038;
- the current projection of the unsmoothed funding level as at 31 March 2015 is 80% and the average required employer contribution would be 31.1% of payroll assuming the deficit is to be paid by 2038;
- this compares with the reported (smoothed) funding level of 74% and average required employer contribution of 29.8% of payroll at the 2013 funding valuation.

4.2. The discount rate underlying the smoothed funding level as at 31 March 2015 is 5.7% p.a. The investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 6.7% p.a.

4.3. The funding position for each month since the formal valuation is shown in Appendix 1. It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.

4.4. We would be pleased to answer any questions arising from this report.



Graeme D Muir FFA

Partner

Appendix 1 Financial position since previous valuation

Below we show the financial position on both a smoothed and an unsmoothed basis for each month since the previous full valuation. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures for the previous three months are projected numbers and likely to change up until three months after the reporting date.

| Smoothed | | | | | | | | | | |
|----------------|------------------|-----------------------|----------------------------|--------------------|--|-------------------------|-------------------------|---------------------------------|--------------------------|---|
| Valuation Date | Assets £000's | Liabilities £000's | Surplus/ Deficit £000's | Funding Level % | Final Salary Ongoing (% of Payroll) | CARE Ongoing Cost | Past Service Ctbn | Total Ctbn (% of payroll) | Main Discount Rate | Return required to restore funding level (pa) |
| March 2013 | 866,938 | 1,164,198 | (297,260) | 74% | 14.3% | 13.3% | 16.5% | 29.8% | 5.9% | 7.1% |
| April 2013 | 878,910 | 1,165,568 | (286,658) | 75% | 14.3% | 13.8% | 13.1% | 26.8% | 5.9% | 7.1% |
| May 2013 | 888,642 | 1,169,568 | (280,926) | 76% | 14.2% | 13.7% | 12.9% | 26.6% | 5.9% | 7.1% |
| June 2013 | 895,688 | 1,170,718 | (275,030) | 77% | 14.1% | 13.5% | 12.7% | 26.2% | 6.0% | 7.1% |
| July 2013 | 904,339 | 1,173,403 | (269,063) | 77% | 14.0% | 13.4% | 12.5% | 25.9% | 6.0% | 7.0% |
| August 2013 | 909,690 | 1,175,518 | (265,828) | 77% | 13.9% | 13.3% | 12.4% | 25.7% | 6.0% | 7.1% |
| September 2013 | 918,777 | 1,183,051 | (264,274) | 78% | 13.9% | 13.3% | 12.3% | 25.7% | 6.0% | 7.1% |
| October 2013 | 929,362 | 1,191,805 | (262,443) | 78% | 13.9% | 13.4% | 12.3% | 25.7% | 6.0% | 7.0% |
| November 2013 | 938,213 | 1,201,055 | (262,842) | 78% | 13.9% | 13.4% | 12.3% | 25.7% | 6.0% | 7.0% |
| December 2013 | 946,872 | 1,211,047 | (264,176) | 78% | 14.0% | 13.4% | 12.4% | 25.8% | 6.0% | 7.0% |
| January 2014 | 954,969 | 1,220,108 | (265,139) | 78% | 13.9% | 13.4% | 14.1% | 27.5% | 6.0% | 7.0% |
| February 2014 | 962,658 | 1,228,794 | (266,137) | 78% | 13.9% | 13.4% | 14.3% | 27.7% | 6.0% | 7.0% |
| March 2014 | 1,004,578 | 1,236,829 | (232,251) | 81% | 13.9% | 13.4% | 14.4% | 27.8% | 6.0% | 6.9% |
| April 2014 | 1,005,726 | 1,247,749 | (242,023) | 81% | - | 13.4% | 15.8% | 29.2% | 6.0% | 6.9% |
| May 2014 | 1,007,188 | 1,258,014 | (250,825) | 80% | - | 13.4% | 16.3% | 29.7% | 5.9% | 6.9% |
| June 2014 | 1,009,896 | 1,238,977 | (229,081) | 82% | - | 12.8% | 15.5% | 28.3% | 6.1% | 7.0% |
| July 2014 | 1,009,337 | 1,256,980 | (247,642) | 80% | - | 13.0% | 15.2% | 28.2% | 6.1% | 7.0% |
| August 2014 | 1,009,990 | 1,267,542 | (257,552) | 80% | - | 13.0% | 15.8% | 28.8% | 6.0% | 7.0% |
| September 2014 | 1,009,471 | 1,277,558 | (268,087) | 79% | - | 13.0% | 16.4% | 29.4% | 6.0% | 7.0% |
| October 2014 | 1,023,976 | 1,302,309 | (278,334) | 79% | - | 13.2% | 16.7% | 29.9% | 5.9% | 7.0% |
| November 2014 | 1,039,241 | 1,318,921 | (279,680) | 79% | - | 13.4% | 17.1% | 30.4% | 5.9% | 6.9% |
| December 2014 | 1,054,928 | 1,336,829 | (281,900) | 79% | - | 13.5% | 17.5% | 31.0% | 5.8% | 6.9% |
| January 2015 | 1,077,772 | 1,357,915 | (280,143) | 79% | - | 13.7% | 17.5% | 31.2% | 5.8% | 6.8% |
| February 2015 | 1,085,724 | 1,371,376 | (285,651) | 79% | - | 13.8% | 17.9% | 31.7% | 5.7% | 6.7% |
| March 2015 | 1,098,495 | 1,374,723 | (276,229) | 80% | - | 13.7% | 17.6% | 31.3% | 5.7% | 6.7% |

| Unsmoothed | | | | | | | | | | |
|----------------|------------------|-----------------------|----------------------------|--------------------|--|-------------------------|-------------------------|---------------------------------|--------------------------|---|
| Valuation Date | Assets £000's | Liabilities £000's | Surplus/ Deficit £000's | Funding Level % | Final Salary Ongoing (% of Payroll) | CARE Ongoing Cost | Past Service Ctbn | Total Ctbn (% of payroll) | Main Discount Rate | Return required to restore funding level (pa) |
| March 2013 | 874,182 | 1,175,148 | (300,966) | 74% | 14.7% | 13.6% | 13.4% | 27.0% | 5.9% | 7.1% |
| April 2013 | 886,487 | 1,186,870 | (300,384) | 75% | 14.9% | 13.8% | 13.5% | 27.3% | 5.8% | 7.0% |
| May 2013 | 901,919 | 1,182,756 | (280,837) | 76% | 14.6% | 13.5% | 12.8% | 26.2% | 5.9% | 7.0% |
| June 2013 | 862,959 | 1,138,024 | (275,065) | 76% | 13.2% | 13.5% | 12.9% | 26.4% | 6.1% | 7.2% |
| July 2013 | 911,592 | 1,173,707 | (262,116) | 78% | 14.1% | 13.5% | 12.1% | 25.6% | 5.9% | 6.9% |
| August 2013 | 897,984 | 1,162,093 | (264,109) | 77% | 13.5% | 13.3% | 12.4% | 25.7% | 6.1% | 7.2% |
| September 2013 | 910,261 | 1,176,348 | (266,087) | 77% | 13.7% | 13.3% | 12.5% | 25.8% | 6.0% | 7.0% |
| October 2013 | 944,904 | 1,208,939 | (264,035) | 78% | 14.4% | 13.2% | 12.3% | 25.5% | 5.9% | 6.9% |
| November 2013 | 939,772 | 1,206,750 | (266,978) | 78% | 14.0% | 13.4% | 12.5% | 25.9% | 6.1% | 7.1% |
| December 2013 | 953,407 | 1,212,836 | (259,429) | 79% | 14.1% | 13.4% | 12.2% | 25.6% | 6.0% | 7.0% |
| January 2014 | 940,435 | 1,213,328 | (272,893) | 78% | 13.8% | 13.4% | 12.9% | 26.3% | 6.0% | 7.0% |
| February 2014 | 979,617 | 1,231,045 | (251,428) | 80% | 14.1% | 13.4% | 11.9% | 25.3% | 5.9% | 6.9% |
| March 2014 | 994,420 | 1,226,711 | (232,291) | 81% | 13.6% | 13.2% | 11.2% | 24.5% | 6.1% | 7.0% |
| April 2014 | 1,009,341 | 1,247,964 | (238,623) | 81% | - | 13.4% | 15.7% | 29.1% | 6.0% | 6.9% |
| May 2014 | 1,018,430 | 1,265,089 | (246,660) | 81% | - | 13.6% | 16.0% | 29.5% | 6.0% | 6.9% |
| June 2014 | 1,005,898 | 1,245,649 | (239,751) | 81% | - | 12.9% | 15.8% | 28.7% | 6.1% | 7.0% |
| July 2014 | 1,006,083 | 1,253,133 | (247,050) | 80% | - | 12.9% | 15.2% | 28.1% | 6.0% | 7.0% |
| August 2014 | 1,032,413 | 1,288,597 | (256,185) | 80% | - | 13.4% | 15.7% | 29.0% | 5.9% | 6.8% |
| September 2014 | 1,009,675 | 1,281,513 | (271,838) | 79% | - | 13.0% | 16.6% | 29.6% | 6.0% | 7.0% |
| October 2014 | 1,013,601 | 1,293,450 | (279,849) | 78% | - | 13.1% | 17.2% | 30.3% | 6.0% | 7.1% |
| November 2014 | 1,048,970 | 1,329,207 | (280,237) | 79% | - | 13.6% | 17.5% | 31.1% | 5.9% | 6.9% |
| December 2014 | 1,047,254 | 1,339,010 | (291,756) | 78% | - | 13.5% | 18.5% | 32.0% | 5.8% | 6.9% |
| January 2015 | 1,083,087 | 1,375,272 | (292,185) | 79% | - | 14.0% | 18.0% | 32.0% | 5.5% | 6.5% |
| February 2015 | 1,107,211 | 1,377,004 | (269,793) | 80% | - | 14.0% | 17.1% | 31.1% | 5.7% | 6.6% |
| March 2015 | 1,098,972 | 1,372,946 | (273,974) | 80% | - | 13.6% | 17.5% | 31.1% | 5.8% | 6.8% |

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City of Westminster Superannuation Fund

Investment Performance Report to 31 March 2015 – Executive Summary

Deloitte Total Reward and Benefits Limited
May 2015



INVESTMENTS

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1 Market Background

Three and twelve months to 31 March 2015

UK equities offered a positive return over the 3 months to 31 March 2015, with the FTSE All Share Index returning 4.7%. UK markets benefitted from positive macroeconomic news with the likelihood of a rate rise being pushed back in both the US and UK and the ECB's announcement that it would begin a programme of quantitative easing. Oil prices continued to fall, reaching a low of c. \$45 per barrel during the first quarter.

Mid cap companies led the way in the first quarter with the FTSE 250 returning 6.7%. There was a marked difference in performance at the sector level, with the Consumer Services sector offering the highest return of 10.0%. The Utilities sector was the worst performing over the quarter, with falling oil prices contributing to a return of -6.3%.

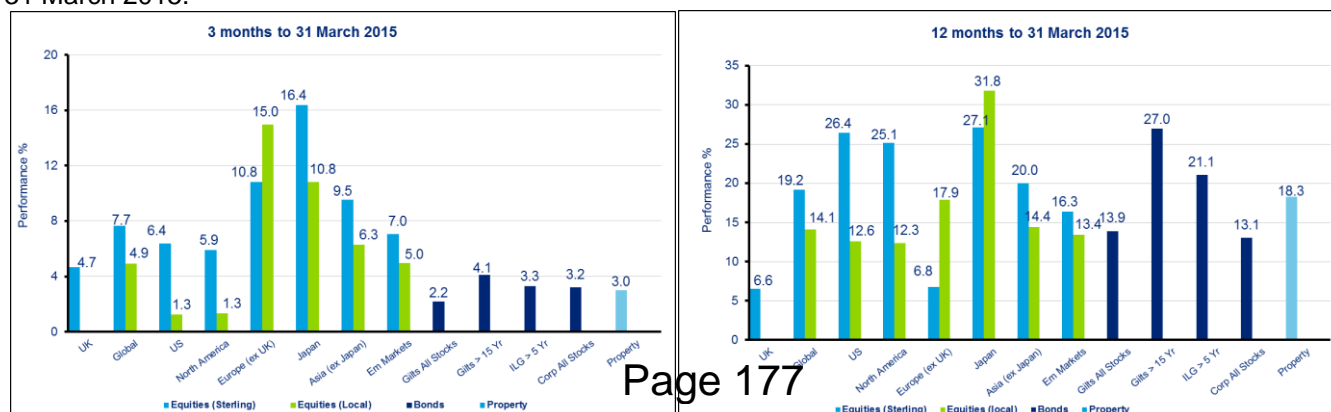
Global equity markets outperformed the UK in both sterling and local currency terms over the first quarter of 2015, returning 7.7% and 4.9% respectively. Currency hedging was therefore detrimental to investors as sterling depreciated strongly versus the US dollar and Japanese yen. At a regional level, Europe delivered the highest local currency return of 15.0% on the back of the ECB's announcement and returned 10.8% in sterling terms as the euro depreciated. North America was the poorest performing region with concerns that a strong dollar would impact corporate earnings, returning 5.9% in sterling terms and 1.3% in local currency terms.

UK nominal gilts also performed positively over the first quarter as yields dropped to a new record low at the end of January, but bounced back in February, only to go lower again over March to end the quarter around 20 basis points lower overall. The All Stocks Gilt Index returned 2.2% over the 3 months to 31 March 2015 and the Over 15 Year Gilt Index returned 4.1%. Real yields on UK index-linked gilts fell by a similar amount over the period with the Over 5 Year Index-linked Gilt Index returning 3.3% over the quarter. Corporate bonds performed positively over the first quarter, with the iBoxx All Stocks Non Gilt Index returning 3.2% on the back of the fall in gilt yields and narrowing credit spreads.

Over the year to 31 March 2015, the FTSE All Share Index returned 6.6%. At the sector level, Health Care delivered the highest return (16.7%) performing well ahead of the poorest performing sector over the year, Basic Materials (-14.9%). Global markets outperformed the UK in both sterling and local currency terms over the year. The FTSE All World Index returned 19.2% in sterling terms and 14.1% in local currency terms. Currency hedging was therefore detrimental as sterling depreciated significantly against the US dollar.

UK nominal gilts delivered an exceptionally high return over the last 12 months as gilt yields fell across all maturities, most profoundly at the longer end of the curve. The All Stocks Gilt Index returned 13.9% and the Over 15 Year Gilt Index returned 27.0% over the 12 month period. Real yields also fell significantly with the Over 5 Year Index-linked Gilt Index returning 21.1% over the year. Corporate bond markets performed positively over the 12 months to 31 March 2015, benefitting from the fall in gilt yields, with the iBoxx All Stocks Non Gilt Index returning 13.1%.

The UK property market continued to perform strongly, returning 3.0% over the quarter and 18.3% over the year to 31 March 2015.



2 Total Fund

2.1 Investment Performance to 31 March 2015

The following table summarises the performance of the Fund's managers.

| Manager | Asset Class | Last Quarter (%) | | | Last Year (%) | | | Last 3 Years (% p.a.) ¹ | | | Since inception (% p.a.) ¹ | | |
|-----------------|---------------|------------------|------------------|--------|---------------|------------------|--------|------------------------------------|------------------|--------|---------------------------------------|------------------|--------|
| | | Fund | | B'mark | Fund | | B'mark | Fund | | B'mark | Fund | | B'mark |
| | | Gross | Net ¹ | | Gross | Net ¹ | | Gross | Net ¹ | | Gross | Net ¹ | |
| Baillie Gifford | Global Equity | 9.3 | 9.2 | 7.6 | 19.4 | 18.9 | 19.0 | n/a | n/a | n/a | 19.1 | 18.7 | 18.8 |
| Majedie | UK Equity | 5.8 | 5.7 | 4.7 | 7.2 | 6.9 | 6.6 | 16.3 | 16.0 | 10.6 | 11.2 | 10.8 | 6.3 |
| LGIM | Global Equity | 4.7 | 4.7 | 4.7 | 13.9 | 13.7 | 13.9 | n/a | n/a | n/a | 18.0 | 17.8 | 18.0 |
| Longview | Global Equity | 9.7* | 9.6 | 7.5 | n/a | n/a | n/a | n/a | n/a | n/a | 9.7 | 9.6 | 7.5 |
| Insight | Non Gilts | 2.6 | 2.5 | 2.4 | 10.1 | 9.8 | 9.8 | 8.4 | 8.1 | 7.5 | 6.3 | 6.0 | 5.8 |
| | Gilts | 1.0 | 1.0 | 1.0 | 6.7 | 6.6 | 6.8 | 2.7 | 2.6 | 2.7 | 5.6 | 5.5 | 5.7 |
| Hermes | Property | 3.3 | 3.2 | 3.0 | 19.5 | 19.1 | 16.9 | 12.5 | 12.1 | 9.5 | 9.3 | 8.9 | 8.7 |
| Standard Life | Property | 2.3 | 2.2 | 2.7 | 9.9 | 9.4 | 16.2 | n/a | n/a | n/a | 11.3 | 10.8 | 10.7 |
| Total | | 5.4 | 5.3 | 4.5 | 12.8 | 12.5 | 12.9 | 13.5 | 13.3 | 12.0 | 6.9 | 6.6 | 6.8 |

Source: Investment Managers

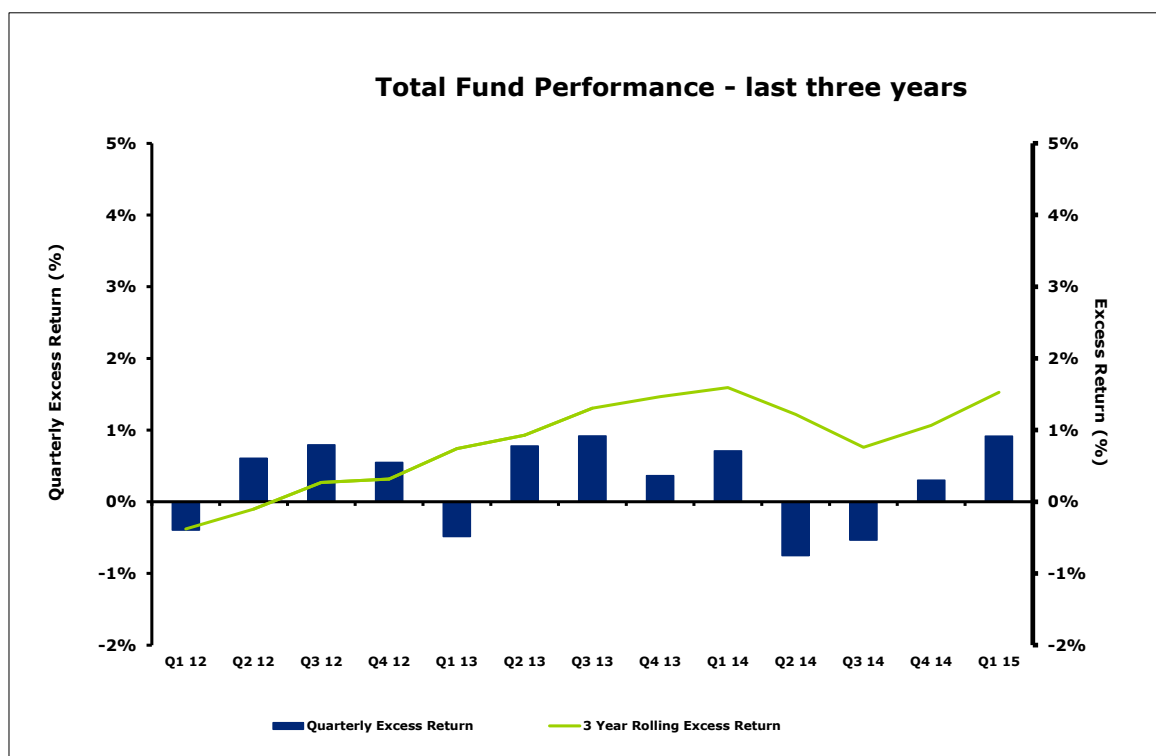
(1) Estimated by Deloitte when manager data is not available.

See appendix 1 for more detail on manager fees and since inception dates

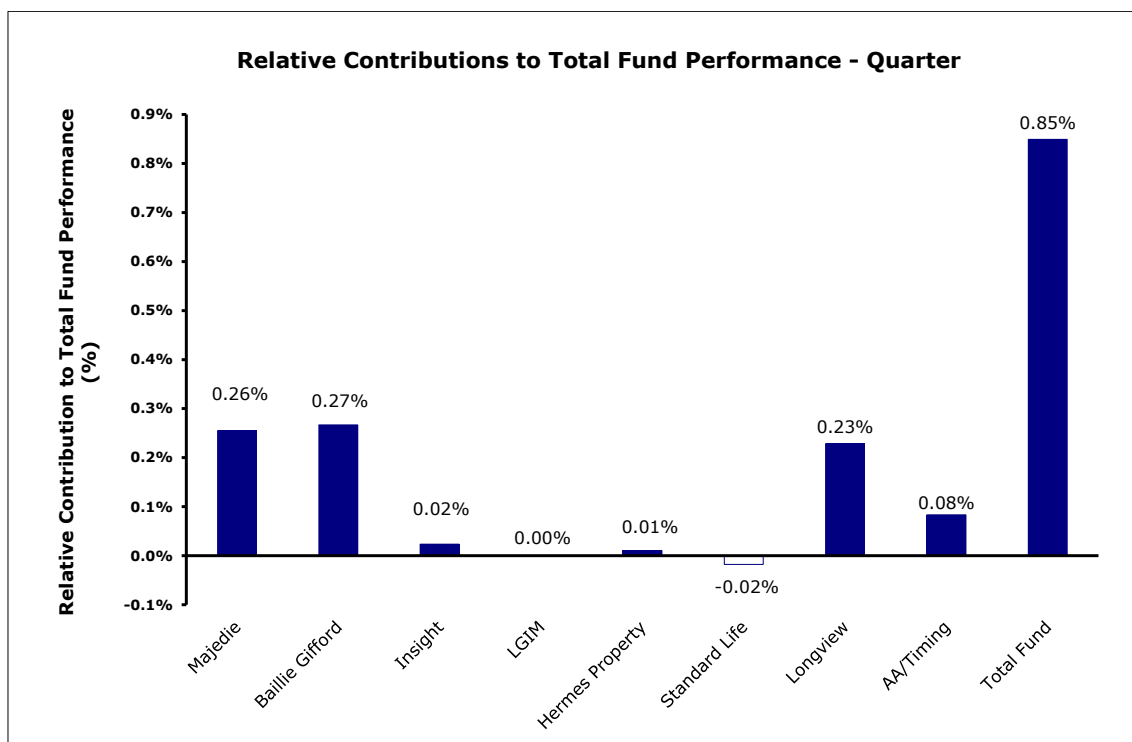
*Performance has been since the Fund was invested on 15th January 2015.

Over the quarter the Fund outperformed, mostly due to the active equity managers Baillie Gifford, Majedie and the newly appointed Longview.

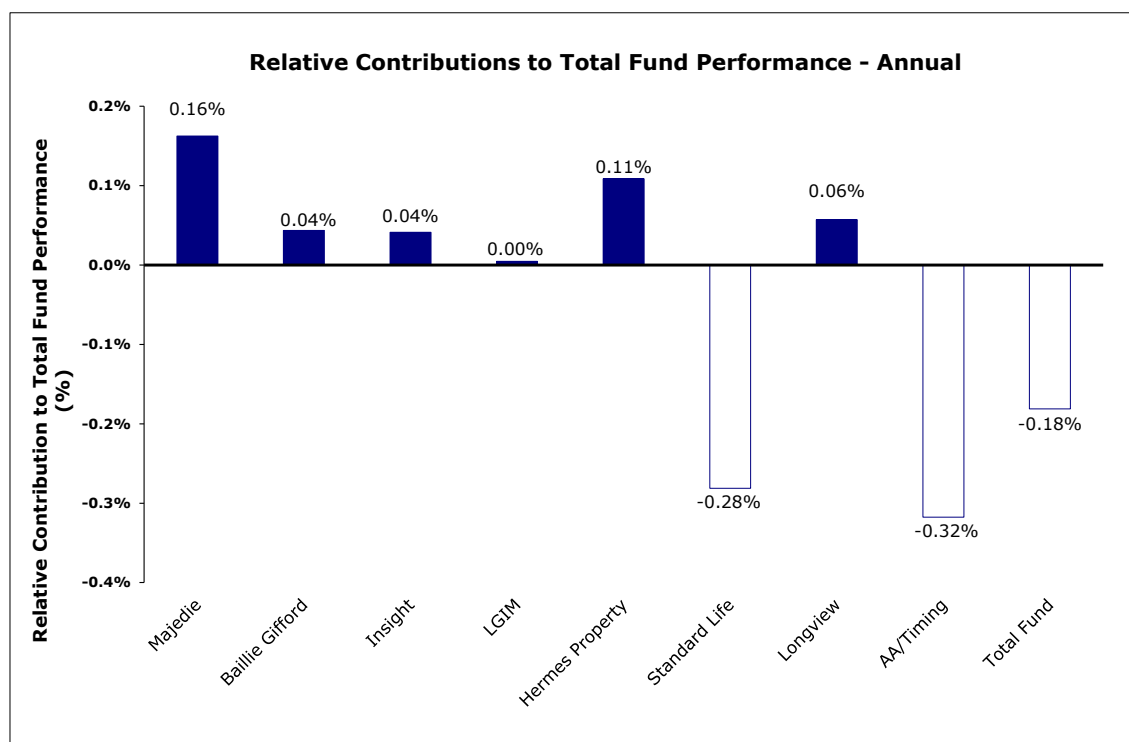
The chart below shows the performance of the Fund over the three year period, highlighting that the rolling three-year performance has been positive since mid-2012, with Majedie and Hermes contributing positively.



2.2 Attribution of Performance to 31 March 2015



The Fund outperformed its composite benchmark by 60bps over the first quarter of 2015, largely as a result of strong performance from the active equity managers, Majedie, Baillie Gifford and Longview. The performance of Longview in the above chart includes the performance of LGIM prior to the 15 January 2015 when the money was disinvested to fund the Longview investment. For information, the LGIM fund returned -2.2% over this period, which was in line with the fund's benchmark.



The Fund underperformed over the year, largely due to underperformance from Standard Life. The performance of the Longview fund is taken from inception as the Fund has been invested for less than a year. The AA/Timing bar largely reflects the fact that the actual allocation has differed from the benchmark.

Asset Allocation as at 31 March 2015

As mentioned in last quarter's report, the investment with Longview was funded from LGIM on the 15 January 2015.

The table below shows the assets held by manager and asset class as at 31 March 2015.

| Manager | Asset Class | End Dec 2014 (£m) | End Mar 2015 (£m) | End Dec 2014 (%) | End Mar 2015 (%) | Benchmark Allocation (%) |
|------------------|--------------------------------|-------------------|-------------------|------------------|------------------|--------------------------|
| Majedie | UK Equity | 242.5 | 256.5 | 23.2 | 23.5 | 20 |
| LGIM | Global Equity (Passive) | 377.3 | 277.3 | 36.1 | 25.4 | 20 |
| Baillie Gifford | Global Equity | 164.0 | 179.2 | 15.7 | 16.4 | 25 |
| Longview | Global Equity | 0.0 | 109.6 | 0.0 | 10.0 | |
| | Total Equity | 783.8 | 822.6 | 75.0 | 75.4 | 65 |
| Insight | Fixed Interest Gilts (Passive) | 17.7 | 17.9 | 1.7 | 1.6 | 20 |
| Insight | Sterling Non-Gilts | 152.6 | 156.6 | 14.6 | 14.4 | |
| | Total Bonds | 170.3 | 174.5 | 16.3 | 16.0 | 20 |
| Hermes | Property | 44.3 | 45.7 | 4.2 | 4.2 | 5 |
| Standard Life | Property | 46.9 | 47.9 | 4.5 | 4.4 | 5 |
| To be Determined | Property / Infrastructure | - | - | - | - | 5 |
| | Total Property | 91.2 | 93.6 | 8.7 | 8.6 | 15 |
| | Total | 1,045.3 | 1,090.7 | 100 | 100 | 100 |

Source: Investment Managers

Figures may not sum to total due to rounding

Over the quarter the market value of the assets increased by c. £45.4m.

Rebalancing Framework

Since the introduction of Longview, the benchmark allocation has been amended.

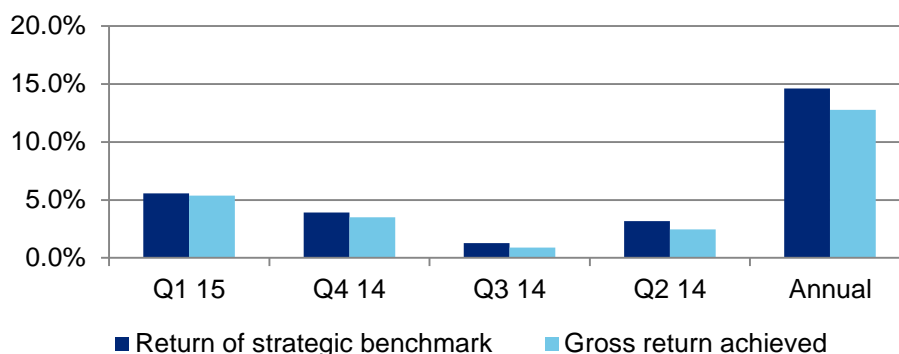
As at 31 March 2015, the Fund remained overweight to Majedie UK equities (albeit now reduced to +3.5% after the change in benchmark). At a total equity level the fund is overweight by c. 10.4% when compared with the benchmark allocation. As a result of this overweight position, both the allocations to bonds and property are underweight to the order of c. 4.0% and c. 6.4% respectively.

The current benchmark has an allocation to property / infrastructure which is yet to be invested. For the purposes of calculating the benchmark return, we have effectively assumed that this unallocated 5% is spread evenly across the Fund's other mandates.

Had the Fund been invested in accordance with the strategic benchmark as shown above, we estimate the total gross return on the fund over the first quarter of 2015 would be c. 5.6% (0.2% ahead of actual fund return). Over the year to 31 March 2015, the strategic benchmark would have returned c. 14.6%, ahead of actual fund returns by 1.9%.

The strategic benchmark in this analysis corresponds to the benchmarks in force in each period.

Strategic Benchmark Returns



3 Summary of Manager Ratings

The table below summarises Deloitte's ratings of the managers employed by the Fund and triggers against which managers should be reviewed.

| Manager | Mandate | Triggers for Review | Rating |
|-----------------|--------------------------------|--|--------|
| Majedie | UK Equity | Further turnover within the core investment team Re-opening the UK equity products with no clear limits on the value of assets that they would take on | 1 |
| Baillie Gifford | Global Equity | Loss of key personnel Change in investment approach Lack of control of asset growth | 1 |
| Longview | Global Equity | Loss of key personnel Change in investment approach Lack of control in growth of assets under management | 1 |
| LGIM | Global Equity (passive) | Major deviation from benchmark returns Significant loss of assets under management | 1 |
| Insight | Sterling Non-Gilts | Departure of any of the senior members of the investment team | 1 |
| Insight | Fixed Interest Gilts (Passive) | Steps to broaden their product offering beyond the current UK and European focus without first bringing in the additional expertise | n/a |
| Hermes | Property | Significant growth in the value of assets invested in the fund Changes to the team managing the mandate | 2 |
| Standard Life | Property | Further significant growth in the value of the Long Lease Property Fund resulting in an erosion in the quality and yield of the underlying assets Departure of the fund manager | 1 |

* The Provisional rating is applied where we have concerns over changes to an investment manager

Majedie UK Equity

Business

The UK Equity fund remains near capacity with outflow due to clients de-risking being recycled to new investors.

Personnel

Gavin Murray, an equities dealer for the past 30 years has retired from Majedie, with Simon Cuthbert taking up the reins. Simon joins the Majedie team from Investec.

Adam Parkes, one of the co-founders of Majedie and co-manager of the UK Smaller Companies Fund is retiring on 31 June 2015. Richard Staveley, the other co-manager of the UK Smaller Companies Fund will take full control of the Fund. This handover has been well managed by Majedie over the past few quarters.

Deloitte view – We continue to rate Majedie positively for its UK equity capabilities but will continue to monitor the team in light of the recent changes. Majedie recognises the need to carefully manage succession planning within the team and believes the multi-manager approach helps smooth transitions.

Baillie Gifford

Business

Total assets under management increased over the first quarter of 2015 from £114.5bn as at 31 December 2014 to £125.1bn as at 31 March 2015. The increase was mainly as a result of strong market returns but net new business was positive over the quarter.

Baillie Gifford closed the Global Opportunities Fund during the first quarter of 2015. The majority of the assets invested in the Fund were for one client and this client made the decision to transfer the assets in to the Global Alpha Fund. The team managing the strategy will be redeployed to strengthen other teams across Baillie Gifford in due course.

The Global Alpha Fund remains soft closed to new clients but currently continues to accept further assets from existing clients.

Personnel

Charles Plowden, one of the three Global Alpha investment managers and Baillie Gifford's joint senior partner, will be taking a 3 month sabbatical starting at the end of April. Baillie Gifford encourages senior colleagues to take sabbaticals although no more than one senior member of the investment team can take a sabbatical at any one time. While Charles is away the management of the Global Alpha Fund will remain with the other two managers, Malcom MacColl and Spencer Adair, with Jenny Davis, an analyst in the team, taking on a wider role supporting them.

Deloitte view – We continue to rate Baillie Gifford positively for its global equity capabilities and will monitor developments within the team on Charles Plowden's return at the end of his sabbatical.

LGIM

Business

As at 31 December 2014, Legal & General Investment Management ("Legal & General") had total assets under management of c. £499bn.

Personnel

As mentioned last quarter, Legal & General announced a number of major changes to its management team. Legal & General is still in the process of appointing a successor for Ali Toutounchi, Managing Director of Index Funds, when he retires at the end of 2015. Aaron Meder, the new Head of Investment, will work closely with Ali to appoint his successor and transition his responsibilities.

Joseph Molloy, Head of Index Equities, left the index team during the first quarter of 2015. Julian Harding, who Joseph reported to, will assume his management responsibilities and Legal & General intends to add a new fund manager to the equity team during 2015. There were no new additions to the index team over the quarter.

Deloitte View: We continue to rate Legal & General positively for their passive capabilities.

Longview

Business

During the quarter Longview was funded for a mandate for a sovereign wealth fund. The product is now effectively closed to new business.

Personnel

An additional resource was added to the institutional client team over the quarter.

Deloitte view – We rate Longview for their global equity capabilities.

Insight

Assets under management reached £363bn as at the end of December 2014.

There were no significant changes to the investment team responsible for managing the Fund's mandate over the quarter.

Four new Fixed Interest funds were launched in the first quarter of 2015:

- Global Credit Pooled Fund
- Global Aggregate
- Insight Secured Finance Fund, and
- Insight Liquid ABS Fund.

Deloitte view – We continue to rate Insight positively for its bond and LDI capabilities.

Hermes

Business

The total value of the Trust increased over the quarter to c. £1.12bn at the end of March 2015 with a waiting list continuing to operate, reflecting strong demand.

Personnel

There were no changes to the team over the quarter.

Deloitte view – We continue to rate the team managing HPUT.

Standard Life

Business

The Fund's assets under management increased to £1.52bn over the first quarter. Shortly after the quarter end, SLI drew down a £40m commitment from a new pension fund investor.

Personnel

There were no changes to the team responsible for the Fund's investment.

Deloitte View: While we continue to rate SLI positively for its long lease capabilities, we will continue to monitor the supermarket exposure within the Long Lease Property Fund.

4 Baillie Gifford – Global Equity

Baillie Gifford was appointed to manage an active Global Equity mandate from 18 March 2014. The manager is remunerated on an asset based fee, reflecting the total value of assets invested in the strategy across the Tri-borough. The target is to outperform the benchmark of 2% p.a.

4.1 Global equity – Investment performance to 31 March 2015

| | Last Quarter (%) | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) |
|---------------------------------|------------------|---------------|-----------------------|--------------------------|
| Baillie Gifford - Gross of fees | 9.3 | 19.4 | n/a | 19.1 |
| <i>Net of fees¹</i> | 9.2 | 18.9 | n/a | 18.7 |
| MSCI AC World Index | 7.6 | 19.0 | n/a | 18.8 |
| Relative | 1.7 | 0.4 | n/a | 0.3 |

Source: Baillie Gifford

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

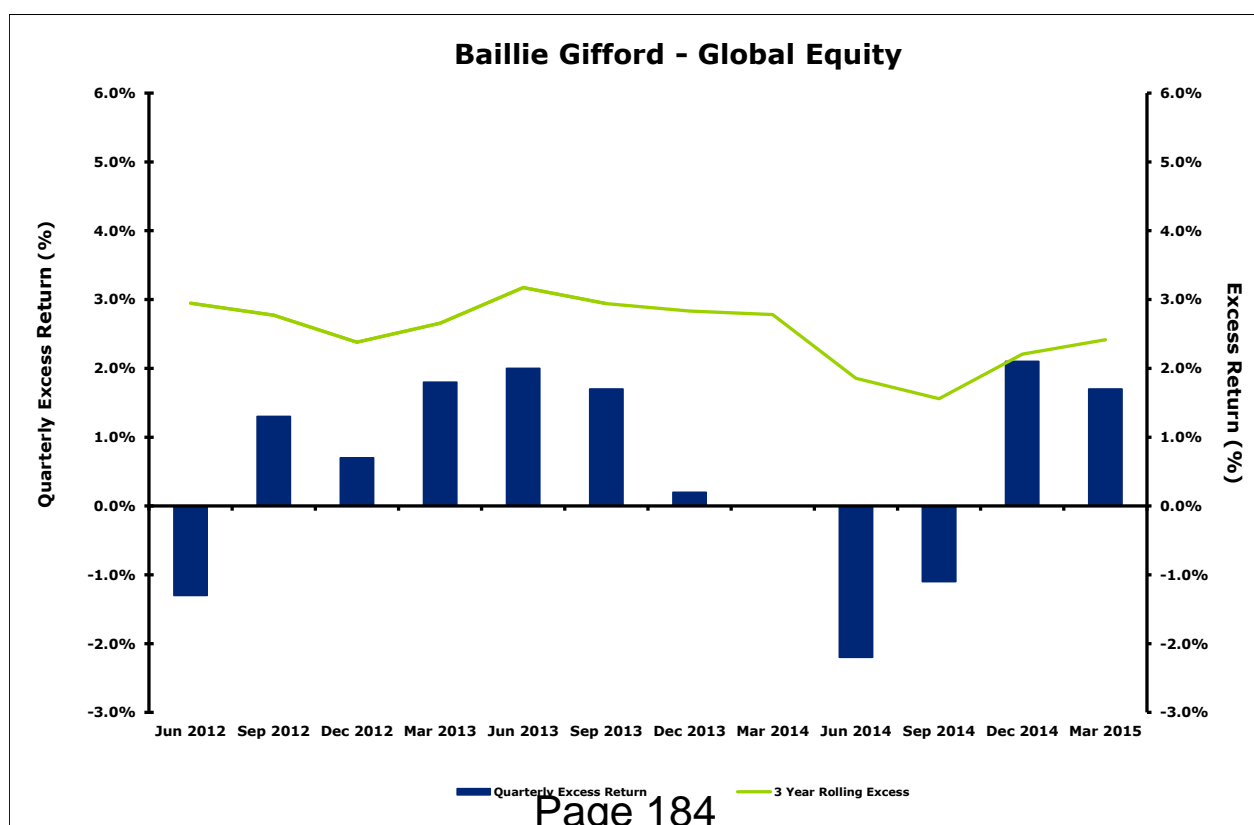
Inception date taken as 18 March 2014

The Baillie Gifford Global Equity fund has outperformed its benchmark over the quarter and marginally so over the year, and period since inception.

One of the greatest contributions to performance came from the fund's holding in Naspers (a global platform operator for internet services, pay television and print media) which has been a top performer over the quarter as well as over the longer term. Over the quarter the company benefitted from its exposure to a variety of internet companies, particularly its large exposure to Tencent.

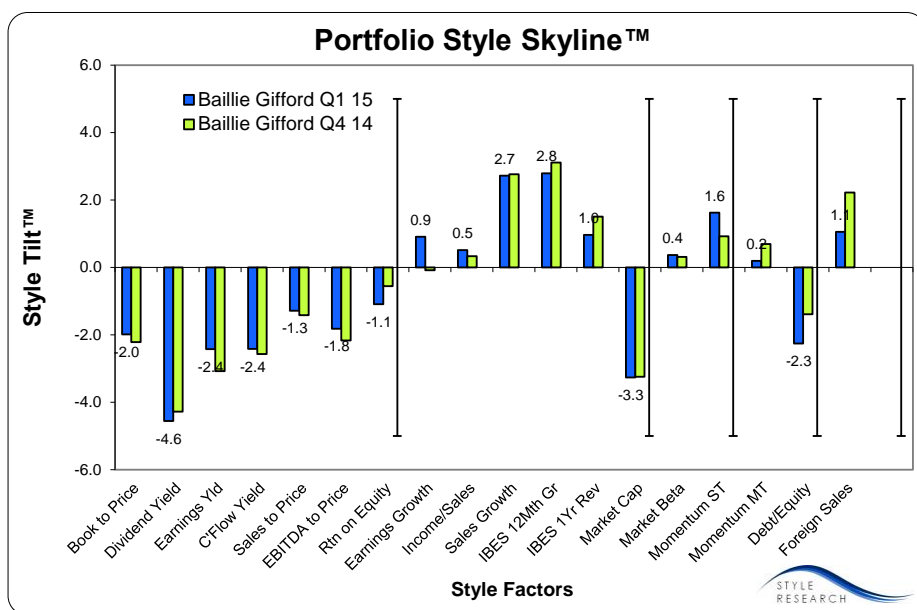
Baidu (the Chinese web services company) was the worst performing stock as the company's results were poorer than expected, largely as a result of increased spending. Not holding Apple in the portfolio also detracted from relative performance over the first quarter of 2015 as Apple performed strongly.

The graph below shows the quarterly returns and the rolling 3 year excess returns relative to the benchmark. Note that the Fund only invested in this fund from 18th March 2014 and previous periods are shown for information only.



4.2 Style analysis

We have analysed the Style of Baillie Gifford as at 31 March 2015 as can be seen in the below graph. When considering the analysis it should be borne in mind that any figures in excess of +/- 1 are considered to be meaningful.



As can be seen from the above, the Baillie Gifford fund has a marked negative bias to value related factors and a positive bias to growth factors which is consistent with the stated investment approach.

The top 10 holdings in the Baillie Gifford fund account for c. 26% of the fund and are detailed below.

| Top 10 holdings as at 31 March 2015 | Proportion of Baillie Gifford fund |
|-------------------------------------|------------------------------------|
| Royal Caribbean | 3.91% |
| Naspers | 3.79% |
| Prudential | 3.45% |
| Taiwan Semi | 2.32% |
| Anthem | 2.27% |
| Ryanair Holdings | 2.10% |
| Amazon.com | 2.08% |
| TD Ameritrade | 2.08% |
| Google | 1.78% |
| Markel | 1.78% |
| Total | 25.56% |

| Baillie Gifford | 31 March 2015 |
|--------------------------|---------------|
| Total Number of holdings | 98 |
| Active risk | 3.9% |
| Coverage | 6.8% |

As at 31 March 2015, Baillie Gifford held 98 stocks, with an overlap with the FTSE All World index of 6.8%. As an active manager, Baillie Gifford tactically invests in such a way as not to replicate the index. The active risk, as at 31 March 2015, was 3.9%.

5 LGIM – Global Equity (Passive)

LGIM was appointed to manage a passive global equity mandate from the 31 October 2012. The manager is remunerated on a fixed fee based on the value of assets. The target is to deliver performance in line with the stated benchmarks.

5.1 Passive Global Equity – Investment Performance to 31 March 2015

| | Last Quarter (%) | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) |
|----------------------------|---------------------|------------------|--------------------------|-----------------------------|
| LGIM - Gross of fees | 4.7 | 13.9 | n/a | 18.0 |
| Net of fees ⁽¹⁾ | 4.7 | 13.7 | n/a | 17.8 |
| FTSE World GBP Hedged | 4.7 | 13.9 | n/a | 18.0 |
| Relative | 0.0 | 0.0 | n/a | 0.0 |

Source: LGIM

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 1 November 2012 (prior to that the mandate was an active equity mandate). The portfolio aims to track the benchmark.

The investment objective of the fund is to track the performance of the FTSE AW-World Index (less withholding tax if applicable) - GBP Hedged (with the exception of advanced emerging markets) to within +/-0.5% p.a. for two years out of three.

The LGIM fund has performed in line with the benchmark over the quarter, one year and since the inception of the mandate.

6 Majedie – UK Equity

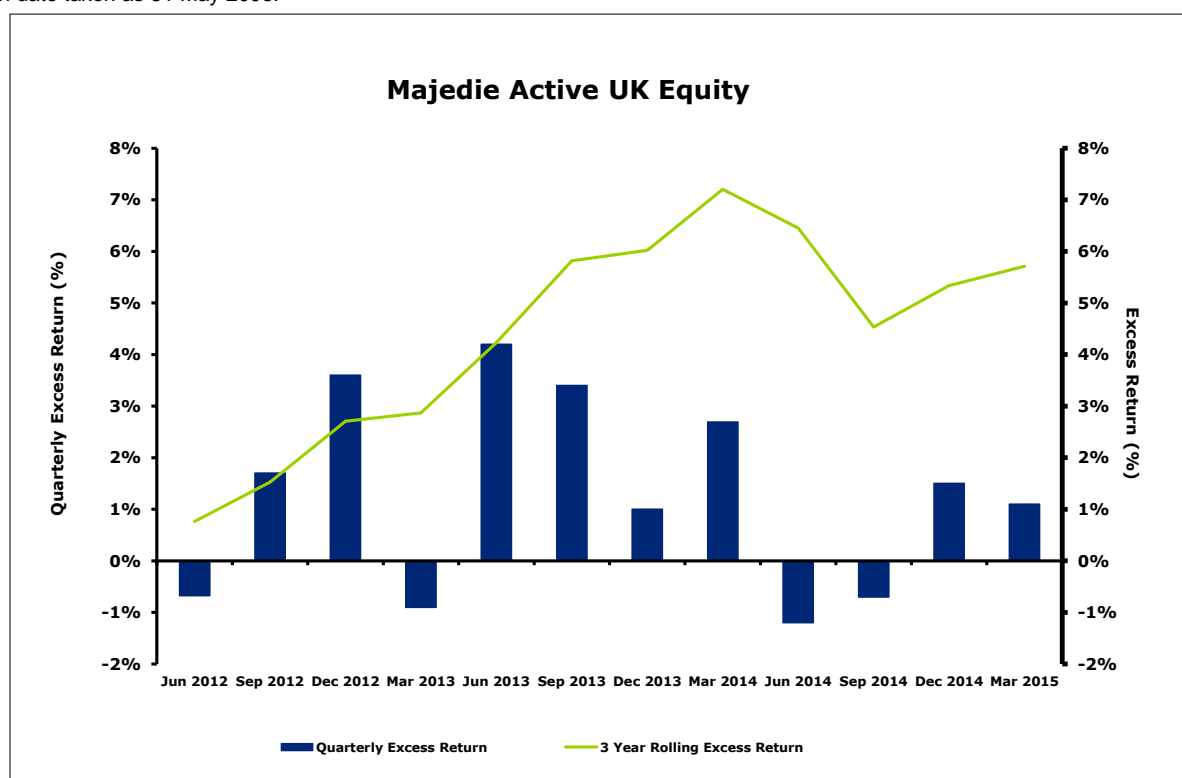
Majedie was appointed to manage an active UK equity mandate. The manager's remuneration is a combination of a fixed fee based on the value of assets and a performance related fee which is payable when the excess return of the portfolio over a rolling 3 year period is more than 1% p.a. The target is to outperform the benchmark by 2% p.a.

| | Last Quarter (%) | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) |
|-------------------------------|------------------|---------------|-----------------------|--------------------------|
| Majedie - Gross of base fees | 5.8 | 7.2 | 16.3 | 11.2 |
| Net of base fees ¹ | 5.7 | 6.9 | 16.0 | 10.8 |
| FTSE All-Share Index | 4.7 | 6.6 | 10.6 | 6.3 |
| Relative | 1.1 | 0.6 | 5.7 | 4.9 |

Source: Majedie

See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006.



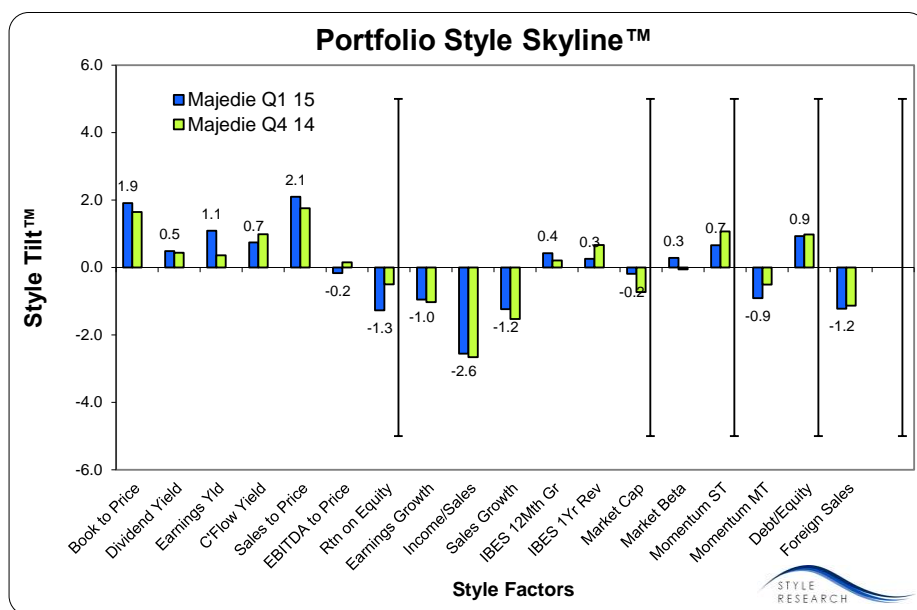
Majedie outperformed its benchmark over the quarter by 1.1%. Over the longer timeframes of one year, three years and since inception the manager has outperformed its benchmark by 0.6%, 5.7% p.a. and 4.9% p.a. respectively.

The fund's overweight position in Tesco worked in its favour and was the fund's top performer over the quarter, contributing 0.4% to the total performance. However, at a sector level, Oil and Gas Producers was the top performer with Food & Drug Retailers also contributing positively.

The fund's holding in the Royal Bank of Scotland hurt performance this quarter, dragging performance down by 0.5% over the period. At a sector level, the worst performers over the first quarter of 2015 were the Gas, Water & Multi-utilities holdings.

6.1 Style analysis

We have analysed the Style of Majedie as at 31 March 2015 as can be seen in the below graph. When considering the analysis it should be borne in mind that any figures in excess of +/- 1 are considered to be meaningful.



While the portfolio is currently showing a modest positive bias to value related factors, the bias is not particularly strong and can be expected to change over time depending on where Majedie finds appropriate opportunities.

The top 10 holdings in the Majedie fund account for c. 40% of the fund and are detailed below.

| Top 10 holdings as at 31 March 2015 | Proportion of Majedie fund |
|-------------------------------------|----------------------------|
| Vodafone | 5.53% |
| BP | 5.10% |
| HSBC | 4.93% |
| GlaxoSmithKline | 4.59% |
| Marks and Spencer | 4.05% |
| Barclays | 3.54% |
| BT | 3.18% |
| Orange | 3.18% |
| Tesco | 3.08% |
| Royal Dutch Shell | 3.02% |
| Total | 40.20% |

| Majedie | 31 March 2015 |
|--------------------------|---------------|
| Total Number of holdings | 208* |
| Active risk | 3.1% |
| Coverage | 39.8% |

*includes 134 stocks in the Majedie UK Smaller Companies Fund, which the fund invests in.

As at 31 March 2015, Majedie held 208 stocks in total, with an overlap with the FTSE All Share index of 39.8%. This coverage is significantly higher than both Baillie Gifford and Longview, reflecting the much larger number of holdings in the fund. Majedie's active risk, as at 31 March 2015, was 3.1%.

7 Longview – Global Equity

Longview was appointed to manage an active global equity mandate. The manager's remuneration is based on the value of assets invested across the Tri-borough. The expectation is that the fund will outperform the benchmark by 3% p.a.

| | Last Quarter (%)* | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) |
|-------------------------------|----------------------|------------------|--------------------------|-----------------------------|
| Longview - Gross of base fees | 9.7 | n/a | n/a | 9.7 |
| Net of base fees ¹ | 9.6 | n/a | n/a | 9.6 |
| MSCI World Index | 7.5 | n/a | n/a | 7.5 |
| Relative | 2.2 | n/a | n/a | 2.2 |

Source: Longview

1 – estimated by Deloitte

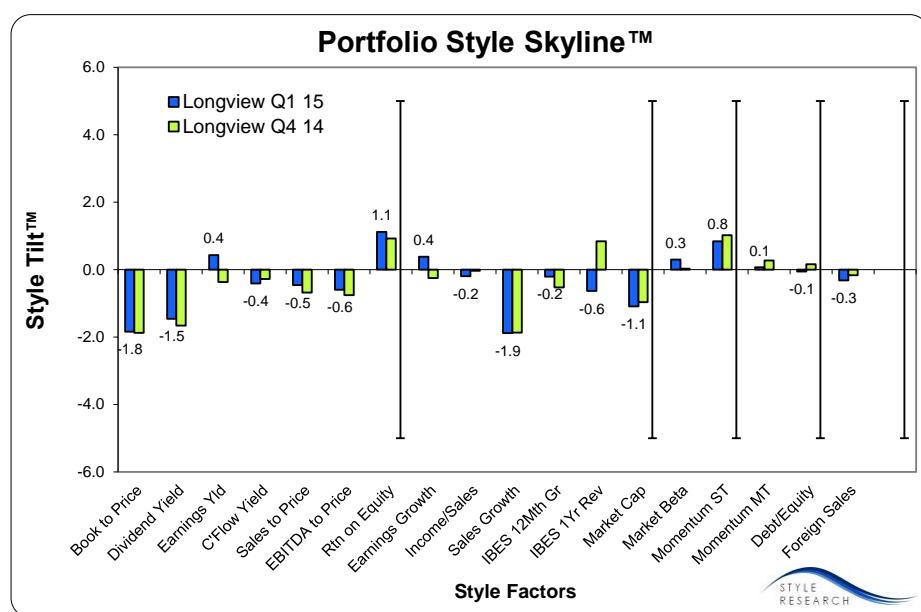
See appendix 1 for more detail on manager fees

*Since the inception date, taken as 15 January 2015.

Longview outperformed the benchmark by 2.1% over the first quarter of 2015. This was largely driven by the fund's holdings in Continental, UnitedHealth and Pearson (the publishing and educational company).

7.1 Style analysis

We have analysed the Style of Longview as at 31 March 2015 as can be seen in the below graph. When considering the analysis it should be borne in mind that any figures in excess of +/- 1 are considered to be meaningful.



As can be seen from the above and in a similar way to Majedie, Longview does not currently have a strong bias to either value or growth factors.

The top 10 holdings in the Longview fund account for c. 42% of the fund and are detailed below.

| Top 10 holdings as at 31 March 2015 | Proportion of Longview fund |
|-------------------------------------|-----------------------------|
| UnitedHealth | 4.76% |
| HCA Holdings | 4.62% |
| Delphi Automotive | 4.56% |
| Fidelity Natl Info Services | 4.55% |
| AON | 4.25% |
| Time Warner | 4.04% |
| Bank of New York Mellon | 4.02% |
| Oracle | 3.96% |
| Accenture | 3.83% |
| WPP | 3.68% |
| Total | 42.28% |

| Longview | 31 March 2015 |
|--------------------------|---------------|
| Total Number of holdings | 34 |
| Active risk | 4.2% |
| Coverage | 4.4% |

As at 31 March 2015, Longview held 34 stocks in total, with an overlap with the FTSE All World index of only 4.4%. This coverage is low due to the high conviction investing that Longview undertakes; which also leads to a higher active risk of 4.2% as at 31 March 2015.

8 Insight – Bonds

Insight was appointed to manage two bond portfolios – an actively managed corporate bond (non – Gilt) portfolio and a passively managed gilt portfolio. The manager's fee is based on the value of assets. The target of the Non-Gilt portfolio is to outperform the benchmark by 0.9% p.a.

8.1 Insight – Active Non Gilts

8.1.1 Investment Performance to 31 March 2015

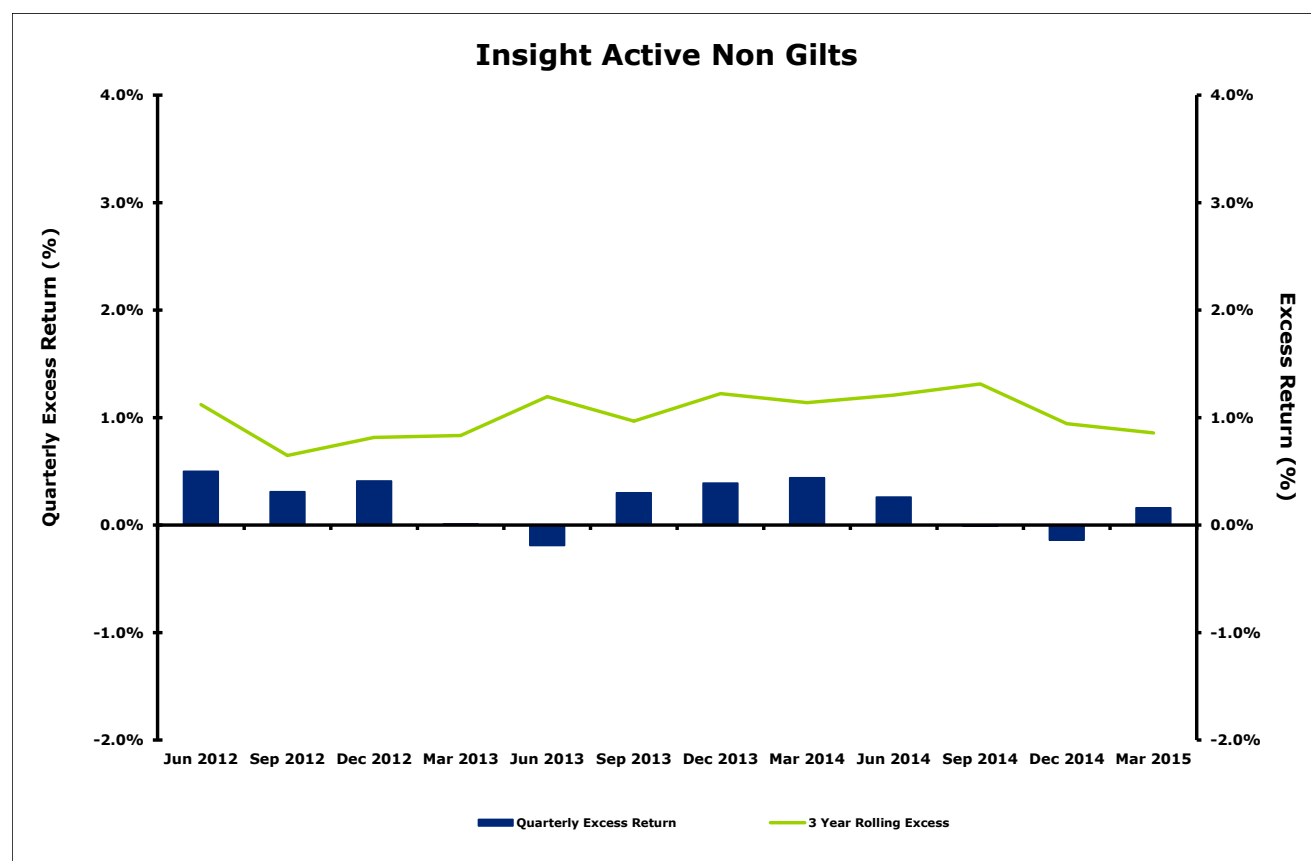
| | Last Quarter (%) | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) |
|-------------------------------------|------------------|---------------|-----------------------|--------------------------|
| Insight (Non-Gilts) - Gross of fees | 2.6 | 10.1 | 8.4 | 6.3 |
| <i>Net of fees¹</i> | 2.5 | 9.8 | 8.1 | 6.0 |
| iBoxx £ Non-Gilt 1-15 Yrs Index | 2.4 | 9.8 | 7.5 | 5.8 |
| Relative | 0.2 | 0.3 | 0.9 | 0.5 |

Source: Insight

(1) Estimated by Deloitte

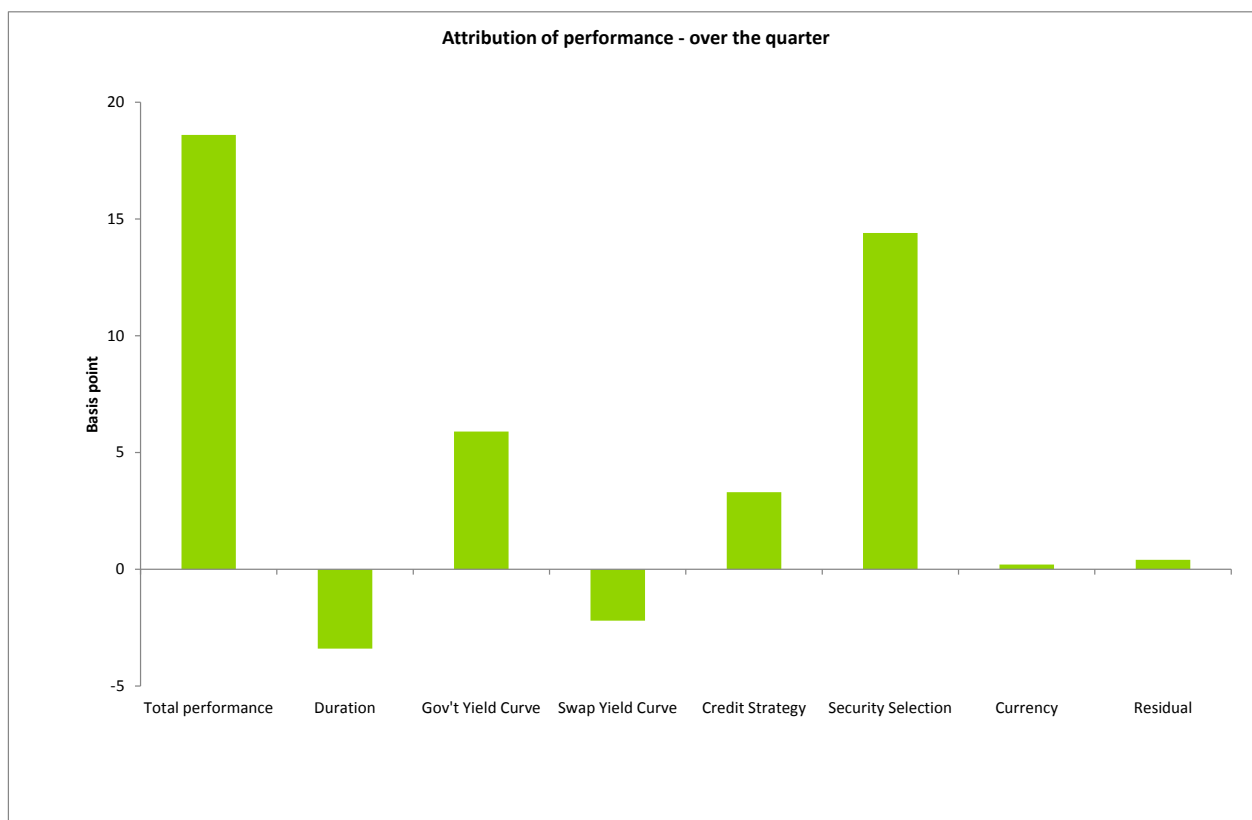
See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006.



Over the quarter the portfolio outperformed the benchmark by 0.2%, returning 2.6%. Over the one year and three years Insight has outperformed the benchmark by 0.3% and 0.9% p.a. respectively.

8.1.2 Attribution of Performance



Source: Insight

Insight's outperformance this quarter has been driven by their security selection, their positioning on the government yield curve and the credit strategies employed over the quarter.

8.2 Insight – Government Bonds

8.2.1 Investment Performance to 31 March 2015

| | Last Quarter (%) | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) |
|---------------------------------|------------------|---------------|-----------------------|--------------------------|
| Insight (Passive Bonds) - Gross | 1.0 | 6.7 | 2.7 | 5.6 |
| <i>Net of fees¹</i> | 1.0 | 6.6 | 2.6 | 5.5 |
| FTSE A Gilts up to 15 Yrs Index | 1.0 | 6.8 | 2.7 | 5.7 |
| Relative | 0.0 | -0.1 | 0.0 | -0.1 |

Source: Insight

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 30 June 2008.

The gilt portfolio has performed broadly in line with its benchmark over the quarter, one and three year period to 31 March 2015.

8.3 Duration of portfolios

| | End Dec 2014 | | End Mar 2015 | |
|-------------------------------|--------------|-------------------|--------------|-------------------|
| | Fund (Years) | Benchmark (Years) | Fund (Years) | Benchmark (Years) |
| Non-Government Bonds (Active) | 5.9 | 5.6 | 5.9 | 5.7 |
| Government Bonds (Passive) | 4.7 | 4.8 | 4.5 | 4.8 |

Source: Insight

9 Hermes – Property

Hermes was appointed to manage a core UK property portfolio. The manager is remunerated on a fixed fee based on the value of assets. The target is to outperform the benchmark by 0.5% p.a.

9.1 Portfolio Monitoring Summary

| | Last Quarter (%) | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) ¹ |
|--------------------------|------------------|---------------|-----------------------|---------------------------------------|
| Hermes - Gross of fees | 3.3 | 19.5 | 12.5 | 9.3 |
| Net of fees ¹ | 3.2 | 19.1 | 12.1 | 8.9 |
| Benchmark | 3.0 | 16.9 | 9.5 | 8.7 |
| Reactive | 0.2 | 2.7 | 3.0 | 0.6 |

Source: Hermes

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date is taken as 26 October 2010

Hermes outperformed its benchmark by 0.2% over the quarter, primarily driven by the fund's Office investments in central London and the investments within the Leisure sector.

Longer term the performance has also been ahead of benchmark.

9.2 Sales and Purchases

There were no new acquisitions during the first quarter of 2015, with a number of potential investments rejected during the due diligence phase.

A pub in London was sold for c. £3.4m during January, reflecting a net yield of just under 3.5%. In addition, Hermes sold a long leasehold interest in an office building in Slough, whilst maintaining the freehold.

10 Standard Life – Long Lease Property

Standard Life Investments (“SLI”) was appointed to manage a UK property portfolio investing in core assets where the focus is on properties with long leases let to high quality tenants. The manager is remunerated on a fixed fee based on the value of assets. The target is to outperform the benchmark by 0.5% p.a.

10.1 Portfolio Monitoring Summary

| | Last Quarter (%) | Last Year (%) | Last 3 Years (% p.a.) | Since Inception (% p.a.) |
|-------------------------------|------------------|---------------|--------------------------|-----------------------------|
| Standard Life - Gross of fees | 2.3 | 9.9 | n/a | 11.3 |
| Net of fees ⁽¹⁾ | 2.2 | 9.4 | n/a | 10.8 |
| Benchmark | 2.7 | 16.2 | n/a | 10.7 |
| Relative | -0.4 | -6.3 | n/a | 0.6 |

Source: Standard Life

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Since inception: 14 June 2013

The SLI Long Lease Property Fund returned 2.3% over the first quarter of 2015, underperforming the benchmark of the FTSE Gilt All Stocks Index + 2% by 0.4%. The Fund has also lagged the broader property market by 0.7% and 8.4% over the 3 and 12 month periods – this underperformance is not unexpected given the strong capital appreciation in the wider property market.

The Fund's supermarket exposure was detrimental to relative performance over the quarter with the holdings delivering a return of 0.5% over the quarter with larger supermarket assets outside the South East experiencing a 2%-3% decline in capital values.

Overall, absolute performance remained strong following positive capital value growth across the Fund's office, industrial and alternative sectors. The leading performer was the Save the Children headquarters in London which delivered a return of 9.2%.

10.2 Sales and Purchases

There were several disposals over the quarter as SLI sought to take advantage of strong investor demand for commercial real estate:

- The sale of 50 High Street in Sheffield, which reduced the fund vacancy from 0.4% to 0.1%.
- Terms were agreed for the sale of an industrial unit in Swansea for £11.75m, with the sale being completed post the quarter end. SLI felt that the sale represented a unique opportunity to agree a premium price, 29% above the last valuation, given the tenant was looking to downsize its occupation of the property.

There was one acquisition over the quarter:

- The forward purchase of a Premier Inn in Aldgate, London was completed. The newly built hotel is leased to Premier Inn and guaranteed by Whitbread for a minimum term of 20 years over the development period there has been capital value growth of 22%.

Appendix 1 – Fund and Manager Benchmarks

The tables in this Appendix detail the benchmarks and outperformance targets, for the Total Fund and each individual manager.

Total Fund

Inception: 1 June 2006. Current benchmark allocation effective from 25 March 2015.

| Manager | Asset Class | Allocation | Benchmark | Outperformance Target | Inception Date | Fees (p.a.) | Tracking Error p.a. |
|------------------|---------------------------|--------------|--------------------------------------|---|----------------|---|---------------------|
| Majedie | UK Equity | 20.0 | FTSE All-Share Index | +2.0 p.a. (net of fess) | 31/05/06 | c.35bps base fees +20 performance fee on 1 outperformance over 3 year rolling | 2.0-6.0 |
| LGIM | Global Equity | 20.0 | FTSE World GBP Hedged | Passive | 01/11/12 | 13bps base fees | +/- 0.5 |
| Baillie Gifford | Global Equity | 25.0 | MSCI AC World Index | +2.0 p.a. (net of fess) | 18/03/14 | 40bps base fee | |
| Longview | Global Equity | | MSCI World (GBP) Index | To outperform the benchmark over a market cycle | 15/01/15 | 70bps base fees | |
| Insight | Fixed Interest Gilts | - | FTSE GILTS up to 15 Yrs Index | Passive | 31/05/06 | 10bps base fees | |
| | Non-Gilts | 20.0 | iBoxx £ Non-Gilt 1-15 Yrs Index | + 0.90 p.a. (gross fees) | 31/05/06 | c.24bps base fee | 0 - 3.0 |
| Hermes | Property | 5.0 | IPD UK PPFI Balanced PUT Index | +0.5 p.a. (net of fess) | 26/10/10 | 40bps base fee | |
| Standard Life | Property | 5.0 | FTSE Gilts All Stocks Index +2% p.a. | +0.5 p.a. (net of fess) | 14/06/13 | 50bps base fee | |
| To be determined | Property / Infrastructure | 5.0 | | | | | |
| | Total | 100.0 | | | | | |

Appendix 2 – Manager Ratings

Based on our manager research process, we assign ratings to the investment managers for specific products or services. The ratings are based on a combination of quantitative and qualitative factors, where the inputs for the qualitative factors come from a series of focused meetings with the investment managers. The ratings reflect our expectations of the future performance of the particular product or service, based on an assessment of:

- The manager's business management;
- The sources of ideas that go to form the portfolio ("alpha generation");
- The process for including the ideas into the portfolio ("alpha harnessing"); and
- How the performance is delivered to the clients.

On the basis of the research and analysis, managers are rated from 1 (most positive) to 4 (most negative), where managers rated 1 are considered most likely to deliver outperformance, net of fees, on a reasonably consistent basis. Managers rated 1 will typically form the basis of any manager selection short-lists.

Where there are developments with an investment manager that cause an element of uncertainty we will make the rating provisional for a short period of time, while we carry out further assessment of the situation.

Appendix 3 – Style analysis

The Style Skylines are designed to answer the question “How significantly different is the portfolio from the benchmark?” in respect of Style factors which are important and relevant in equity markets.

In each Style Skyline, the first six bars from the left are Value factors (shown as blue bars in the output). The next six bars are the Growth factors (green bars) and include four current/historic measures as well as two forward-looking Growth factors (incorporating IBES consensus earnings estimates and earnings revisions). The remaining bars on the right cover Size, Beta, Momentum, Gearing/Leverage and Foreign Sales.

As a general rule of thumb, for any individual Style tilt (Standard or Adjusted):

- Style tilts less than -0.5 or more than +0.5 indicate a tilt is observable.
- Style tilts less than -1 or more than +1 are statistically significant.
- Style tilts less than -2 or more than +2 are statistically very significant.

There is a further interpretation when we compare across similar factors such as the Value factors (blue bars in the Style Skyline) or the Growth factors (green bars). If most of the Value factors are positive and, say, between 0.4 to 0.6 this suggests that there is a significant Value tilt even though no individual tilt is very significant i.e. multiple tilts in a similar direction within Value or within Growth can reinforce our interpretation of a Style orientation.

It is possible that more extreme tilts can be produced when portfolios and benchmarks are themselves narrowly defined against the market e.g. it is not unusual for Small Cap portfolios to show tilts of 3, 4 or even much larger in magnitude against a Small Cap benchmark. In these cases the significance of the tilts should not be overemphasized.

There is little purity of definition, but in general the various Value and Growth tilt possibilities can be initially interpreted as follows:

| Value Factors | Growth Factors | Interpretation |
|---------------|----------------|-----------------------------|
| Positive | Negative | Traditional Value |
| Positive | Positive | Growth at the Right Price |
| Negative | Positive | Traditional Growth |
| Negative | Negative | Popular Recovery Situations |

Appendix 4 – Risk warnings & Disclosures

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

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City of Westminster Pension Fund Risk Register

| | | | TYPE | PESTLEcc | Inherent risk | | | Residual risk | | | | | |
|-------------|---|--|--|----------|---------------|--------|-------|---------------|--------|-------|--|---|--|
| Risk Number | Key risks | Consequence | STRATEGIC/ CHANGE (Portfolio, Programme, Project) or OPERATIONAL Risk (Business as Usual) | | Likelihood | Impact | Total | Likelihood | Impact | Total | Risk Monitoring | Responsible Officer | Existing controls |
| | <i>There is a risk that/of...</i> | | | | | | | | | | | | |
| 1 | The combination of assets in the investment portfolio fails to fund the liabilities in the long term due to market movements. | There are insufficient assets to meet the liabilities. | STRATEGIC (Investments) | Economic | 4 | 5 | 20 | 2 | 3 | 6 | Fund investment performance and funding level monitored quarterly by the Pension Fund Committee. | Tri-borough Director of Treasury & Pensions | Investment Strategy in place and reviewed periodically. Liability measure monitored on a quarterly basis. |
| 2 | Fund managers fail to achieve the returns agreed in their management agreements. | The Fund returns are less than anticipated and the funding level deteriorates. | STRATEGIC (Investments) | Economic | 4 | 5 | 20 | 3 | 3 | 9 | Fund manager performance monitored quarterly by the Pension Fund Committee. | Tri-borough Director of Treasury & Pensions | Independent monitoring of fund manager performance by custodian against targets. Investment adviser retained to keep watching brief. |
| 3 | Failure of custodian or counterparty. | Fund assets at risk. | STRATEGIC (Investments) | Economic | 3 | 5 | 15 | 2 | 5 | 10 | Review of internal control reports on annual basis. | Tri-borough Director of Treasury & Pensions | At time of appointment ensure assets are separately registered and segregated by owner. |

| Risk Number | Key risks | Consequence | TYPE | PESTLEcc | Inherent risk | | | Residual risk | | | Risk Monitoring | Responsible Officer | Existing controls |
|-------------|---|--|--|----------|---------------|--------|-------|---------------|--------|-------|---|---|--|
| | There is a risk that/of... | | STRATEGIC/ CHANGE (Portfolio, Programme, Project) or OPERATIONAL Risk (Business as Usual) | | Likelihood | Impact | Total | Likelihood | Impact | Total | | | |
| 4 | The level of inflation and interest rates assumed in the valuation may be inaccurate. | Liabilities are higher than expected and more employer contributions are required to maintain funding. | STRATEGIC (Funding) | Economic | 4 | 5 | 20 | 4 | 3 | 12 | Review at each triennial valuation and challenge actuary as required. | Tri-borough Director of Treasury & Pensions | Growth assets in the portfolio should rise in value as inflation rises. |
| 5 | There is insufficient cash available in the Fund to meet pension payments. | Investment assets have to be sold at sub-optimal prices to meet pension payments. | STRATEGIC (Funding) | Economic | 4 | 3 | 12 | 2 | 1 | 2 | Cashflow position monitored quarterly by Pension Fund Committee. | Tri-borough Director of Treasury & Pensions | Cashflow forecast maintained. Cashflow requirements form part of current investment strategy review. |
| 6 | Scheme members live longer than expected. | Liabilities are higher than expected and more employer contributions are required to maintain funding. | STRATEGIC (Funding) | Economic | 4 | 5 | 20 | 4 | 2 | 8 | Review at each triennial valuation and challenge actuary as required. | Tri-borough Director of Treasury & Pensions | None applicable. |

| Risk Number | Key risks | Consequence | TYPE | PESTLEcc | Inherent risk | | | Residual risk | | | Risk Monitoring | Responsible Officer | Existing controls |
|-------------|---|--|--|-------------|---------------|--------|-------|---------------|--------|-------|---|---|---|
| | There is a risk that/of... | | STRATEGIC/ CHANGE (Portfolio, Programme, Project) or OPERATIONAL Risk (Business as Usual) | | Likelihood | Impact | Total | Likelihood | Impact | Total | | | |
| 7 | Scheme matures more quickly than expected due to public sector spending cuts. | Contributions reduce and pension payments increase leading to negative cashflow. | STRATEGIC (Funding) | Economic | 4 | 4 | 16 | 2 | 3 | 6 | Cashflow position monitored quarterly by Pension Fund Committee. | Tri-borough Director of Treasury & Pensions | Cashflow forecast maintained. Deficit contributions collected as lump sums instead of as % of payroll to maintain monetary value. |
| 8 | Pension legislation or regulations change. | Risk that the cost of scheme rises or increased administration is required. | STRATEGIC (Regulation) | Legislative | 4 | 3 | 12 | 3 | 4 | 12 | Maintain links with central government and national bodies to keep abreast of potential issues. | Tri-borough Director of Treasury & Pensions and Acting Director of HR | Respond to all consultations which are published and lobby as appropriate to ensure consequences are understood. |
| 9 | Failure to comply with legislation. | Ultra vires actions lead to financial loss and reputational damage. | OPERATIONAL (Governance) | Legislative | 4 | 3 | 12 | 2 | 2 | 4 | It is within the terms of reference of the Pension Board to ensure compliance with legislation. | Tri-borough Director of Treasury & Pensions and Bi-borough Director of HR | Officers maintain knowledge of legal framework for routine decisions. Eversheds retained for consultation on non routine matters. |

| Risk Number | Key risks | Consequence | TYPE | PESTLEcc | Inherent risk | | | Residual risk | | | Risk Monitoring | Responsible Officer | Existing controls |
|-------------|---|--|--|--------------|---------------|--------|-------|---------------|--------|-------|---|---|---|
| | There is a risk that/of... | | STRATEGIC/ CHANGE (Portfolio, Programme, Project) or OPERATIONAL Risk (Business as Usual) | | Likelihood | Impact | Total | Likelihood | Impact | Total | | | |
| 10 | That Committee members do not have appropriate skills or knowledge to discharge their responsibility. | Inappropriate decisions are made leading to a financial impact or a breach of legislation. | OPERATIONAL (Governance) | Professional | 3 | 5 | 15 | 4 | 3 | 12 | | Tri-borough Director of Treasury & Pensions | External professional advice sought where required. |
| 11 | Officers do not have the appropriate skills and knowledge to perform their roles. | Service not provided in line with best practice and legal requirements. | OPERATIONAL (Governance) | Professional | 3 | 3 | 9 | 2 | 2 | 4 | Training plans in place for all staff as part of the performance appraisal arrangements, which are reviewed every six months. | Tri-borough Director of Treasury & Pensions and Bi-borough Director of HR | Person specs used at recruitment to identify skills and experience. Tri-borough pensions finance team and Pensions HR team provides resilience and sharing of knowledge within the teams. Membership of CIPFA Pension Network and NAPF provides access to training opportunities. |

| Risk Number | Key risks | Consequence | TYPE | PESTLEcc | Inherent risk | | | Residual risk | | | Risk Monitoring | Responsible Officer | Existing controls |
|-------------|---|--|--|-------------------------------|---------------|--------|-------|---------------|--------|-------|---|---|--|
| | There is a risk that/of... | | STRATEGIC/ CHANGE (Portfolio, Programme, Project) or OPERATIONAL Risk (Business as Usual) | | Likelihood | Impact | Total | Likelihood | Impact | Total | | | |
| 12 | Inadequate, inappropriate or incomplete investment or actuarial advice is actioned. | Financial loss or a breach of legislation. | OPERATIONAL (Governance) | Professional | 4 | 5 | 20 | 2 | 2 | 4 | Pension Fund Committee and officers scrutinise and challenge advice provided. | Tri-borough Director of Treasury & Pensions | Appoint advisers with appropriate professional qualifications and quality assurance procedures in place. |
| 13 | Failure of an admitted or scheduled body leads to a deficit in the Fund. | Unpaid liabilities are left in the Fund to be met by others. | OPERATIONAL (Funding) | Partnership | 3 | 4 | 12 | 3 | 2 | 6 | Regular monitoring of employers and follow up of expiring bonds. | Tri-borough Director of Treasury & Pensions and Acting Director of HR | Bonds in place for all transferree admitted bodies. |
| 14 | Ill-health costs may exceed "budget" allocations made by the actuary. | Liabilities are higher than expected and more employer contributions are required to maintain funding. | OPERATIONAL (Funding) | Financial / People management | 4 | 5 | 20 | 3 | 2 | 6 | Review at each triennial valuation and challenge actuary as required. | Tri-borough Director of Treasury & Pensions and Acting Director of HR | Admitted bodies charged capital cost at time of retirement. Occupational Health services provided at council to address early potential ill health issues. |

| Risk Number | Key risks | Consequence | TYPE | PESTLEcc | Inherent risk | | | Residual risk | | | Risk Monitoring | Responsible Officer | Existing controls |
|-------------|---|---|--|-------------------------------------|---------------|--------|-------|---------------|--------|-------|--|---|---|
| | There is a risk that/of... | | STRATEGIC/ CHANGE (Portfolio, Programme, Project) or OPERATIONAL Risk (Business as Usual) | | Likelihood | Impact | Total | Likelihood | Impact | Total | | | |
| 15 | Loss of funds through fraud or misappropriation. | Financial loss and negative impact on reputation of the Pension Fund. | OPERATIONAL (Administration) | Economic | 4 | 4 | 16 | 3 | 3 | 9 | Review of third party internal control reports and regular reconciliations of pension payments undertaken. | Tri-borough Director of Treasury & Pensions and Acting Director of HR | Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place. Periodic internal audits. |
| 16 | Failure of fund manager or other service provider without notice. | There is a period of time without the service being provided or an alternative needs to be quickly identified and put in place. | OPERATIONAL (Administration) | Third Party Suppliers | 3 | 3 | 9 | 3 | 1 | 3 | Contract monitoring in place with providers. | Tri-borough Director of Treasury & Pensions and Acting Director of HR | Regular ongoing monitoring by Officers and advisers keeps counterparties under close review |
| 17 | Failure of pension payroll system. | Pensioners are not paid in a timely manner. | OPERATIONAL (Administration) | Information / Third Party Suppliers | 2 | 5 | 10 | 1 | 5 | 5 | Contract monitoring in place with provider. | Acting Director of HR | |
| 18 | Failure to pay pensions accurately | Under or over payments of pensions. | OPERATIONAL (Administration) | Information / Third Party Suppliers | 2 | 5 | 10 | 2 | 3 | 6 | Contract monitoring in place with provider. | Acting Director of HR | |

| | | | TYPE | | Inherent risk | | | Residual risk | | | | | |
|-------------|---|---|--|-------------------------------------|---------------|--------|-------|---------------|--------|-------|---|------------------------|-------------------|
| Risk Number | Key risks | Consequence | STRATEGIC/ CHANGE (Portfolio, Programme, Project) or OPERATIONAL Risk (Business as Usual) | PESTLEcc | Likelihood | Impact | Total | Likelihood | Impact | Total | Risk Monitoring | Responsible Officer | Existing controls |
| | <i>There is a risk that/of...</i> | | | | | | | | | | | | |
| 19 | Failure of Pension administration system resulting in loss of records. | Incorrect payments of lump sums or delays in payment. | OPERATIONAL (Administration) | Information / Third Party Suppliers | 1 | 5 | 5 | 1 | 5 | 5 | Contract monitoring in place with provider. | Acting Director of HR | |
| 20 | That administrators do not have sufficient staff or skills to manage the service. | Performance levels are not maintained leading to reduced perception and complaints. | OPERATIONAL (Administration) | Third Party Suppliers | 1 | 5 | 5 | 2 | 3 | 6 | Contract monitoring in place with provider. | Acting Director of HR | |

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