

# **Committee Agenda**

Title:

**Pension Fund Committee** 

Meeting Date:

Thursday 20th June, 2019

Time:

7.00 pm

Venue:

Room 18.01, 18th Floor, 64 Victoria Street, London, SW1E 6Q

Members:

Councillors:

Antonia Cox (Chairman) Melvyn Caplan Patricia McAllister Eoghain Murphy

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 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; Email: 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 Director of Law in advance of the meeting please.

# **AGENDA**

# **PART 1 (IN PUBLIC)**

# 1. MEMBERSHIP

To note any changes to the membership.

#### 2. DECLARATIONS OF INTEREST

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

# 3. MINUTES

To approve the minutes of the Pension Fund Committee held on 14 March 2019.

## 4. PENSION ADMINISTRATION UPDATE

(Pages 5 - 20)

Report of the Director of People Services.

# 5. GMP RECONCILIATION UPDATE

(Pages 21 - 24)

Report of the Director of People Services.

# 6. PINNACLE AND CONTINENTAL ADMISSION REQUEST

(Pages 25 - 26)

Report of the Director of People Services.

# 7. FUND FINANCIAL MANAGEMENT

(Pages 27 - 44)

Report of the Tri-Borough Director of Treasury and Pensions.

# 8. QUARTERLY PERFORMANCE REPORT

(Pages 45 - 92)

Report of the Tri-Borough Director of Treasury and Pensions.

# 9. EXIT CAP CONSULTATION

(Pages 93 - 110)

Report of the Tri-Borough Director of Treasury and Pensions.

# 10. MCCLOUD, COST CAP AND VALUATION

(Pages 111 - 144)

Report of the Tri-Borough Director of Treasury and Pensions.

# 11. ANY OTHER BUSINESS THE CHAIRMAN CONSIDERS URGENT

## 12. EXCLUSION OF PRESS AND PUBLIC

**RECOMMENDED:** That under Section 100 (A) (4) and Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), the public and press be excluded from the meeting for the following items of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information:

Item Nos	<u>Grounds</u>	Para. of Part 1 of Schedule 12A of the Ac
13, 14 and 15	Information relating to the financial and business affairs of an individual including the authority holding the information and legal advice	3

# 13. MINUTES

To approve the confidential minutes of the Pension Fund Committee meeting held on 14 March 2019.

## 14. VOLUNTARY SCHEME PAYS REQUEST

Report of the Director of People Services.

# 15. FUND COST SUMMARY

Report of the Tri-Borough Director of Treasury and Pensions.

# 16. INVESTMENT STRATEGY CONSIDERATION

(Pages 145 - 154)

Report of the Tri-Borough Director of Treasury and Pensions.

Stuart Love Chief Executive 14 June 2019



# Pension Fund Committee

Date: 20<sup>th</sup> June 2019

Classification: General Release

Title: Pension Administration Update

Report of: Sarah Hay, Pensions Officer People Services

ΑII

Wards Involved:

Policy Context: Service Delivery

Financial Summary: Limited

# 1. Executive Summary

1.1. This report provides a summary of the performance of Surrey County Council (SCC) with the Key Performance Indicator (KPI) for the period February 2019 to April 2019. The detailed KPIs are shown in Appendix 1, There have been some performance concerns in the period outlined in section 2. This report also provides the detail of the current data cleansing projects and the progress that has been made in resolving data queries ahead of the pension fund valuation in section 3. Section 4 outlines the progress that is being made in creating a WCC end of year file with section 5 outlining the current progress on the Western Union existence check for overseas pensioners. Finally, section 6 confirms the current position with Hampshire County Council (HCC) and the insourcing of City West Homes (CWH) in April 2019.

# 2. Surrey County Council (SCC) Performance

- 2.1 The scope of the KPIs in this report have been agreed between WCC and SCC based on the section 101 agreement, however they will continue to be reviewed on feedback from all parties, including committee members.
- 2.2 This paper covers the period of February 2019 to April 2019. January 2019 data has been retained in the appendix for comparison.
- 2.3 Surrey County Council have appointed an interim Pension Manager, Andrew Marston. The Pensions officer has attended a first quarterly contract meeting

- with Mr Marston on the 24<sup>th</sup> of April. Mr Marston also attended the WCC Pension AGM on the 17<sup>th</sup> of April.
- 2.4 KPI performance in appendix 1 is summarised below:
- 2.5 At the last committee meeting we reported disappointing KPI results for November 18 and in January 2019. Although there was improvement in both February and March there continued to be a number of KPI failures. The issue was raised with Surrey management and The pension officer has raised the matter with the administration team directly in Lewes, East Sussex where our administration is carried via a visit on the 25th April. We have been advised that the reason for the majority of KPI failures is that the administrators were not checking all parts of the workflow system through which cases are allocated out to the team. This is because most of our administration is completed by the team in Lewes but Surrey have a separate system and where they received a response for a Westminster case the work would be logged onto their system. The administrators are now checking both systems for workflow and we are pleased to note that the April 2019 KPI are much better with only one case outside of the required standard. Details of the KPI issues are detailed below.
- 2.6 There were two late refunds processed in February 2019. Three deferred benefit statements were sent late in February and March 2019. One notification to the member for the payment of a preserved pension was sent late. Two late payments of lump sums and pension being brought into payment were late in February and March. transfer out was paid late and finally 2 responses to correspondence within 10 days were sent late during the period. One response to a correspondence was late in March and also in April 2019.
- 2.7 The Correspondence in April 2019 was very late at taking 32 days for a response. This query was in relation to a widow pension and was being dealt with by the pension payroll team. The reason given by the team for the late response was simply that the letter arrived at a busy time of year and it was missed amongst other work the team had to complete. The pension team have advised that they do not have any complaints in progress as a result of the delays but we will review this with the team going forward.

# 3. Data Cleansing

3.1 The Status 2 project has been running since March 2019, the first phase of the project has involved getting all of the fund employers to return data where a missing leaver otherwise known as a Status 2 has been identified. This phase included producing 906 cases for which Westminster City Council (WCC) is the employer. The only employer not to complete data necessary for the Status 2 project is City West Homes (CWH) who have 140 Status 2 data queries, a dedicated pension officer with CWH experience is working through these cases and has completed 39 to date.

- 3.2 Westminster have agreed the completion of approximately 1500 Status 2 cases across the City of Westminster (CoW) pension fund to JLT at a cost of up to £19 a case. Surrey are project managing the status 2 resolution on behalf of Westminster and a number of other funds that they provide administration services for. All of the Westminster data is currently with Surrey apart from the CWH data which is still being processed.
- 3.3 Of the 535 cases Surrey have sent to JLT,163 have been processed and are waiting to be checked and a further 75 have been both processed, checked and are complete. Progress is slower than we would have anticipated due to Surrey resourcing, their decision to significantly reduce the number of batches forwarded and JLT checking process.
- 3.4 The Pension Officer and The Pension Project officer met with the Surrey project manager for the contract with JLT on the 13<sup>th</sup> of June. The project manager confirmed that the checking situation had been escalated to the head of the project at JLT and that he had taken responsibility for the failure to progress the cases through checking as quickly as was originally outlined in the contract for the work. JLT are appointing an additional four checking resources from the one existing resource to the project. JLT are going to report back to Surrey on the 18<sup>th</sup> of June on the revised timescale for processing and checking cases. After JLT has reported back to Surrey will we have better visibility of the work that will be processed ahead of valuation and are seeking assurance from JLT and Surrey that the work will be processed before the deadline.
- 3.5 Progress on the Staus1 errors continues, there were 1283 total errors across the 5 memberships groups of actives, deferred, pensioners, dependants and undecided, at the end of April 2019. This has gone down by 39% to 498. The admin team has switched to focus for May and June 2019 to look at the yearend files from all employers in the fund. Once this is completed attention will be returned to the Status 1 errors.
- 3.6 There were 533 active level 1 queries (the most valuation impacting area) that appeared to be WCC employer cases. However, we referred these back to Surrey technical team to identify the true employer as some of the payroll references did not match a WCC format. The revised number of active level queries were 454. Only reducing the active queries by 79. Of the 454 active level 1 queries the WCC team have been able to work through 221 records to date. This data has not been provided to Surrey while they process the end of year files for our fund employers. We will review options with Surrey once the LGPS end of year file loads once the main Westminster file loads and the status 2 cases start moving through.

### 4. LGPS End of Year File 18 / 19

4.1 The LGPS end of year project is ongoing. The People Services team have recalculated 107 of cases for the return where data from BT was incorrect. The BT part of the file we are now happy with. We have received a part year file from

HCC and have raised a number of queries on the data that they initially submitted. HCC are amending the file and that should be returned to us on Tuesday the 11<sup>th</sup> of June. When the HCC data is returned the two parts of the file need to be amalgamated into one return and submitted to Surrey. At the time of writing this report we are hoping that this will be by close on the 14<sup>th</sup> of June as the final amalgamation should be relatively easy having reviewed issues as a result of seeing the initial HCC file. Confirmation will be provided at the committee meeting.

4.2 All other fund employers have now submitted their files for end of year. The delay to the submission of the main WCC file will give little time to address any queries prior to data having to go to the actuary at the end of July 2019. We are satisfied that the quality of the data is much improved from last year.

# 5. Western Union Existence Checking

- 5.1 The fund has started an existence checking exercise with Western Union for all of our overseas based pensioners. The existence checking will involve inviting the pensioner to attend a local WU office with identification to confirm their continued entitlement to benefit from the fund. For attending the existence check the member will be given £10 for their inconvenience but this will help the fund reduce or stop overpayments following a members death. Pensioners whom are based within the United Kingdom have their records subject to monthly mortality screening and therefore the risk of overpayment for these members is much lower.
- 5.2 When we started looking at the existence exercise we realised that many of our pensioner records did not hold a full name but only initials and a surname. In order to complete a full existence check, we need to hold the full name so that the Western Union agent can check the name against the members identification. 91 individuals were written to in March and asked to confirm their full name for our records. We had 36 responses with full names in the first 3 weeks plus we were notified of 4 pensioner deaths. We have then moved to start full existence checking for 171 people that includes people we already had full name details for and the 36 people who had responded in time to be included in this years project.
- 5.3 Responses have continued to come in from those members we wrote to in March and 16 additional people have confirmed their full name and will be included in next years existence exercise. At the time of writing this report we are waiting for 35 responses for full name details. A decision was taken to run a life certificate exercise for any record that we have not had a response for by Friday 3<sup>rd</sup> of May if the individual had not had a life certificate already completed in the previous year as many had. There are ten individuals as a result that were sent a Life Certificate on the 9<sup>th</sup> of May 2019. At the time of writing this report we have had notification on one additional death and three completed certificates. We are waiting for six responses and will proceed with suspending the pension from July for any that we do not have a response for by the time the July pension payroll is run. Names are being updated from Life Certificates directly

- onto the Altair pension system to ensure that individuals can be included in the existence check going forward.
- 5.4 The first warm up letters have gone to pensioners in the first week of May, this letter introduced Western Union as our partner and advise that the existence exercise will be starting this month with details to follow. The warm up letter is to reduce the concern amongst pensioners of fraud which can occur when this exercise is first implemented. The second letter that will actually invite the 171 people to their local Western Union office to complete the existence process will be going in the second week of June.

# 6. Hampshire City Council (HCC) and City West Homes (CWH)

6.1 The new HR / Payroll contract with HCC is still in a stabilisation period. There have been a few issues setting up suppliers for payment for the first time in SAP and a few HR/ Payroll issues. The service is much improved than under the previous provider BT. In addition, we insourced 426 staff from City West Homes on the 1<sup>st</sup> of April 2019. Payroll in April was successful, the fund will have a number of people being opted into the LGPS for the first time. A number of people at CWH had previously only had access to the peoples' pension which is a lower costing and benefit pension arrangement. We have a few people opt out of the LGPS from the transferred staff but also a number of people taking up the 50 / 50 option that the LGPS offers so we are pleased to note that people are considering this when they look at the additional cost of the LGPS benefit.

# 7. Summary

- 7.1 The Pension Administration KPIs were disappointing in February and March but were much improved in April and we hope that now the administration team are aware of the reason so many were not meeting the required standard that this will not be repeated.
- 7.2 The data cleansing work as made significant progress since the last committee report in March. It is great news that all of Westminster Council status 2 leaver details 906 in total have been provided to Surrey ready for processing and in addition many of the other fund employers have also responded. Work continues with our internal City West Homes resource to complete data on an ongoing basis for them. The priority here is ensuring that the contractor JLT complete the calculations and the checking necessary before the end of July when the data needs to go to the actuary.
- 7.3 The LGPS end of year file for Westminster City Council is being completed later than we wanted. We are confident though that the work in turning around the BT data into a compliant format and the work done in conjunction with HCC will allow the file to be returned by the committee meeting and should be a high level of accuracy necessary for valuation and in addition so that individuals can have their annual statement available by the 31st of August.

- 7.4 The Western Union existence project is underway and we now have full name details for the vast majority of our overseas pensioners so that full existence can be completed in future years without this delay. Where responses had not been received to the request for information we have sent life certificates out if those individuals had not already had one in the last year. At the time of writing this report we were waiting for 6 people to reply to this and we will be suspending those pensions in July without a response.
- 7.5 Finally we are pleased to advise that the insourcing of City West Homes (CWH) has been successful and the pension fund will have seen an increase in numbers joining the pension fund as a result.

# Westminster County Council - January 2019 to April 2019

Description	Target time/d ate as per Partner ship Agreem ent	Target	Actual Score for Quarter	Quantity January 2019
Pension Administration				
Death Benefits  Notify potential beneficiary of lump sum death grant	5 days	100%	%	0
Write to dependant and provide relevant claim form	5 days	100%	%	3
Set up any dependants benefits and confirm payments due	14 days	100%	%	0
Retirements Retirement options issued to members	5 days	100%	%	8
New retirement benefits processed for payment following receipt of all necessary documents	5 days	100%	%	2
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		%	2
Refunds of Contributions Refund paid following receipt of claim form	14 days	100%	%	8
Deferred Benefits Statements sent to member following receipt of leaver notification	30 days	100%	%	36
Notification to members 2 months before payments due	2 months		%	51
Lump Sum ( on receipt of all necessary documentation)	5 days		%	21
Pension Payment, member to paid on the next available pension payroll following receipt of all necessary documentation	Next available pay run		%	21

New Joiners				
New starters processed	30 days	100%	%	115
Transfers In Non LGPS transfers-in quotations	30 days	100%	%	2
Non LGPS transfers-in quotations  Non LGPS transfers-in payments processed	30 days	100%	%	0
Transfers Out	30 days	10070	/0	0
Non LGPS transfers-out quotations processed	30 days	100%	%	6
Non LGPS transfers out payments processed	30 days	100%	%	0
Interfunds In - Quotations	30 days	100%	%	2
Interfunds In - Actuals	30 days	100%	%	
Interfunds Out - Quotations	30 days	100%	%	14
Interfunds Out - Actuals	30 days	100%	%	4
Estimates	se days	20070	7,0	
1-10 cases	5 Days		%	9
11-50 cases	Agreed with WCC		%	0
51 cases or over	Agreed with WCC		%	0
Material Changes				
Any changes to data which materially affect actual or				
potential benefits to be processed within 30 days of	30 days		%	12
receiving all necessary data				
Buying Additional Pensions				
Members notified of terms of purchasing additional pension	15 days		%	
Monthly Pensioner Payroll				
Full reconciliation of payroll and ledger report provided to WCC	Last day of month			
Issue of monthly payslips	3 days before pay day 3 days			
RTI file submitted to HMRC	before pay day			
BACS File submitted for payment	3 days before pay day			
P35	EOY			
			Date Achieved	
Annual Exercises				

31 August each year			
31 August each year			
31 May each year			
April each year			
April each year			
2 days			
10 days			11
10 days			
Number of Enquiries Handled			454
<u> </u>			
ge Satisfied with Service			
	August each year  31 August each year  31 May each year  April each year  April each year  2 days  10 days  10 days  Number of Enquiries Handled  Percenta ge Satisfied with	August each year  31 August each year  31 May each year  April each year  April each year  2 days 10 days 10 days Number of Enquiries Handled  Percenta ge Satisfied with	August each year  31 August each year  31 May each year  April each year  April each year  2 days 10 days 10 days  Number of Enquiries Handled  Percenta ge Satisfied with

# **Results on KPI Reporting**

Actual Score January 2019	Comments	Quantity February 2019	Actual Score February 2019	Comments	Quantity March 2019	Actual Score March 2019	Comments
N/A		3	100%		2	100%	
67%	1 case late	2	100%		2	100%	
N/A		2	100%		1	100%	
88%	1 case late	1	100%		7	100%	
100%		6	100%		3	100%	
100%		6	100%		3	100%	
75%	2 cases late	11	82%	2 cases late	7	100%	
100%		40	95%	2 cases late	48	98%	1 case late
100%		0	N/A		43	98%	1 case late
86%	3 cases late	21	95%	1 case late	23	96%	1 case late
86%	3 cases late	21	95%	1 case late	23	96%	1 case late

100%		4	100%	154	100%	February New Starters
100%		1	100%	4	100%	
N/A		0	N/A	0	N/A	
83%	1 case late	7	100%	9	100%	
N/A		1	100%	0	N/A	
100%		8	100%	9	100%	
N/A		2	100%	0	N/A	
100%		11	100%	17	100%	
100%		5	100%	6	100%	
40004			P1/6	4	4000/	
100%		0	N/A	1	100%	
N/A		0	N/A	0	N/A	
N/A		0	N/A	0	N/A	
100%		34	100%	25	100%	
100%			100%		100%	
10070			10070		10070	
100%			100%		100%	
100%			100%		100%	
100%			100%		100%	
31-Mar-18			31-Mar-18		31-Mar-18	

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						1	
Annual			Annual			Annual	
Annual			Annual			Annual	
100%	Issued April 2018		100%	Issued April 2018		100%	Issued April 2018
100%			100%			100%	
100%	Issued March 2018		100%	Issued March 2018		100%	
91%	1 case late	17	100%		18	94%	1 case late
N/A							
-	88% FPF Rate	420	-	88%	379	-	89%

Quantity April 2019	Actual Score April 2019	Comments	Trend	People services Comments
1	100%			
1	100%			
1	100%			
17	100%			
4	100%			
4	100%			
14	100%			2 cases late in February but March and April 100% looks to be improving.
31	100%			3 cases late in February and March 19 April 100%.
0	N/A			Note the large number of cases were processed in March, none in February, 1 case was late in March. None in April.
23	100%			1 cases late in February and 1 late in March. Back to 100% in April.
23	100%			1 cases late in February and 1 late in March. Back to 100% in April.

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37	100%	New starter records created in April 2019	<b>→</b>	large numbers of new starters being processed throught the period.
3	100%			
0	N/A		,	no cases in period.
6	100%			100% February through April 2019.
1	100%			
21	100%			
0	N/A		<b>—</b>	All 100%
8	100%			All 100%
4	100%			All 100%
2	100%			All 100%
				no cases in period.
				'
24	100%			All 100%
	100%			All 100%
	100%			All 100%
	100%			All 100%
	100%			All 100%
	31-Mar-19			

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	Annual		
	Annual		
	100%	Issued April 2019	April 19 Actions completed
	100%	Applied	April 19 Actions completed.
	100%	Issued April 2019	April 19 Actions completed
12	92%	1 case late	1 case late in March and 1 case late in April.
446	-	90%	





# Pension Fund Committee

Date: 20<sup>th</sup> June 2019

Classification: General Release

Title: GMP Reconciliation Update

Report of: Sarah Hay Pensions Officer

Financial Summary: £235K potential cost.

**Report Author and Contact** 

Details:

Sarah Hay 0207 641 6015

# 1. Executive Summary

1.1 This report gives background on the current GMP reconciliation exercise and asks for approval to make pragmatic decisions on outstanding discrepancies to move the project to a conclusion.

### 2. GMP Reconciliation

- 2.1 Guaranteed Minimum Pension (GMP) notifications have been issued by the Government previously in respect of contracted out service up to 1997. The value of the GMP was the minimum level of pension that had to be paid to an individual in respect of any period they were contracted out of National Insurance. This was meant to be equivalent to the additional state pension the individual would have earned if they were contracted in. Most pensions in the LGPS exceeded the GMP but it's value does impact pension increase application.
- 2.2 HMRC has given notice that it is closing down the section that issues GMP notifications. As a result all bodies with GMP liabilities have had to undertake a GMP reconciliation exercise to match the outstanding liabilities the Government say are with them to the funds own records.
- 2.3 Over the last 10 months Surrey have been working with JLT to review and resolve where possible any GMP queries for the Westminster Fund. For Westminster 80% of the membership queries have been dealt with, which accounts for 16,211 queries. 96% of GMP values are matched which accounts for 17,044 queries.

- 2.4 We are now coming towards the end of the project and whilst there are some cases that are still being resolved the fund will need to make some practical decisions on remaining discrepancies. There are 5882 cases as at May to review.
- 2.5 There are three types of query. Firstly, the record sits on our administration system but the National Insurance Services to Pension Industry (NISPI) do not hold a record of this liability. The Recommendation is that the Fund accept that the administration records are correct. There are 133 records in May that match this type and could be caused by a number of issues including a transfer coming into the fund not being correctly recorded, updating that our fund has taken on the GMP. To make any other decision for these people would be to risk complaint that the fund was not making full payment to the member that our own administration records indicate and would risk regulator or ombudsman rebuke and possible penalty.
- 2.6 Secondly, NISPI have a GMP record with WCC and we have no matching administration record. There were 123 of those in May. This could be where the individual has transferred out to another provider and the liability moving has not been recorded correctly. It maybe the liability sits with the Teachers Pension fund and not the LGPS fund as this has been a common error in the past.
- 2.7 Third is where service dates between NISPI and the administration system do not match. There are 143 of these as at May. The recommendation is that we accept the administration records as accurate as this is what members have recorded in their annual benefit statements. Queries could be due to opt in and out of the scheme and backdated payroll processes or where people have had nil pay periods and brought service back afterwards. Again the recommendation is we accept the administration records as correct. Any other approach particularly if this reduced a pension entitlement would risk complaint and possible penalty.
- 2.8 Although the reconciliation is continuing when the HMRC closes down responses, the Fund will effectively be left with any liability that has not been reassigned. The worst case estimate is that this could mean the Fund picking up an additional £235,035.84 worth of GMP liabilities where we don't have a record on our system that matches.
- 2.9 Where we don't have an administration record the recommendation would be that we set up a dummy record just to record the GMP under a separate employer. When HMRC close down the NISPI system any GMP allocated to our fund will be available to members who search via the HMRC portal. Not everyone is likely to view the portal or contact us particularly if they know that they have pension with another provider like the Teachers Pension Scheme.
- 2.10 Where someone does contact us in the future we need to be in a position where we can review the members enquiry and match what they say against

our records. Where we just record a GMP liability as per the recommendation above the individual would be expected to provide additional information before any payment commenced to them including evidence of employment with a fund employer. After review in each case a final decision would have to be made on an individual entitlement to payment. It maybe that none of the individuals that we record a GMP for as a result of this exercise ever have a payment from the WCC fund. Recording the GMP on the system allows for the actuary to take into account the possibility of making payment in the future and will make dealing with any of these people quicker than it would be if we don't record the records or rely on a spreadsheet or other database.

# 3. GMP Under and Over Payments.

- 3.1 In addition to match GMP liabilities that have not yet been put into payment there has been work ongoing regarding GMP mismatches where there maybe an under or over payment. As indicated above, most LGPS pensions are at least equal to the GMP but the GMP can attract a different pension increase factor to the main pension. i.e. if the GMP was notified or input incorrectly it could lead to an under or overpayment. The Fund had already made the decision to ignore anything less than £2 a week in conjunction with other funds.
- 3.2 Where an underpayment has been identified, we are recommending that the pension is corrected and that any arrears are identified as due are paid. Where there is an overpayment it is recommended that the pension be corrected going forward but that the fund does not seek repayment of any sums due. This is in line with advice given by the Local Government Association (LGA). At the time of writing this report there is no known value for under or overpayments of GMP being notionally identified.

## 4. Recommendation

- 4.1 That where we have exhausted checks and reviews with HMRC on records up to the close down point, we will take the decision to rely on our own administration records. This is to reduce the risk of complaint and possible additional pension liability.
- 4.2 Where HMRC record that a liability sits with our Fund but we have no record we take steps to set up a dummy record for the GMP and review those records asking for evidence of entitlement at the time the member makes contact. Not recording the GMP in this way will cause the fund cost in dealing with queries over an extended period and could cause compliant. Hopefully we will not have any requests to pay a GMP where we hold no admin record but taking this action will prepare us if this does happen.
- 4.3 Where we identify an underpayment we take steps to correct the underpayment and pay arrears. Where we identify an overpayment we take steps to correct the pension but will not seek repayment of the overpayment.

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

Sarah Hay Tel: 0207 641 6015



# Pension Fund Committee

Date:	20 <sup>th</sup> June 201

Classification: General Release

Title: Request The Approval of Pinnacle and

**Continental as an Admission Bodies in the** 

**WCC Pension Fund** 

Report of: Sarah Hay Pensions Officer

Financial Summary: Negligible risk

**Report Author and Contact** 

Details:

Eleanor Dennis c/o Sarah Hay 0207 641 6015

# 1. Executive Summary

- 1.1 This report is requesting that the committee agree to allow two admitted bodies into the Pension Fund from the 1<sup>st</sup> of July 2019 on closed admission agreements. Both bodies have agreed commercial contracts with the council for a ten year period.
- 1.2 On the 1<sup>st</sup> of April 2019 City West Homes TUPE transferred into Westminster City Council. City West Homes had previously agreed that it would let two contracts out. The contracts were due to go live on the 1<sup>st</sup> of June 2019. The first contract is to Continental is for gardening services which involves five members of staff.
- 1.3 The Gardening contract with Continental is specifically in relation to Lillington and Longmore Gardens Estates in SW1. Other estate services were already outsourced but this location had previously operated a service through the Tennant Management Organisation (TMO) which ceased a few years and City West Homes had taken on the service pending this contract let.
- 1.4 The second contract is to Pinnacle is for one member of staff covering concierge services. The employer rate for this one member is 41.1%
- 1.5 The concierge contract is for the provision of a concierge stationed at the base of a tower block in Church Street during evening hours to control access and patrol the block to prevent and detect anti-social behaviour.

- 1.6 The Pinnacle admission body will have a bond with Barclays Bank put in place to run in line with the contract. The value of the bond is £32K and would cover any liability if Pinnacle were unable to meet any obligation due to the fund.
- 1.7 The Continental contract the employer rate is 35.6%. There has been no bond sought for this contract. The Actuary has indicated an indicative bond value of £20K. Asking continental to cover the bond value would increase the contract price beyond a commercially viable position.
- 1.8 The preference for the Housing Department is that the Dutch parent company Elkarij by provide a guarantee which the Funds legal advisors are reviewing. Costs of going down this route are being met by the Housing Department, alternatively they may review a bond option. The Committee could give consent to admit Continental on the basis that either an acceptable guarantee is provided or alternatively a traditional bond document. Without either a suitable guarantee or bond Continental will not be admitted to the fund.
- 1.9 The commercial contracts that were due to go live on the 1<sup>st</sup> of June for both services but have had to be delayed until the admission agreement have been approved by the committee as neither body will take on the risk of TUPE transferring in the staff until the admission agreements have been approved. There are possible commercial penalties of delaying the contract further should further extension be sought.

# 2. Recommendation

2.1 That the committee approve the closed admission agreement for both Pinnacle and Continental on the basis that both provide the Fund with the relevant security through a bond or guarantee.

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

Sarah Hay Tel: 0207 641 6015



# Committee Report

Decision Maker: PENSION FUND COMMITTEE

Date: 20 June 2019

Classification: General Release

Title: Fund Financial Management

Wards Affected: All

Policy Context: Effective control over council activities

Financial Summary: There are no immediate financial implications

arising from this report.

Report of: Phil Triggs

Tri-Borough Director of Treasury and

Pensions

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# 1. Executive Summary

- 1.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The register has now been updated to illustrate risk movements using arrows.
- 1.2 The cashflow forecast for the next three years has now been updated with actuals to 31 March 2019. The bank position continues to be stable.
- 1.3 The forward plan for the upcoming year 2019/20 for the Committee is attached.

## 2. Recommendations

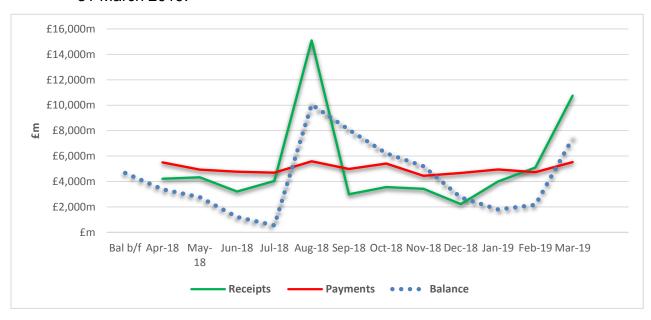
- 2.1 The Committee is asked to note the risk register for the Pension Fund.
- 2.2 The Committee is asked to note the cashflow position, the rolling 12-month forecast and the three-year forecast.
- 2.3 The Committee is asked to note the forward plans for 2019/20.

# 3. Risk Register Monitoring

- 3.1 The risk register is divided into two sections: governance (investment and funding) and pensions administration. The register has now been redesigned to include arrows which illustrate the risk movement. The current top five risks to the Pension Fund are highlighted below:
  - The London CIV disbands or fails to produce proposals deemed sufficiently ambitious (Governance).
  - Scheme members live longer than expected leading to higher than expected liabilities (Governance).
  - Significant volatility and negative sentiment in global investment markets following global disruptive political/economic events (Governance).
  - Price inflation is significantly more than anticipated in the actuarial assumptions (Governance).
  - Structural changes in an employer's membership or an employer fully/partially closing its LGPS offering (Administration).

# 4. Cashflow Monitoring and Forecasted Cashflows

- 4.1 The balance on the pension fund bank account as at 31 March 2019 was £7.397m. Payments from the bank account continue to exceed receipts on a monthly basis although, thanks to improved levels of deficit recovery contributions, cash inflow is expected to exceed cash outflow on an annual basis going forward.
- 4.2 The table below shows changes in the bank balance from 1 April 2018 to 31 March 2019.



- 4.3 The peak in receipts during August 2018 and March 2019 include a £10m and £7m deficit recovery payment, as per the Council's approved budgeted deficit recovery plan. Payments out of the Pension Fund bank account have remained stable over the year. Officers will continue to keep the cash balance under review and take appropriate action where necessary.
- 4.4 The following table illustrates the expected rolling cashflow for the 12-month period from 1 January 2019 to 31 December 2019. Actuals have been used for the quarter to 31 March 2019 with a forecast used for the remainder of the year. Forecasted cashflows are calculated using the previous year's actual monthly cashflows which are then inflated by 2%.

# Cashflows Actuals and Forecast for period January 2019 to December 2019:

	Jan-19	Feb-19	Mar-19	Apr-19	<i>May-19</i>	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19	Forecasted
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	Rolling
	Actual	Actual	Actual	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	F'cast	Total
Balance b/f	2,737	1,793	2,162	7,397	6,106	5,494	3,924	2,264	772	8,783	6,930	5,336	£000s
Contributions	3,287	3,119	3,266	3,017	3,405	3,140	2,910	3,163	2,821	2,902	3,091	3,192	37,314
Misc. Receipts <sup>1</sup>	710	1,973	490	1,204	924	68	129	942	182	665	333	61	7,681
Pensions	(3,283)	(3,263)	(3,281)	(3,241)	(3,210)	(3,203)	(3,195)	(3,236)	(3,232)	(3,265)	(3,240)	(3,298)	(38,948)
HMRC Tax Payments	(582)	(604)	(564)	(570)	(643)	(569)	(614)	(556)	(564)	(565)	(565)	(565)	(6,961)
Misc. Payments²	(997)	(811)	(1,165)	(1,530)	(1,076)	(966)	(722)	(1,684)	(1,057)	(1,505)	(535)	(817)	(12,866)
Expenses	(78)	(47)	(510)	(170)	(12)	(41)	(168)	(121)	(139)	(85)	(678)	(378)	(2,426)
Ret cash in/(out) in month	(943)	368	(1,765)	(1,291)	(612)	(1,571)	(1,660)	(1,491)	(1,990)	(1,852)	(1,594)	(1,805)	(16,205)
Withdrawals from Fund Managers	0	0	0	0	0	0	0	0	0	0	0	0	0
Deficit Recovery	0	0	7,000	0	0	0	0	0	10,000	0	0	0	17,000
Balance c/f	1,793	2,162	7,397	6,106	5,494	3,924	2,264	772	8,783	6,930	5,336	3,532	

<sup>&</sup>lt;sup>1</sup> Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges <sup>2</sup> Includes Transfers out, Lump Sums, Death Grants, Refunds

4.5 Actual cashflows against the forecast for the quarter ending 31 March 2019 is shown below. There may be monthly variances between the actual and forecasted amounts due to timing differences, e.g., transfer values in and out, payment of lump sums, retirement benefits and death grants.

# Cashflows Actuals/Forecast for 1 January to 31 March 2019:

		Jan-19			Feb-19			Mar-19	
	£000	£000	£000	£000	£000	£000	£000	£000	£000
	F'cast	Actual	Var	F'cast	Actual	Var	F'cast	Actual	Var
Balance b/f	3,856	2,737	1,119	2,543	1,793	750	1,231	2,162	(931)
Contributions	3,558	3,287	272	3,558	3,119	439	3,558	3,266	292
Misc. Receipts <sup>1</sup>	233	710	(477)	233	1,973	(1,740)	233	490	(256)
Pensions	(3,042)	(3,283)	241	(3,042)	(3,263)	222	(3,042)	(3,281)	239
HMRC Tax Payments	(625)	(582)	(43)	(625)	(604)	(21)	(625)	(564)	(61)
Misc. Payments²	(1,250)	(997)	(253)	(1,250)	(811)	(439)	(1,250)	(1,165)	(85)
Expenses	(188)	(78)	(109)	(188)	(47)	(141)	(188)	(510)	323
Net cash in/(out) in month	(1,313)	(943)	(369)	(1,313)	368	(1,681)	(1,313)	(1,765)	452
Withdrawals from Fund Managers	0	0	0	0	0	0	2,000	0	2,000
Deficit Recovery	0	0	0	0	0	0	7,000	7,000	0
Balance c/f	2,543	1,793	750	1,231	2,162	(931)	8,918	7,397	1,521

<sup>&</sup>lt;sup>1</sup> Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges

# **Variances during the quarter to 31 March 2019:**

- Miscellaneous receipts were larger than anticipated during January and February 2019 due to large transfer values in.
- Expenses were lower than expected during January and February 2019, due to issues raising POs following the SAP migration. However, there was a significant increase in expenses throughout March 2019 due to payment of invoices before year end and reimbursement of the General Fund in relation to the employee recharges.
- Additionally, there was more cash within the bank account at the end of March 2019 than expected. Therefore, a manager portfolio withdrawal was not required.

<sup>&</sup>lt;sup>2</sup> Includes Transfers out, Lump Sums, Death Grants, Refunds

4.6 The three-year cashflow forecast for 2019/20 to 2021/22 is shown below. Forecasted cashflows are calculated using the previous year's cashflows which are then inflated by 2%.

Three Year Forecast for 2019/20 to 2021/22:

	2019/20	2020/21	2021/22
	£000	£000	£000
	F'cast	F'cast	F'cast
Balance b/f	7,397	12,188	1,154
Contributions	37,330	38,076	38,838
Misc. Receipts <sup>1</sup>	7,686	7,840	7,997
Pensions	(38,964)	(39,744)	(40,538)
HMRC Tax	(6,964)	(7,103)	(7,245)
Misc. Payments <sup>2</sup>	(12,870)	(13,128)	(13,390)
Expenses	(2,427)	(2,476)	(2,525)
Net cash in/(out) in year	(16,209)	(16,534)	(16,864)
Withdrawals from Fund Managers	0	5,500	17,000
Deficit Recovery	21,000	0	0
Balance c/f	12,188	1,154	1,290

<sup>&</sup>lt;sup>1</sup> Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges

4.7 Deficit Recovery payments for the three years following 2019/20 will become evident after the 2019 actuarial valuation process.

# 5. Forward Plan

5.1 The Rolling Forward Plan for the Pension Fund Committee has been attached for 2019/20.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Billie Emery pensionfund@westminster.gov.uk or 0207 641 7062

**BACKGROUND PAPERS: None** 

### **APPENDICES:**

Appendix 1: Tri-Borough Risk Management Scoring Matrix Appendix 2: Pension Fund Risk Register Review at April 2019 Appendix 3: Pension Fund Committee Forward Plan: 2019/20

<sup>&</sup>lt;sup>2</sup> Includes Transfers out, Lump Sums, Death Grants, Refunds

		ension Fund Risk Management Scoring Matrix Scoring ( Impact )					
Impact Description	Category	Description					
pace Bescription	Cost/Budgetary Impact	£0 to £25,000					
	cost Budgetary Impact	Temporary disability or slight injury or illness less than 4 weeks (internal) or affecti					
	Impact on life	0-10 people (external)					
1 Very Low	Environment	Minor short term damage to local area of work.					
	Reputation	Decrease in perception of service internally only – no local media attention					
	nepatation	Failure to meet individual operational target – Integrity of data is corrupt no significant effect					
	Service Delivery						
	Cost/Budgetary Impact	£25,001 to £100,000					
	cost Budgetary Impact	Temporary disability or slight injury or illness greater than 4 weeks recovery (interr					
	Impact on life	or greater than 10 people (external)					
	impact on me	Damage contained to immediate area of operation, road, area of park single buildi					
2 Low	Environment	short term harm to the immediate ecology or community					
2 2011	Environment	Localised decrease in perception within service area – limited local media attention					
	Reputation	short term recovery					
	nepatation	Failure to meet a series of operational targets – adverse local appraisals – Integrity					
	Service Delivery	data is corrupt, negligible effect on indicator					
	Cost/Budgetary Impact	£100,001 to £400,000					
	Impact on life	Permanent disability or injury or illness					
	impact on me	Damage contained to Ward or area inside the borough with medium term effect to					
	Environment	immediate ecology or community					
3 Medium	Environment	Decrease in perception of public standing at Local Level – media attention highligh					
	Reputation	failure and is front page news, short to medium term recovery					
	nepatation	Failure to meet a critical target – impact on an individual performance indicator –					
		adverse internal audit report prompting timed improvement/action plan - Integrit					
	Service Delivery	data is corrupt, data falsely inflates or reduces outturn of indicator					
	Cost/Budgetary Impact	£400,001 to £800,000					
	Impact on life	Individual Fatality					
	mipact on inc	Borough wide damage with medium or long term effect to local ecology or					
	Environment	community					
4 High		Decrease in perception of public standing at Regional level – regional media					
	Reputation	coverage, medium term recovery					
	- Springer	Failure to meet a series of critical targets – impact on a number of performance					
		indicators – adverse external audit report prompting immediate action - Integrity of					
	Service Delivery	data is corrupt, data falsely inflates or reduces outturn on a range of indicators					
	Cost/Budgetary Impact	£800,001 and over					
	Impact on life	Mass Fatalities					
	Environment	Major harm with long term effect to regional ecology or community					
		Decrease in perception of public standing nationally and at Central Government –					
5 Very High	Reputation	national media coverage, long term recovery					
		Failure to meet a majority of local and national performance indicators – possibilit					
		intervention/special measures – Integrity of data is corrupt over a long period, dat					
	Service Delivery	falsely inflates or reduces outturn on a range of indicators					

Scoring ( Likelihood )									
Descriptor Likelihood Guide									
1. Improbable, extremely unlikely.	Virtually impossible to occur 0 to 5% chance of occurrence.								
2. Remote possibility	Very unlikely to occur 6 to 20% chance of occurrence								
3. Occasional	Likely to occur 21 to 50% chance of occurrence								
4. Probable	More likely to occur than not 51% to 80% chance of occurrence								
5. Likely	Almost certain to occur 81% to 100% chance of occurrence								

	Control	Details required				
Terminate	Stop what is being done.	A clear description of the specific actions to be taken to control the risk or				
Treat	Reduce the likelihood of the risk occurring.	opportunity				
Take	Circumstances that offer positive opportunities	opportunity				
Transfer	Pass to another service best placed to deal with mitigations but ownership of the risk still lies with the original service.	The name of the service that the risk is being transferred to and the reasons for the transfer.				
Tolerate	Do nothing because the cost outweighs the benefits and/or an element of the risk is outside our control.	A clear description of the specific reasons for tolerating the risk.				



	Pension Fund Risk Register - Administration Risk												
Risk Group	Risk Ref.	Movement	Risk Description	Fund		pact Reputation	Total	Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed
Admin	1		Structural changes in an employer's membership or an employer fully/partially closing the scheme. Employer bodies transferring out of the pension fund or employer bodies closing to new membership. An employer ceases to exist with insufficient funding or adequacy of bond placement.	5	3	1	9	3	27	TREAT 1) Administering Authority actively monitors prospective changes in membership. 2) Maintain knowledge of employer future plans. 3) Contributions rates and deficit recovery periods set to reflect the strength of the employer covenant. 4) Periodic reviews of the covenant strength of employers are undertaken and indemnity applied where appropriate. 5) Risk categorisation of employers planned to be part of 2019 actuarial valuation. 6) Monitoring of gilt yields for assessment of pensions deficit on a termination basis.	2	18	29/04/2019
Admin	2		Concentration of knowledge in a small number of officers and risk of departure of key staff.	2	2	3	7	3	21	TREAT 1) Practice notes in place. 2) Development of team members and succession planning improvements to be implemented. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework when setting objectives and establishing training needs.	2	14	29/04/2019
Admin	3		Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	1	2	3	6	2	12	TOLERATE 1) Surrey CC administers pensions for Surrey, East Sussex, LB Hillingdon and the Tri-Borough. Service has been excellent since this change was made.	2	12	29/04/2019
Admin	4	1	Poor reconciliation process leads to incorrect contributions.	2	1	1	4	2	8	1) Ensure reconciliation process notes are understood by Pension Fund team. 2) Ensure that the Pension Fund team is adequately resourced to manage the reconciliation process. 3) Contributions reconciliation is now undertaken by the pensions team following the end of the BT contract.	3	12	29/04/2019
Admin Pag	5		Incorrect data due to employer error, user error or historic error leads to service disruption, inefficiency and conservative actuarial assumptions.	4	4	3	11	2	22	TREAT 1) Update and enforce admin strategy to assure employer reporting compliance. 2) Implementation and monitoring of a Data Improvement Plan as part of the Service Specification between the Fund and Orbis. TREAT 1) Northern Trust provides 3rd party validation of performance and valuation data. Admin team and members are able to interrogate data to ensure accuracy.	1	11	29/04/2019
Admin	6	1	Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	3	2	5	10	2	20	TREAT 1) Third parties regulated by the FCA and separation of duties and independent reconciliation processes are in place. 2) Review of third party internal control reports. 3) Regular reconciliations of pensions payments undertaken by Pension Finance Team. 4) Periodic internal audits of Pensions Finance and HR Teams. 5) Internal Audits during 2018/19 showed satisfactory assurance with recommendations implemented during the year.	1	10	29/04/2019
Admin	7		BT contract wind down could lead to problems for retirements in 18/19 where data is on two different systems. All returns must be completed prior to BT contract ceasing. The move to Hampshire CC due in December 2018 and ensuring that key working practices continue such as the pension interface will be a Key to reduce risks to members.	1	2	2	5	2	10	TREAT 1) People Services are working with HCC and BT to ensure service transfer is smooth as possible. 2) 2017/18 LGPS files were checked by People Services in June 2018. 3) 2018/19 return is being compiled	2	10	29/04/2019
Admin	8		Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	5	2	2	9	2	18	TREAT 1) Contract monitoring in place with all providers. 2) Procurement team send alerts whenever credit scoring for any provider changes for follow up action.	1	9	29/04/2019
Admin	9		Non-compliance with regulation changes relating to the pension scheme or data protection leads to fines, penalties and damage to reputation.	3	3	2	8	2	16	TREAT 1) The Fund has generally good internal controls with regard to the management of the Fund. These controls are assessed on an annual basis by internal and external audit as well as council officers. 2) Through strong governance arrangements and the active reporting of issues, the Fund will seek to report all breaches as soon as they occur in order to allow mitigating actions to take place to limit the impact of any breaches. 3) Staff have had more time to work on the implementation of GDPR		8	29/04/2019
Admin	10		Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	1	3	4	8	2	16	TREAT 1) Contract in place with HCC to provide service, enabling smooth processing of supplier payments. 2) Process in place for Surrey CC to generate lump sum payments to members as they are due. 3) Officers undertaking additional testing and reconciliation work to verify accounting transactions.	1	8	29/04/2019

Admin	11		Inability to respond to a significant event leads to prolonged service disruption and damage to reputation.	1	2	5	8	2	16	TREAT 1) Disaster recovery plan in place as part of the Service Specification between the Fund and Surrey County Council 2) Ensure system security and data security is in place 3) Business continuity plans regularly reviewed, communicated and tested 4) Internal control mechanisms ensure safe custody and security of LGPS assets. 5) Gain assurance from the Fund's custodian, Northern Trust, regarding their cyber security compliance.	1	8	29/04/2019
Admin	12		Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	1	2	4	7	2	14	TREAT 1) In the event of a pension payroll failure, we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers.	1	7	29/04/2019
Admin	13	1	Bank reconciliations no longer carried out by BT. Income processing from the bank is being brought in house, no process in place yet. HCC may take on the process but no firm guarantee in place yet. Income not being posted to the system increasing workload for the pensions finance team, potentially for errors and accounts inaccuracy.	2	2	2	6	3	18	TREAT 1) Staff working with HCC and the Tri-Borough Pensions have come up with a solution to ensure bank reconciliations and income is posted promptly and accurately.	1	6	29/04/2019
Admin	14		Failure to pay pension benefits accurately leading to under or over payments.	2	2	2	6	2	12	TREAT 1) There are occasional circumstances where under/over payments are identified. Where underpayments occur, arrears are paid as soon as possible, usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months.	1	6	29/04/2019
Admin	15		Unstructured training leads to under developed workforce resulting in inefficiency.	2	2	2	6	2	12	TREAT 1) Implementation and monitoring of a Staff Training and Competency Plan as part of the Service Specification between the Fund and Surrey County Council.	1	6	29/04/2019
Admin	16		Failure to identify GMP liability leads to ongoing costs for the pension fund.	3	2	1	6	2	12	TREAT 1) GMP to be identified as a Project as part of the Service Specification between the Fund and Surrey County Council.	1	6	29/04/2019
Pagin Agge	17		Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	1	1	1	3	3	9	TREAT 1) Pension administration records are stored on the Surrey CC servers who have a disaster recovery system in place and records should be restored within 24 hours of any issue, All files are backed up daily.	2	6	29/04/2019
Aden)n	18		Lack of guidance and process notes leads to inefficiency and errors.	2	2	1	5	2	10	TREAT 1) Ensure process notes are compiled and circulated in Pension Fund and Administration teams.	1	5	29/04/2019
Admin	19		Lack of productivity leads to impaired performance.	2	2	1	5	2	10	TREAT  1) Regular appraisals with focused objectives for pension fund and admin staff.	1	5	29/04/2019
Admin	20		Rise in ill health retirements impact employer organisations.	2	2	1	5	2	10	TREAT 1) Engage with actuary re assumptions in contribution rates.	1	5	29/04/2019
Admin	21		Rise in discretionary ill-health retirements claims adversely affecting self-insurance costs.	2	2	1	5	2	10	TREAT 1) Pension Fund monitors ill health retirement awards which contradict IRMP recommendations.	1	5	29/04/2019

	Pension Fund Risk Register - Investment Risk												
Risk Group	Risk Ref.	Movement	Risk Description	Fund	Imp Employers		Total	Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score	Reviewed
Governance	1		That the London Collective Investment Vehicle (LCIV) disbands or the partnership fails to produce proposals/solutions deemed sufficiently ambitious	5	4	3	12	3	36	TOLERATE - 1) Partners for the pool have similar expertise and likemindedness of the officers and members involved with the fund, ensuring compliance with the pooling requirements. Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives. Member presence on Shareholder Committee and officer groups. 2) Now permanent CEO in place with appointment of CIO to follow	2	24	29/04/2019
Funding	2		Scheme members live longer than expected leading to higher than expected liabilities.	5	5	1	11	3	33	Revised actuarial assumptions shows mortality rates levelling out.	2	22	29/04/2019
Investment	3		Significant volatility and negative sentiment in global investment markets following disruptive politically inspired events in US.	5	4	1	10	3	30	TREAT- 1) Continued dialogue with investment managers re management of political risk in global developed markets. 2) Investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2019 valuation.	2	20	29/04/2019
Page §7	4		Price inflation is significantly more than anticipated in the actuarial assumptions: an increase in CPI inflation by 0.1% over the assumed rate will increase the liability valuation by upwards of 1.7%	5	3	2	10	3	30	TREAT- 1) The fund holds investment in index-linked bonds (RPI protection which is higher than CPI) and other real assets to mitigate CPI risk. Moreover, equities will also provide a degree of inflation protection.	2	20	29/04/2019
Funding	5	<b>_</b>	Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	4	4	2	10	2	20	1) Monitor numbers and values of transfers out being processed. If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values. 2) No evidence in 2018/19 of members transferring out to DC schemes.	2	20	29/04/2019
Funding	6		Employee pay increases are significantly more than anticipated for employers within the Fund.	4	4	2	10	2	20	TOLERATE - 1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions. Any employer specific assumptions above the actuary's long term assumption would lead to further review. 3) Employers to made aware of generic impact that salary increases can have upon the final salary linked elements of LGPS benefits (accrued benefits before 1 April 2014).	2	20	29/04/2019
Funding	7		Changes to LGPS Scheme moving from Defined Benefit to Defined Contribution	5	3	2	10	2	20	TOLERATE - 1) Political power required to effect the change.	2	20	29/04/2019

Investment	8		Investment managers fail to achieve benchmark/ outperformance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £1.4m.	5	3	1	9	3	27	TREAT- 1) The Investment Management Agreements (IMAs)clearly state WCC's expectations in terms of investment performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be achieved 4) Portfolio rebalancing is considered on a regular basis by the Pension Fund Committee. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.	2	18	29/04/2019
Investment	9		Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union, lack of any trade deal struck by 29 March 2019 and the economic after effects.	4	4	1	9	3	27	TREAT- 1) Officers to consult and engage with advisors and investment managers. 2) Future possibility of looking at move from UK to Global benchmarks on UK Equities and UK Property. 3) Possibility of hedging currency and equity index movements. 4) The UK is currently still part of the EU, so risk remains stable.	2	18	29/04/2019
Governance	10	1	Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within laid down timescales	3	2	1	6	2	12	1) Officers consult and engage with MHCLG, LGPS Scheme Advisory Board, advisors, consultants, peers, various seminars and conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) Uncertainty surrounding new MHCLG pooling guidance.	3	18	29/04/2019
Page ment	11		Increased risk to global economic stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence, with declines in oil and commodity prices. Leading to tightened financial conditions, reduced risk appetite and raised credit risks. Geo-political risk as a result of events and political uncertainty.	4	3	1	8	3	24	TREAT- 1) Increased vigilance and continued dialogue with managers as to events on and over the horizon. 2) Continued investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will follow post actuarial 2019 valuation.	2	16	29/04/2019
Governance	12		London CIV has inadequate resources to monitor the implementation of investment strategy and as a consequence are unable to address underachieving fund managers.	3	3	2	8	3	24	1) Pension Fund Committee Chair is a member of the Joint member Committee responsible for the oversight of the CIV and can monitor and challenge the level of resources through that forum. Tri-Borough Director of Treasury & Pensions is a member of the officer Investment Advisory Committee which gives the Fund influence over the work of the London CIV. 2) LCIV have recently appointed a new CEO.	2	16	29/04/2019
Funding	13		Impact of economic and political decisions on the Pension Fund's employer workforce.	5	2	1	8	2	16	1) Barnet Waddingham uses prudent assumptions on future of employees within workforce. Employer responsibility to flag up potential for major bulk transfers outside of the Westminster Fund. The potential for a significant reduction in the workforce as a result of the public sector financial pressures may have a future impact on the Fund. 2) Need to make prudent assumptions about diminishing workforce when carrying out the triennial actuarial valuation.	2	16	29/04/2019

Operational	14	Inaccurate information in public domain leads to damage to reputation and loss of confidence	1	1	3	5	3	15	1) Ensure that all requests for information (Freedom of Information, member and public questions at Council, etc) are managed appropriately and that Part 2 Exempt items remain so. 2) Maintain constructive relationships with employer bodies to ensure that news is well managed. Stage AGM every year.	3	15	29/04/2019
Funding	15	Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	4	2	1	7	2	14	Review "budgets" at each triennial valuation and challenge actuary as required. Charge capital cost of ill health retirements to admitted bodies at the time of occurring. Occupational health services provided by the Council and other large employers to address potential ill health issues early.	2	14	29/04/2019
Funding	16	Impact of increases to employer contributions following the actuarial valuation	5	5	3	13	2	26	TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	1	13	29/04/2019
Governance	17	Failure to take difficult decisions inhibits effective Fund management	5	3	4	12	2	24	TREAT-1) Officers ensure that governance process encourages decision making on objective empirical evidence rather than emotion. Officers ensure that the basis of decision making is grounded in the Investment Strategy Statement (ISS), Funding Strategy Statement (/FSS), Governance policy statement and Committee Terms of Reference and that appropriate advice from experts is sought	1	12	29/04/2019
Page Governance	18	Changes to LGPS Regulations	3	2	1	6	3	18	TREAT - 1) Fundamental change to LGPS Regulations implemented from 1 April 2014 (change from final salary to CARE scheme). 2) Future impacts on employer contributions and cash flows will considered during the 2016 actuarial valuation process. 3) Fund will respond to consultation processes. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored. Impact of Regulations 8 (compulsory pooling) to be monitored.	2	12	29/04/2019
Funding	19	There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	5	4	2	11	2	22	Cashflow forecast maintained and monitored. Cashflow position reported to sub-committee quarterly. Cashflow requirement is a factor in current investment strategy review.	1	11	29/04/2019
Funding	20	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy	5	3	3	11	2	22	TREAT- 1) Active investment strategy and asset allocation monitoring from Pension Fund Committee, officers and consultants. 2) Investment strategy review is currently underway with an approved switch from equities to fixed income. 3) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 4) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific.	1	11	29/04/2019

Financial	21	Financial loss of cash investments from fraudulent activity	3	3	5	11	2	22	TREAT - 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Strong governance arrangements and internal control are in place in respect of the Pension Fund. Internal Audit assist in the implementation of strong internal controls. Fund Managers have to provide annual SSAE16 and ISAE3402 or similar documentation (statement of internal controls).	1	11	29/04/2019
Operational	22	Failure to hold personal data securely in breach of General Data Protection Regulation (GDPR) legislation.	3	3	5	11	2	22	TREAT - 1) Data encryption technology is in place which allow the secure transmission of data to external service providers. 2) Phasing out of holding records via paper files. 3) Pensions Admin (Surrey County Council) manual records are locked daily in a secure safe. 4) WCC IT data security policy adhered to. 5) Implementation of GDPR	1	11	29/04/2019
Governance	23	Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	5	2	4	11	2	22	Officers maintain knowledge of legal framework for routine decisions. Eversheds retained for consultation on non-routine matters.	1	11	29/04/2019
Funding	24	Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	5	3	3	11	2	22	Transferee admission bodies required to have bonds or guarantees in place at time of signing the admission agreement. Regular monitoring of employers and follow up of expiring bonds.	1	11	29/04/2019
P Governance 6 40	25	Change in membership of Pension Fund Committee leads to dilution of member knowledge and understanding	2	2	1	5	4	20	TREAT - 1) Succession planning process in place. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. 4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework under designated officer.	2	10	29/04/2019
Governance	26	Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	5	3	2	10	2	20	At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. Committee and officers scrutinise and challenge advice provided.	1	10	29/04/2019
Operational	27	Financial failure of third party supplier results in service impairment and financial loss	5	4	1	10	2	20	TREAT - 1) Performance of third parties (other than fund managers) regularly monitored. 2) Regular meetings and conversations with global custodian (Northern Trust) take place. 3) Actuarial and investment consultancies are provided by two different providers.	1	10	29/04/2019
Investment	28	Failure of global custodian or counterparty.	5	3	2	10	2	20	At time of appointment, ensure assets are separately registered and segregated by owner. Review of internal control reports on an annual basis. Credit rating kept under review.	1	10	29/04/2019
Operational	29	Financial failure of a fund manager leads to value reduction, increased costs and impairment.	4	3	3	10	2	20	TREAT - 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on LGIM as transition manager. 4) Fund has the services of the London Collective Investment Vehicle (LCIV).	1	10	29/04/2019

Investment	30	Global investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers.	5	3	2	10	2	20	TREAT- 1) Proportion of total asset allocation made up of equities, bonds, property funds and fixed income, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal risk asset allocation. 3) Actuarial valuation and strategy review take place every three years post the actuarial valuation. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance is regarded as achievable over the long term when compared with historical data.	1	10	29/04/2019
Governance	31	Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	4	3	3	10	2	20	Person specifications are used at recruitment to appoint officers with relevant skills and experience. Training plans are in place for all officers as part of the performance appraisal arrangements. Shared service nature of the pensions team provides resilience and sharing of knowledge.	1	10	29/04/2019
Governance	32	Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests	3	3	4	10	2	20	TREAT - 1) Publication of all documents on external website. 2) Managers expected to comply with ISS and investment manager agreements. 3) Local Pension Board is an independent scrutiny and assistance function. 4) Annual audit reviews.	1	10	29/04/2019
age 4 finding	33	Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	5	3	1	9	2	18	Review maturity of scheme at each triennial valuation. Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. Cashflow position monitored monthly.	1	9	29/04/2019
Governance	34	Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	4	3	2	9	2	18	External professional advice is sought where required. Knowledge and skills policy in place (subject to Committee Approval)	1	9	29/04/2019
Operational	35	Insufficient attention paid to environmental, social and governance (ESG) issues, leading to reputational damage.	3	2	4	9	2	18	TREAT-1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the published ISS. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), which raises awareness of ESG issues and facilitates engagement with fund managers and corporate company directors.	1	9	29/04/2019
Financial	36	Inaccurate cash flow forecasts or drawdown payments lead to shortfalls on cash levels and borrowing becomes necessary to ensure that funds are available	3	4	2	9	2	18	TREAT - 1) Borrowing limits with banks are set at levels that are more than adequate should cash be required at short notice. 2) Cashflow analysis of pension fund undertaken at regular intervals.	1	9	29/04/2019

Regulation	37	Loss of flexibility to engage with Fund Managers that the fund has not 'opted up' with regard to new products, resulting in reduced knowledge about investment opportunities that may benefit the fund. (The Fund is a retail client to counterparties unless opted up)	5	2	2	9	2	18	More reliance on investment advisor to keep Officers and Committee updated. Officers are considering other financial institution outside of the current mandates to 'opt up' with. Maintaining up to date information about the fund on relevant platforms. Fund can opt up with prospective clients.	1	9	29/04/2019
Governance	38	Failure to comply with recommendations from the Local Pension Board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	3	5	9	2	18	TREAT - 1) Ensure that an cooperative, effective and transparent dialogue exists between the Pension Fund Committee and Local Pension Board.	1	9	29/04/2019
Regulation	39	Loss of 'Elective Professional Status' with any or all of existing Fund managers and counterparties resulting in reclassification of fund from professional to retail client status impacting Fund's investment options.	4	2	2	8	2	16	Keep quantitative and qualitative requirements under review to ensure that they continue to meet the requirements. There is a training programme and log in place to ensure knowledge and understanding is kept up to date. Existing and new Officer appointments subject to requirements for professional qualifications and CPD.	1	8	29/04/2019
Page Ope <mark>fa</mark> tional	40	Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process	2	2	3	7	2	14	TREAT - Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process.	1	7	29/04/2019
Funding	41	The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	4	2	1	7	2	14	Review at each triennial valuation and challenge actuary as required. Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	1	7	29/04/2019
Regulation	42	Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	4	2	1	7	2	14	Maintain links with central government and national bodies to keep abreast of national issues. Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	1	7	29/04/2019

### PENSION FUND COMMITTEE

### Forward Plan - 2019/20

Area of work	Jun 2019	Oct 2019	Dec 2019	Mar 2020
Standing Items	Pension Board minutes	Pension Board minutes	Pension Board minutes	Pension Board minutes
	Quarterly Performance Reports	Quarterly Performance Reports	Quarterly Performance Reports	Quarterly Performance Reports
	Quarterly Fund Financial Management Update	Quarterly Fund Financial Management Update	Quarterly Fund Financial Management Update	Quarterly Fund Financial Management Update
	Pensions Administration Key Performance Indicators	Pensions Administration Key Performance Indicators	Pensions Administration Key Performance Indicators	Pensions Administration Key Performance Indicators
	Forward Plan	Forward Plan	Forward Plan	Forward Plan
Governance	Pension Fund Annual Report and Accounts 2018/19 Review of Governance Compliance Statement Business Plan Pension Fund Costs 2018/19	Annual report of Pension Board activities Training Plan Progress on compliance with TPR Code of Practice London CIV governance update	London CIV governance review	Investment Strategy Statement Review Briefing on Triennial Valuation
Investments	Pooling and CIV update Investment Strategy Review Annual report to Scheme Advisory Board re pooling arrangements	Pooling and CIV update Investment Strategy Review Update on fixed income tender	MiFID II annual review	Pooling and CIV update Investment Strategy Review

Area of work	Jun 2019	Oct 2019	Dec 2019	Mar 2020
Administration	Voluntary Scheme Pays, Tax Paper.	Update on Hampshire Project. Impact on Pension Administration going Forward.	Hampshire Project. First Months Issues for Pension Administration. Pension Administration	
	Pension Administration Strategy (PAS) – update Initial Audits	Pension Board Recruitment	Strategy (PAS) – update Initial Audits	
	Discretionary Policies Paper.			
	Western Union certification exercise for Overseas Pensioners.			



### Committee Report

Decision Maker: PENSION FUND COMMITTEE

Date: 20 June 2019

Classification: General Release

Title: Performance of the Council's Pension Fund

Wards Affected: All

Policy Context: Effective control over council activities

Financial Summary: There are no immediate financial implications

arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.

Report of: Phil Triggs

Tri-Borough Director of Treasury and

Pensions

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020 7641 4136

### 1. Executive Summary

- 1.1 This report presents the performance of the Pension Fund's investments to 31 March 2019, together with an update of the funding position as at 31 December 2018.
- 1.2 The Fund underperformed the benchmark net of fees by 0.6% over the year to 31 March 2019 and the estimated funding level as at 31 December 2018 was 94.5%. Therefore, the funding position remains stable subject to market volatility. An updated funding level will be provided once the triennial actuarial valuation has taken place.

#### 2. Recommendation

2.1 The Committee is asked to note the performance of the investments, and funding position.

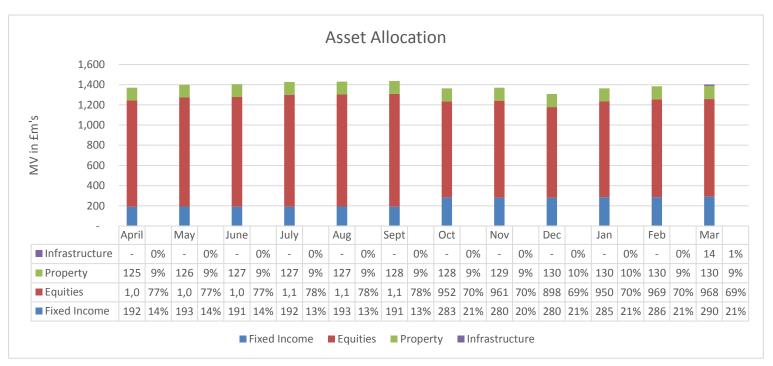
### 3. Background

- 3.1 The terms of reference of the Pension Fund Committee require the committee to monitor the performance of the Pension Fund, individual Fund Managers, and other service providers to ensure that they remain suitable.
- 3.2 This report presents a summary of the Pension Fund's performance to 31 March 2019 and estimated funding level to 31 December 2018. The investment performance report (Appendix 1) has been prepared by Deloitte, the Fund's investment adviser.
- 3.3 The Investment Performance Report shows that over the quarter to 31 March 2019 the market value of the assets increased by £98.1m to £1,409m, largely as a result of a resurgence in equity markets. Over the year to 31 March 2019, the market value of the assets increased by £78m to a value of £1,409m (£1,331m at 31 March 2018). The Fund marginally outperformed the benchmark net of fees by 0.6% over the 12-month period. This is mainly attributable to underperformance within the Majedie and Baillie Gifford mandates. However, this has been partly offset by strong performance from Longview, who outperformed their benchmark net of fees by 4.0% over the year.
- 3.4 Over the longer three-year period to 31 March 2019, the Fund outperformed the benchmark net of fees by 0.7%, with Aberdeen Standard and Baillie Gifford being the major contributors. Both Majedie and Longview underperformed their benchmarks net of fees by 2.2% and 0.2% respectively during this period.
- 3.5 The advisors continue to rate the fund managers favourably, with the exception of Longview and the retirement of the Chief Executive, Ramzi Rishani in December 2018 still a major concern. In the first quarter of 2019, Marina Lund was appointed as the sole CEO following her role as Co-CEO since 2014.
- 3.6 Advisors have also expressed ongoing concern about resignations and vacancies at senior management level within the London Collective Investment Vehicle (LCIV). During the first quarter of 2019, Mike O'Donnell was appointed as the LCIV's Chief Executive Officer, followed by the appointment of Mark Thompson as permanent CIO. Mark will start in September 2019 and brings with him over thirty years of experience in the financial services industry. Mark has held the position of CIO at HSBC Bank UK Pension Scheme for over eight years and worked for over twenty years at Prudential/M&G Investments in a variety of senior investment positions.
- 3.7 Majedie is currently looking to hire a UK Small Cap manager, following the decision to replace Richard Staveley in January 2019. At company level, LGIM announced that Michelle Scrimgeour will replace outgoing Mark Zinkula as CEO of LGIM (UK), subject to regulatory approval, and

- will work closely with Mark over the coming months until he leaves the business in August.
- 3.8 The funding update (Appendix 2) has been prepared by the fund actuary, Barnett Waddingham. The estimated funding level for the Westminster City Council Fund as assessed by the actuary at 31 December 2018 was 94.5% (95.8% at 30 September 2018), a decrease of 1.3%. This was mainly due to a fall in equity markets up to 31 December 2018.
- 3.9 However, the position is an improvement on the 31 March 2018 of funding level of 92.2% and is also up 15.8% on the funding level of 80% that was calculated at the triennial valuation of 31 March 2016. An up-to-date funding level will be provided by the actuary once they have completed the triennial review as the actuarial assumptions and membership data will be updated.

### 4. Asset Allocation and Summary of Changes for 2018/19

4.1 The chart below shows the changes in asset allocation of the Fund from 1 April 2018 to 31 March 2019. Asset allocations may vary due to changes in market value.



\*Fixed Income includes bonds and Multi Asset Credit

- 4.2 The Westminster Pension Fund target asset allocation is 65% of assets within equities, 20% in fixed income, 5% within infrastructure and 10% in property.
- 4.3 On 6 April 2018, the Fund transitioned £174m of assets in to the Insight Asset Management Buy and Maintain Bonds portfolio from the Insight

- Gilt and Non-Gilt funds, following a fixed income manager selection process held by the Pension Fund Committee during November 2017.
- 4.4 In June 2018, the Fund's investment advisor undertook a review of the Longview equity mandate with the Fund being 12% overweight against its policy asset allocation to equities. The Pension Fund Committee elected to rebalance the Fund's portfolio by gradually selling down its holdings in the Longview mandate, with the intention of transferring the portfolio into fixed income (multi asset credit) and infrastructure asset classes.
- 4.5 During August 2018, the Pension Fund Committee elected to further diversify the Fund in to a Multi Asset Credit (MAC) portfolio by selecting CQS as a fixed income manager via the London CIV platform. The LCIV CQS MAC fund offers diversification in a wide variety of different fixed income securities that are resilient at different stages of the economic cycle. A £91m transfer of assets from Longview to the CQS MAC portfolio took place on 30 October 2018.
- 4.6 In December 2018, following a manager selection process, the Pension Fund Committee selected Pantheon Asset Management as the Fund's Infrastructure Manager. The remainder of the portfolio held with Longview will be sold and £70m transitioned in to the Pantheon Global Infrastructure Fund III. The first drawdown took place on 20 March 2019, with £14m in cash held within the global custodian transferred to Pantheon.
- 4.7 The value of pension fund investments transferred to the LCIV at 31 March 2019 was £669 million. This represents 47% of Westminster's investment assets. A further £326 million continues to benefit from reduced management fees, Legal and General having reduced their fees to match those available through the LCIV.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

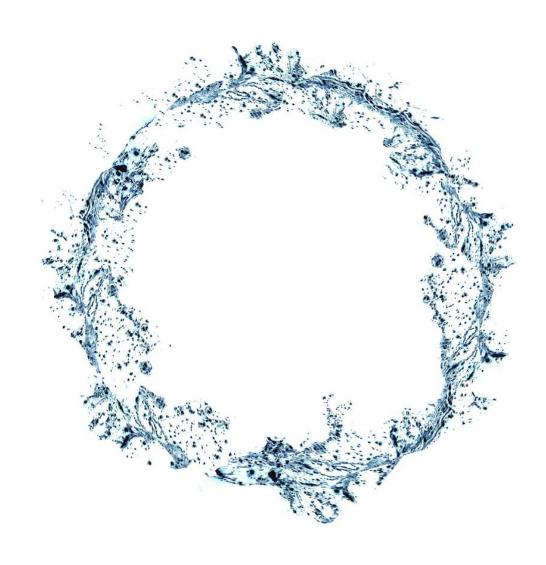
Billie Emery pensionfund@westminster.gov.uk or 0207 641 7062

**BACKGROUND PAPERS:** None

#### **APPENDICES:**

Appendix 1: Deloitte Investment Report, Quarter Ending 31 March 2019 Appendix 2: Barnett Waddingham Funding Update as at 31 December 2018

### **Deloitte.**



### **City of Westminster Pension Fund** Investment Performance Report to 31 March 2019

Deloitte Total Reward and Benefits Limited June 2019

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# 1 Market Background

#### Three and twelve months to 31 March 2019

Global equity markets rebounded strongly in the first quarter of 2019 after the sharp downturn experienced at the end of 2018, as fears over the US-China trade war eased following constructive talks and hopes of a resolution, while central banks moved to a more accommodating monetary policy signalling a halt to any further imminent rate rises.

UK equities also made gains over the quarter to 31 March 2019 with the FTSE All Share Index delivering a positive return of 9.4%. Whilst still uncertain, investors perceived the probability of a cliff-edge Brexit to have fallen following the UK Parliament's strong opposition to 'no deal', boosting hopes of a 'softer' outcome, with UK equities and sterling rising as a result. Meanwhile the underlying UK economy produced mixed signals against this uncertain political backdrop, as reported economic growth expectations slowed in line with the wider global slowdown, but unemployment fell below 4% and real wage growth continued to outpace inflation.

The FTSE 100 Index increased by 9.5% while the FTSE 250 gained 9.7% as the gains were shared among both larger international companies and smaller domestic focused companies alike. At the sector level, Technology was the best performer returning 22.8%, while Telecommunications was the only sector to deliver a negative return, falling by 6.1%.

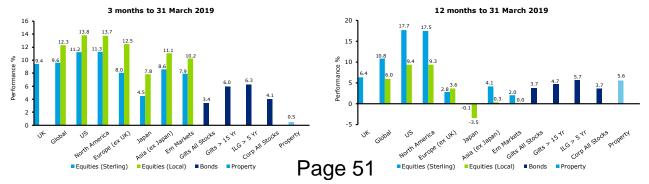
Global markets as a whole outperformed UK equities in local currency terms (12.3%) but performed broadly in line in sterling terms (9.6%) due to the appreciation of sterling, which meant that currency hedging contributed positively to the returns delivered to investors over the quarter. All regions made significant gains, led by the US which returned 13.8%, whilst Japan was the worst performer but still gained 7.8%, as measured in local currency terms.

Nominal gilt yields fell sharply by about 20-30 bps across the curve and the All Stocks Gilts Index delivered a positive return of 3.4% over the quarter. Real yields also fell by a similar amount with the Over 5 Year Index-Linked Gilts Index delivering a return of 6.3% over the same period. Credit spreads tightened over the quarter, and combined with the fall in gilt yields led corporate bonds to perform strongly, with the iBoxx All Stocks Non Gilt Index returning 4.1% over the quarter.

Over the 12 months to 31 March 2019, the FTSE All Share delivered a positive return of 6.4% as the rebound in the most recent quarter offset the sharp fall at the end of 2018. At the sector level there was a wide dispersion of returns. Technology was the best performing sector returning 28.2%, whilst Telecommunications was the poorest performing sector delivering a negative return of -18.8%. Global equities performed broadly in line with UK equities in local terms (6.0%) but outperformed in sterling terms (10.8%) due to the depreciation of sterling over the year.

UK nominal gilts achieved positive returns over the 12 months to 31 March 2019, as nominal gilt yields fell by c. 20bps over the period. The All Stocks Gilts Index returned 3.7% and the Over 15 Year Gilts Index returned 4.7% over the year. UK index-linked gilts delivered positive returns as real yields also fell across the curve, particularly at shorter durations, with the Over 5 Year Index-Linked Gilts Index returning 5.7%. Corporate bonds performed similarly to gilts over the year, as their higher income yield was offset by a widening in credit spreads. The iBoxx All Stocks Non Gilt Index delivered a return of 3.7%.

The MSCI UK All Property Index returned 0.5% over the 3 months to 31 March 2019 and 5.6% over the 12 months to 31 March 2019 as the property market has begun to cool in recent quarters in light of uncertainty over Brexit and a slowing UK economy.



### Total Fund

#### **Investment Performance to 31 March 2019**

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

Manager	Asset Class	Last (	)uarte	r (%)	Last Year (%)			Last 3 Years (% p.a.) <sup>1</sup>			Since inception (% p.a.) <sup>1</sup>		
		Fund		B'mark	Fund		B'mark	Fund		B'mark	Fund		B'mark
		Gross	Net¹		Gross	Net¹		Gross	Net <sup>1</sup>		Gross	Net <sup>1</sup>	
LCIV <sup>3</sup>	UK Equity	7.3	7.1	9.4	3.9	3.3	6.4	7.9	7.3	9.5	10.5	9.9	9.4
LGIM	Global Equity	11.7	11.7	11.7	5.1	5.0	5.0	10.8	10.8	10.8	11.0	11.0	11.0
LCIV <sup>3</sup>	Global Equity	12.5	12.4	9.6	9.1	8.8	10.5	18.2	17.9	14.4	14.3	14.0	11.8
Longview	Global Equity	7.2	7.0	9.9	16.6	16.0	12.0	14.9	14.2	14.4	13.9	13.2	11.6
Insight <sup>2</sup>	Buy and Maintain	4.3	4.3	2.9	n/a	n/a	n/a	n/a	n/a	n/a	6.3	6.2	5.4
LCIV <sup>3</sup>	Multi Asset Credit	2.8	2.6	1.3	n/a	n/a	n/a	n/a	n/a	n/a	0.7	0.4	2.1
Hermes	Property	0.7	0.6	0.5	6.8	6.4	5.8	8.2	7.8	7.2	9.8	9.4	8.5
Aberdeen Standard	Property	1.1	1.0	3.9	6.9	6.4	5.8	8.1	7.6	5.6	8.8	8.3	6.6
Pantheon	Global Infrastructure	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total	orthern Trust	7.9	7.8	7.8	6.4	6.1	6.7	10.6	10.3	9.6	n/a	n/a	n/a

Source: Northern Trust (1) Estimated by Deloitte when manager data is not available

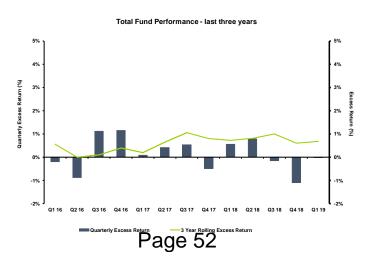
See appendix 1 for more detail on manager fees and since inception dates

(2) Insight Buy and Maintain Fund date of inception of 9 April 2018. Since inception returns and benchmark returns reflect a combination of Insight Buy & Maintain Fund returns and benchmark returns from date of inception to 31 March 2019, and Insight IM (Core) Fund returns and benchmark returns from inception date 30 September 2011 until inception of the Buy and Maintain Fund

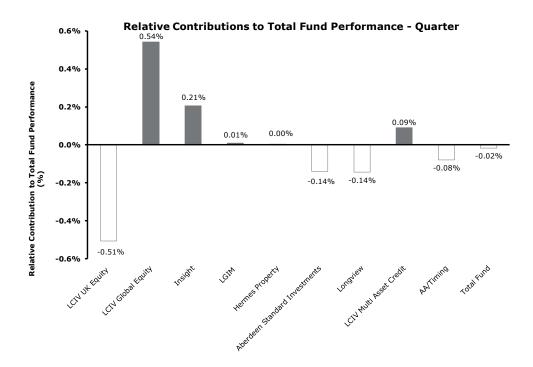
(3) Quarter and year performance figures estimated using London CIV quarterly reports. Longer term performance has been provided by Northern Trust. LCIV UK Equity Fund is managed by Majedie and was incepted on 18 May 2017. LCIV Global Equity Fund is managed by Baillie Gifford and was incepted on 11 April 2016

Over the quarter to 31 March 2019, the Fund delivered a positive return of 7.8% on a net of fees basis, matching its benchmark, with each mandate providing positive absolute returns over the period. Relative underperformance primarily driven by the LCIV UK Equity Fund and Longview was offset by the LCIV Global Equity Fund. Over the 12 month period to 31 March 2019, the Fund underperformed its benchmark by 0.6%. Whilst over the longer three-year period, the Fund outperformed its benchmark by 0.7% p.a. on a net of fees basis.

The chart below shows the relative performance of the Fund over the quarter and last three years, highlighting that the rolling three-year performance is ahead of the benchmark. Please note that performance is shown net of fees versus the benchmark.

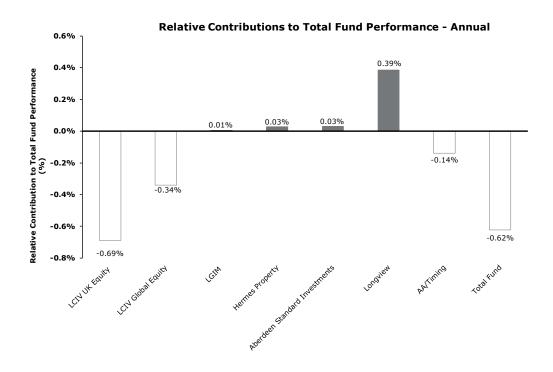


#### 2.2 Attribution of Performance to 31 March 2019



The Fund matched its composite benchmark on a net of fees basis over the quarter to 31 March 2019. Underperformance was largely as a result of relative underperformance by the LCIV UK Equity Fund over the first quarter of 2019, with the ASI Long Lease Fund and Longview also underperforming their respective benchmarks. This was offset by the LCIV Global Equity Fund and Insight both outperforming their respective benchmarks over the same period.

The Fund underperformed its benchmark by 0.6% over the year to 31 March 2019. The LCIV UK Equity and Global Equity funds were the main detractors to relative performance over this period, partially offset by outperformance from Longview over the year to 31 March 2019.



#### 2.3 Asset Allocation as at 31 March 2019

The table below shows the assets held by manager and asset class as at 31 March 2019.

Manager	Asset Class	End Dec 2018 (£m)	End Mar 2019 (£m)	End Dec 2018 (%)	End Mar 2019 (%)	Benchmark Allocation (%)
LCIV	UK Equity	287.6	293.0	21.9	20.8	22.5
LGIM	Global Equity (Passive)	291.8	326.0	22.3	23.1	22.5
LCIV	Global Equity	256.0	284.0	19.5	20.2	20.0
Longview	Global Equity	65.3	70.0	5.0	5.0	0.0
	Total Equity	900.7	973.0	68.7	69.1	65.0
Insight	Buy and Maintain	191.2	199.4	14.6	14.2	13.5
LCIV	Multi Asset Credit	89.3	91.6	10.0	6.5	6.5
	Total Bonds	280.5	291.0	21.4	20.7	20.0
Hermes	Property	65.6	66.0	5.0	4.7	5.0
Aberdeen Standard	Property	64.0	64.7	4.9	4.6	5.0
	Total Property	129.6	130.7	9.9	9.3	10.0
Pantheon	Global Infrastructure	0.0	14.2	0.0	1.0	5.0
	Total Infrastructure Equity	0.0	14.2	0.0	1.0	5.0
	Total	1,310.8	1,408.9	100	100	100

Source: Northern Trust

Figures may not sum due to rounding

Over the quarter to 31 March 2019, the market value of the assets increased by c. £98.1m largely as a result of the resurgence in equity markets following the start of the calendar year.

As at 31 March 2019, the Fund was overweight to equities relative to the strategic benchmark. The Fund was underweight to property by 0.7% as at the end of the first quarter of 2019 and 0.7% overweight to bonds relative to the benchmark allocation.

Over the quarter, the Fund committed \$91.5m to the Pantheon Global Infrastructure III Fund. This represents c. 5% of the Fund portfolio and is to be funded from the remainder of the Longview mandate. The decision to invest in Pantheon was taken following an infrastructure equity manager selection exercise which took place in December 2018.

Pantheon issued a draw down request of \$18.8m to be paid by 20 March 2019. This represents 20.5% of capital commitments to the infrastructure fund and settles an equalisation amount required to reflect interest earned on the infrastructure fund prior to the Fund's initial commitment.

#### 2.4 Yield analysis as at 31 March 2019

The table below shows the yield as reported by the managers on each of the Fund's investments.

Manager	Asset Class	Yield as at 31 March 2019
LCIV	UK Equity	3.90%**
LGIM	Global Equity (Passive)	0.27%*
LCIV	Global Equity	1.20%**
Longview	Global Equity	2.18%
Insight	Buy and Maintain	2.56%
LCIV	Multi Asset Credit	5.37%
Hermes Property	Property	3.40%
Aberdeen Standard Investments	Long Lease Property	4.11%
	Total	2.37%

<sup>\*</sup>Yield and benchmark yield (2.8%) as at 31 December 2018. Benchmark yield represents the income that would be distributed.

<sup>\*\*</sup> LCIV funds' yields are provided by the London CIV and are historic yields, reflecting the distributions declared over the past 12 months as a percentage of average market value.

# 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	LCIV UK Equity	Further turnover within the core investment team	1
		Re-opening the UK Equity products with no clear limits on the value of assets that they would take on	
LGIM	Global Equity	Major deviation from benchmark returns	1
	(Passive)	Significant loss of assets under management	
Baillie	LCIV Global	Loss of key personnel	1
Gifford	Equity	Change in investment approach	
		Lack of control in growth of assets under management	
Longview	Global Equity	Loss of key personnel	2
		Change in investment approach	
		Lack of control in growth of assets under management	
Insight	Buy and Maintain	Departure of any of the senior members of the investment team	1
cqs	LCIV Multi Asset Credit	Significant changes to the investment team responsible for the fund	1
Hermes	Property	Significant growth in the value of assets invested in the fund	1
		Changes to the team managing the mandate	
Aberdeen Standard Investments	Property	Richard Marshall leaving the business or ceasing to be actively involved in the fund without having gone through an appropriate hand-over	1
		A build up within the fund of holdings with remaining lease lengths around 10 years	
Pantheon	Global Infrastructure	Significant changes to the investment team responsible for the fund	1

#### 3.1 London CIV

#### **Business**

As at 31 March 2019, the assets under management within the 14 sub-funds of the London CIV was £8,203m. The total assets under oversight (which includes passive investment held outside of the CIV platform) increased by £0.5bn to £18.0bn over the quarter, which represents over 50% of London's total LGPS assets.

#### Personnel

Mike O'Donnell was appointed as the London CIV's CEO at the beginning of March. Mike is a senior finance professional and non-executive director with a background in local government finance, including twelve years as Executive Director responsible for Finance at LB Camden and nine month seconded to Birmingham City Council. He has chaired LFAC and been president of SLT the representative group for London s151 officers.

Following quarter end, at the beginning of May, Michael Pratten joined as interim Chief Investment Officer (CIO). Michael joins from Canopious where he was CIO for over five years, prior to this Michael was CIO and Managing Director at Coal Pension Trustees and has held senior positions at Wellington Asset Management and Equitas Limited.

**Deloitte view** – It is crucial that steps are taken to rebuild the senior management team and an appropriate strategy agreed for taking the pool forward, getting "buy-in" from the shareholders. We are continuing to monitor developments on the business side as well as the new fund launches.

#### 3.2 Majedie

#### **Business**

Majedie's total assets under management as at 31 March 2019 was c. £12.4bn, an increase of c. £0.6bn over the quarter.

#### Personnel

Majedie is currently looking to hire a UK Small Cap manager, following the decision to replace Richard Staveley in January 2019. Majedie is currently in interview stages to replace Richard, with Imran Sattar and Emily Barnard running the sleeve in the meantime.

Following quarter end, in April 2019 Yuri Khodjamirian, co-manager of UK Income, announced he is leaving Majedie to return to scientific academia. Majedie therefore took the decision to make changes to their UK strategies:

- Imran Sattar will replace Matthew Smith on the UK Equity strategy, with Imran retaining his existing UK Focus portfolio responsibilities;
- Mike Totton will replace Matthew Smith on the UK Focus strategy, Mike will also become co-manager of the UK Income Strategy, alongside Mark Wharrior; and
- Matthew Smith will remain lead manager of the Tortoise Fund, providing sole focus on this strategy.

In addition, from 3 June 2019, Dan Ekstein will join Majedie. Dan is currently head of European Food Retail Research at UBS.

Majedie has also appointed another graduate trainee to the investment team who is set to begin in autumn.

**Deloitte view** – We recently met with Majedie regarding recent performance and team changes. Please see Majedie UK Equity Fund Review provided by Deloitte.

#### 3.3 LGIM

#### **Business**

As at 31 December 2018, Legal & General Investment Management ("Legal & General") had total assets under management ("AuM") of £1,015bn, an increase of £30bn since 30 June 2018.

#### Personnel

At a firm level, LGIM announced that Michelle Scrimgeour will replace outgoing Mark Zinkula as CEO of LGIM (UK), subject to regulatory approval, and will work closely with Mark over the coming months until he leaves the business in August. Michelle joins from Columbia Threadneedle where she held the role of CEO with responsibility for the EMEA (Europe, Middle East and Africa) region. Michelle has over 30 years' experience at asset management firms and before Threadneedle she was Chief Risk Officer at M&G Investments. Siobhan Boylan left her role as CFO in January 2019. Richard Lee, who left his role as Group Performance Director, having previously held positions as CFO and Chief Risk Officer for Legal & General Retirement, replaced Siobhan.

Three further senior appointments took place over the first quarter of 2019 as Nathan Jones, Sonja Laud and Will Riley joined LGIM to take up the roles of Global Head of Operational Risk, Deputy CIO and Head of Solutions respectively. Nathan's role will cover operational risk for the global business and will report to the CRO. Sonja Laud will work closely with and support the current CIO Anton Eser in her role as Deputy CIO. Sonja joined from Fidelity and has an active management background with a focus on developing solutions for clients. Will Riley joined LGIM to take up the role of Head of Solutions from BlackRock where he held a senior solutions role, and has experience in developing and managing investment solutions across multiple asset classes.

At the Index team level, there were three new appointments as Lawrence Chir joined as Index Equity Fund Manager, Eva Zhang joined as Index Fixed Income Fund Manager and Luca Ramottis joined as an ETF Analyst.

**Deloitte View -** We continue to rate Legal & General positively for its passive capabilities.

#### 3.4 Baillie Gifford

#### **Business**

Baillie Gifford's total assets under management was c. £193.7bn as at 31 March 2019, an increase of c. £20.4bn over the quarter.

#### **Personnel**

There have been no significant team or personnel changes over the quarter to 31 March 2019.

**Deloitte view -** We continue to rate Baillie Gifford positively for its equity capabilities.

#### 3.5 Longview

#### **Business**

As at 31 March 2019, Longview held assets under management of c. £19.8bn.

During the quarter, net outflows from Longview were c. £873m with six accounts relinquishing their investment. Three of which were disinvested due to a conflict of interest, with the remainder leaving due to continued de-risking among UK Corporate DB Pension Schemes.

#### **Personnel**

During the first quarter of 2019, Maryse Medawar joined Longview as part of the Institutional Client team. Maryse joined from Wellington Management where she spent 10 years, most recently as a Client Director responsible for their Sovereign and Middle East clients and prospects.

**Deloitte view** – The departure of Ramzi Rishani at the end of December 2018 means that both of Longview's founding partners are no longer involved in the business. This is a significant departure given Ramzi's previous role and involvement in the success of the business to date. Taking these factors into account, we would not put this strategy forward for new business.

#### 3.6 Insight

#### **Business**

As at 31 March 2019 Insight's asset under management was c. £648bn, this represents an increase of c. £27bn over the quarter. The Insight Buy and Maintain Fund held assets under management of c. £2.3bn at the end of the first quarter of 2019, an increase of c. £0.1bn over the quarter.

#### Personnel

Insight made no changes to their Buy and Maintain fund team over the quarter.

**Deloitte view** – We rate Insight positively for its Fixed Income capabilities but continue to monitor how growth is being managed across the business.

#### 3.7 COS - Multi Asset Credit

#### **Business**

CQS held assets under management of c. \$18.0bn as at 31 March 2019, an increase of c. \$0.3bn over the quarter. The Credit Multi Asset Fund managed c. \$7.3bn on behalf of its clients as at the end of the quarter.

#### Personnel

There were no specific team/personnel changes to the Credit Multi Asset Fund team over the quarter.

**Deloitte View -** We continue to rate CQS positively for its multi asset capabilities.

#### 3.8 Hermes

#### **Business**

As at 31 March 2019, Hermes had total assets under management of c. £33.5bn, a decrease of c. £2.5bn over the quarter. Within the HPUT, total assets under management remained relatively constant at c. £1.6bn at quarter end.

#### Personnel

There were no changes to the HPUT team over the quarter.

**Deloitte view** -We continue to rate the team managing HPUT and at this stage, see no reason to change this.

#### 3.9 Aberdeen Standard Investments – Long Lease Property

#### **Business**

At the end of the first quarter of 2019, the long lease fund held assets under management of c. £2.5bn, an increase of c. £0.1bn over the quarter.

#### Personnel

There were no team changes over the first quarter of 2019.

#### **Process**

Since the two businesses merged, ASI has put in place a formalised process where all potential transactions are reviewed and an "allocation policy" applied where interest is expressed in the investment by more than one fund/client portfolio.

**Deloitte View -** We continue to rate Aberdeen Standard Investments positively for its long lease property capabilities.

#### 3.10 Pantheon

#### **Business**

As at 31 March 2019, the Global Infrastructure III Fund held \$2.2bn in assets under management. The infrastructure fund had a final close in March 2019. 11 investments have been completed for \$393.2m with a further three deals pending for \$109.6m, bringing the fund to 23% committed.

#### **Personnel**

Over the first quarter of 2019, Janice Ince and Judy Hyeon joined Pantheon's San Francisco team as Principal in the infrastructure team and product specialist in the global infrastructure and real assets team respectively.

Alexander Morgan, a Principal in the San Francisco office, left Pantheon at the end of March 2019.

**Deloitte View -** We continue to rate Pantheon positively for its global infrastructure capabilities.

## 4 London CIV

#### 4.1 Investment Performance to 31 March 2019

As at 31 March 2019, the assets under management within the 14 sub-funds of the London CIV was £8,203m. The total assets under oversight (which includes passive investment held outside of the CIV platform) increased by c. £0.5bn to c. £18.0bn over the quarter, which represents over 50% of London's total assets. The table below provides an overview of the sub-funds currently available on the London CIV platform.

Sub-fund	Asset Class	Manager	Total AuM as at 31 December 2018 (£m)	Total AuM as at 31 March 2019 (£m)	Number of London CIV clients	Inception Date
LCIV UK Equity	UK Equity	Majedie	467	418	2	18/05/17
LCIV Global Equity Alpha	Global Equity	Allianz Global Investors	106	119	1	02/12/15
LCIV Global Alpha Growth	Global Equity	Baillie Gifford	2,092	2,470	13	11/04/16
LCIV Global Equity	Global Equity	Newton	557	606	3	22/05/17
LCIV Global Equity	Global Equity	Longview Partners	700	751	5	17/07/17
LCIV Equity Income	Global Equity	Epoch Investment Partners	222	240	2	08/11/17
LCIV Emerging Market Equity	Global Equity	Henderson Global Investors	276	381	6	11/01/18
LCIV Sustainable Equity Fund	Global Equity	RBC Global Asset Management (UK)	249	282	2	18/04/18
LCIV Global Total Return	Diversified growth fund	Pyrford	308	317	5	17/06/16
LCIV Diversified Growth	Diversified growth fund	Baillie Gifford	627	665	8	15/02/16
LCIV Absolute Return	Diversified growth fund	Ruffer	854	889	10	21/06/16
LCIV Real Return	Diversified growth fund	Newton	182	190	2	16/12/16
LCIV MAC	Fixed Income	CQS	639	700	10	31/05/18
LCIV Global Bond	Fixed Income	PIMCO	167	174	2	30/11/18
Total			7,447	8,203		

Over the quarter to 31 March 2019, one London Borough client left the UK Equity Fund, managed by Majedie. The Global Alpha Growth Fund (managed by Baillie Gifford) and the MAC Fund (Managed by CQS) added one new London Borough each to their client lists. No new sub-funds were launched over the quarter.

## 5 LCIV – UK Equity

Majedie was appointed to manage an active UK equity mandate from 31 May 2006, held as a sub-fund under the London CIV platform from 18 May 2017. 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.

5.1 Active UK Equity – Investment Performance to 31 March 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie - Gross of fees	7.3	3.9	7.9	10.5
Net of fees <sup>1</sup>	7.1	3.3	7.3	9.9
MSCI AC World Index	9.4	6.4	9.5	9.4
Relative (on a net basis)	-2.3	-3.1	-2.2	0.5

Source: Northern Trust
(1) Estimated by Deloitte

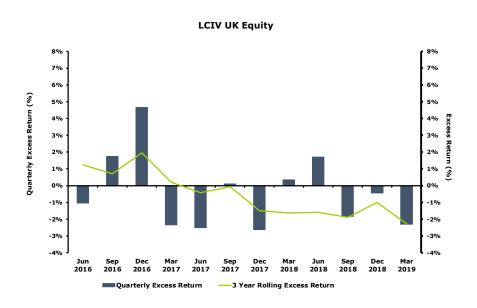
See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006

Majedie underperformed its benchmark by 2.3% on a net of fees basis over the quarter to 31 March 2019. Over the one year and three year periods to 31 March 2019, the fund underperformed its benchmark by 3.1% and 2.2% p.a. respectively on a net of fees basis.

The fund's low economic sensitivity to the UK equity market over a period of strong market resurgence was detrimental to relative performance over the quarter.

Energy holdings within the fund performed well, with all energy stocks in the portfolio delivering positive returns over the quarter including BP and Royal Dutch Shell. The fund's position to food retailers in the UK proved to be both beneficial and detrimental to the fund over the quarter, with strong performance from Tesco offset by Sainsbury following the collapse of a merger with Asda.



#### **5.2** Performance Analysis

The top 10 holdings in the UK Equity strategy account for c. 47.3% of the fund and are detailed below.

Top 10 holdings as at 31 March 2019	Proportion of Majedie Fund
ВР	8.3%
Royal Dutch Shell	7.8%
Majedie UK Smaller Companies	7.0%
Tesco	5.6%
GlaxoSmithKline	4.7%
HSBC	3.1%
Orange	3.0%
WM Morrison	2.9%
Pearson	2.6%
Centrica	2.4%
Total	47.3%

Note: The numbers in this table may not sum due to rounding.

Source: London CIV.

The tables below show the top 5 and bottom 5 contributors to performance over the quarter to 31 March 2019

Top 5 contributors as at 31 March 2019	Contribution (bps)
ВР	+1.04
Tesco	+1.03
Majedie UK Smaller Companies	+0.38
Royal Dutch Shell	+0.37
GlaxoSmithKline	+0.37

The Majedie UK Smaller Companies allocation returned a negative 30bps to performance over the first quarter of 2019. This holding has been a source of underperformance for the fund for the last 18 months, during which time the allocation to the sleeve has fallen from c. 12% to c. 7%. The reduction in weighting to the UK Smaller Companies holding during a period of negative performance has led to a positive contribution attributed to the allocation over the first quarter of 2019.

Top 5 detractors as at 31 March 2019	Contribution (bps)
Centrica	-0.44
Pearson	-0.27
Vodafone Group	-0.17
Sainsbury	-0.16
BT Group	-0.10

# 6 LGIM – Global Equity (Passive)

Legal and General Investment Manager ("LGIM") was appointed to manage a global equity portfolio with the objective of replicating the performance of the FTSE All World Index benchmark. The manager is remunerated on a tiered fixed fee based on the value of assets.

6.1 Passive Global Equity – Investment Performance to 31 March 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
LGIM - Gross of fees	11.7	5.1	10.8	11.0
Net of fees <sup>1</sup>	11.7	5.0	10.8	11.0
FTSE World (GBP Hedged) Index	11.7	5.0	10.8	11.0
Relative (net of fees)	0.0	0.0	0.0	0.0

Source: Northern Trust
(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 performed in-line with its benchmark over the quarter to 31 March 2019. The fund also successfully tracked its benchmark over the one year and three year periods respectively.

# 7 LCIV – Global Equity

Baillie Gifford was appointed to manage an active Global Equity mandate from 18 March 2014, held as a subfund under the London CIV platform from 11 April 2016. 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.

7.1 Global Equity – Investment performance to 31 March 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Baillie Gifford – Gross of fees	12.5	9.1	18.2	14.3
Net of fees	12.4	8.8	17.9	14.0
MSCI AC World Index	9.6	10.5	14.4	11.8
Relative (net of fees)	2.8	-1.7	3.5	2.2

Source: Northern Trust and estimated by Deloitte. See appendix 1 for more detail on manager fees Inception date taken as 18 March 2014

Over the first quarter of 2019, the LCIV Global Equity Alpha Fund, managed by Baillie Gifford, outperformed its benchmark by 2.8% on a net of fees basis. Over the year to 31 March 2019, the fund underperformed its benchmark by 1.7% on a net of fees basis, due to poor relative performance over the second and third quarters of 2018.

Given the fund's large exposure to North America and Emerging Markets, positive performance over the quarter was attributed to positive signs arising from trade talks between the US and China with North America and Emerging Markets representing 47% and 21% of the total stock allocation respectively.

The graph below shows the net quarterly returns and the rolling three-year excess returns relative to the benchmark. The fund's current three-year excess return is ahead of the target (+2% p.a.), having outperformed the benchmark by 3.5% p.a. over the three year period to 31 March 2019.



#### 7.2 Performance Analysis

The top 10 holdings in the portfolio account for c. 28.0% of the fund and are detailed below.

Top 10 holdings as at 31 March 2019	Proportion of Baillie Gifford Fund
Naspers	3.9%
Amazon	3.5%
Prudential	3.5%
Alibaba	3.2%
Anthem	2.8%
AIA	2.5%
Moody's	2.3%
Mastercard	2.3%
Alphabet	2.2%
Visa	2.0%
Total	28.0%

Note: The numbers in this table may not sum due to rounding.

Source: London CIV.

The tables below show the top 5 and bottom 5 contributors to performance over the quarter to 31 March 2019.

Top 5 contributors as at 31 March 2019	Contribution (%)
Alibaba	+0.61
Naspers	+0.59
Amazon	+0.58
Moody's	+0.54
Apache	+0.46

Tesla and Resmed were the largest detractors to performance over the quarter.

Top 5 detractors as at 31 March 2019	Contribution
Tesla	-0.17
Resmed	-0.16
Grubhub	-0.09
Jardine Matheson	-0.07
Markel	-0.07

# 8 Longview – Global Equity

Longview was appointed on 15 January 2015 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.

8.1 Active Global Equity – Investment Performance to 31 March 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Longview - Gross of fees	7.2	16.6	14.9	13.9
Net of fees <sup>1</sup>	7.0	16.0	14.2	13.2
MSCI World Index	9.9	12.0	14.4	11.6
Relative (on a net basis)	-2.9	4.0	-0.2	1.6

Source: Northern Trust
(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

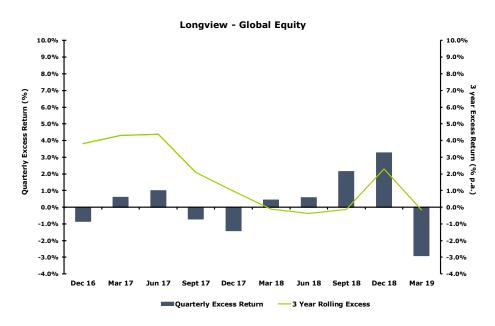
Inception date 15 January 2015

Over the quarter to 31 March 2019, Longview underperformed its benchmark by 2.9% on a net of fees basis. Over the one year period, the fund has outperformed its benchmark by 4.0%, whilst over the longer three year period the fund has underperformed its benchmark by 0.2% p.a. on a net of fees basis.

An overweight position to Healthcare, the biggest positive contributor to returns over the previous two quarters, was the largest detriment to relative performance over the first quarter of 2019. Longview attributes this to the sector not receiving the same extent of benefit as other sectors from the recent market gains resulting from a fall in interest rates.

Longview's underweight position to Technology was also a detractor to performance as higher growth assets saw increased valuations.

The fund targets an outperformance of 3% p.a. over a three-year period. The chart below shows the quarter and rolling three year returns.



#### 8.2 Performance Analysis

The tables below represent the top 5 and bottom 5 contributors to performance over the first quarter of 2019.

Top 5 contributors as at 31 March 2019	Contribution
IQVIA	+0.49
Charter Communications	+0.31
Zimmer Biomet Holdings	+0.26
Oracle	+0.23
Lloyds	+0.22

Over the three months to 31 March 2019, IQVIA, Charter Communications and Zimmer Biomet provided the largest contributions to performance with IQVIA and Charter Communications posting strong results at the end of 2018.

Henkel, UnitedHealth and Henry Schein were the largest detractors to fund performance over the quarter.

Top 5 detractors as at 31 March 2019	Contribution
Henry Schein	-0.70
Henkel	-0.56
UnitedHealth	-0.46
HCA Healthcare	-0.35
Sanofi	-0.33

# 9 Insight – Buy and Maintain

Insight was appointed to manage a buy and maintain credit portfolio. The fund aims to invest in predominantly investment grade credit which the manager believes can be held to maturity. The manager's fee is based on the value of assets.

9.1 Buy and Maintain Fund - Investment Performance to 31 March 2019

	Last Quarter (%)	Since Inception (% p.a.)
Insight Non Gilts - Gross of fees	4.3	6.3
Net of fees <sup>1</sup>	4.3	6.2
iBoxx £ Non-Gilt 1-15 Yrs Index	2.9	5.4
Relative (on a net basis)	1.4	0.8

Source: Northern Trust
(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 12 April 2018.

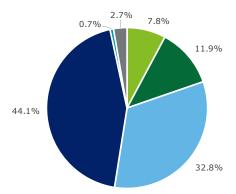
Over the first quarter of 2019, the Insight Buy and Maintain Fund outperformed its temporary iBoxx non-gilt benchmark by 1.4% on a net of fees basis.

#### 9.2 Performance Analysis

The table below summarises the Buy and Maintain portfolio's key characteristics as at 31 March 2019.

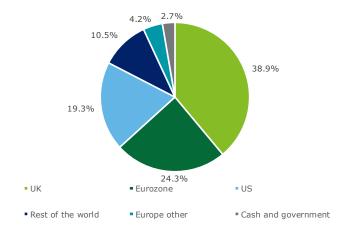
	31 March 2019
Yield (%)	2.6
No. of issuers	199
Modified duration (years)	8.3
Spread duration (years)	8.0
Government spread (bps)	154
Swaps spread (bps)	140
Largest issuer (%)	1.2
10 largest issuers (%)	11.0

The graph below shows the split of the Buy and Maintain portfolio by credit rating. The fund's investment grade holdings made up c. 96.6% of the portfolio as at 31 March 2019, with the fund predominantly invested in BBB and A rated bonds.

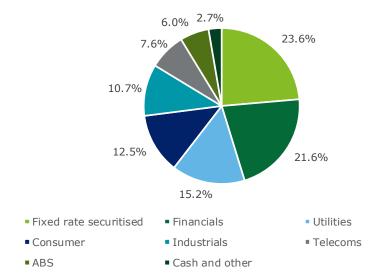


\*AAA \*AA \*AP \*BBB \* High yield \* Cash and other

The graph below shows the split of the Buy and Maintain portfolio by country.



The graph below shows the split of the Buy and Maintain portfolio by sector as at 31 March 2019.



The table below shows the top 10 issuers by market value as at 31 March 2019.

Issuer name	Rating*	Holding (%)
Centre Parcs	BBB	1.24
Prudential Plc	BBB	1.22
BNP Paribas	А	1.17
<b>Electricite De France</b>	А	1.11
Channel Link	BBB	1.10
Westpac	AAA	1.05
Daimler	А	1.05
HSBC	А	1.04
Pfizer	AA	1.03
Ge Capital	BBB	1.02

<sup>\*</sup>Ratings provided by Insight.

### 10 LCIV - Multi Asset Credit

CQS was appointed to manage a multi asset credit mandate, under the London CIV platform, in October 2018 with the aim of outperforming the 3 month Sterling LIBOR benchmark by 4% p.a. An annual fee covers the manager's and the London CIV platform management fees.

10.1 Multi Asset Credit – Investment Performance to 31 March 2019

	Last Quarter (%)	Since Inception (% p.a.)
CQS - MAC - Gross of fees	2.8	0.7
Net of fees <sup>1</sup>	2.6	0.4
3 Month Libor + 4%	1.3	2.1
Relative (on a net basis)	1.3	-1.7

Source: CQS

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Since inception: 30/10/18

The LCIV Credit Multi Asset Fund, managed by CQS, outperformed its benchmark by 1.2% over the quarter to 31 March 2019 on a net of fees basis. Positive performance from the credit markets over the quarter can be attributed to signals from the Federal Reserve that it would refrain from raising short-term interest rates.

CQS' decision to shift geographic and asset class focus to capture opportunities in an oversold US high yield market over the quarter served the fund well.

All asset classes provided positive contributions to performance over the quarter, with the allocation to loans, the portfolio's largest exposure, providing a net contribution of 1.3% to the portfolio's performance over the quarter to 31 March 2019. The fund also holds large allocations to asset backed securities and high yield bonds, which contributed 0.6% and 0.1% to performance respectively.

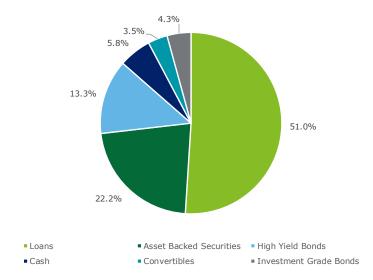
#### 10.2 Portfolio Analysis

The table below summarises the Multi Asset Credit portfolio's key characteristics as at 31 March 2019.

	31 Mar 2019
Weighted Average Bond Rating	B+
Long Bond Equivalent Exposure with Public Rating (%)	85.0
Investment with Public Rating (%)	84.0
Yield to Maturity (%)	5.4
Spread Duration	4.1
Interest Rate Duration	1.4

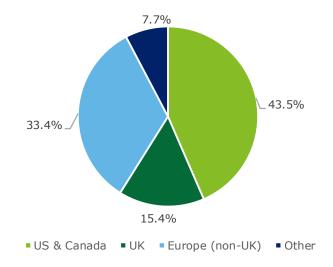
#### 10.3 Asset Allocation

The asset allocation split of the Multi Asset Credit Fund as at 31 March 2019 is shown below.



### **10.4** Country Allocation

The graph below shows the regional split of the CQS Multi Asset Credit Fund as at 31 March 2019.



## 11 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.

11.1 Property – Investment Performance to 31 March 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Hermes - Gross of fees	0.7	6.8	8.2	9.8
Net of fees <sup>1</sup>	0.6	6.4	7.8	9.4
Benchmark	0.5	5.8	7.2	8.5
Relative (on a net basis)	0.1	0.6	0.6	0.9

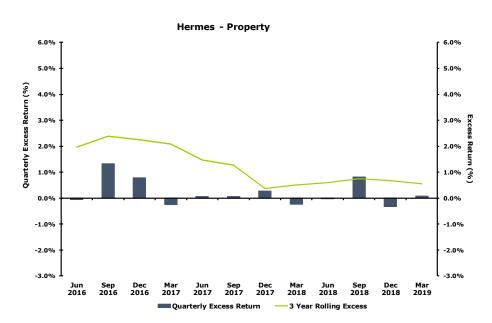
Source: Hermes

(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 0.1% over the quarter to 31 March 2019 on a net of fees basis, returning 0.6% in absolute terms. The strategy outperformed its benchmark by 0.6% p.a. on a net of fees basis over both the year and three year periods to 31 March 2019. The fund remains above its target since inception, to outperform the benchmark by 0.5% p.a., outperforming its benchmark by 0.9% p.a. over this period.

Over the quarter, the Trust's investment in the Leisure sector delivered the highest contribution, with investments within the Industrial and Supermarket sectors also providing a positive contribution to performance. Exposure to the Unit Shops and Shopping Centre sectors detracted from performance over the quarter, with poor investor sentiment and weak occupier demand in the retail sector continuing to have an effect on valuations.



#### 11.2 Sales and Purchases

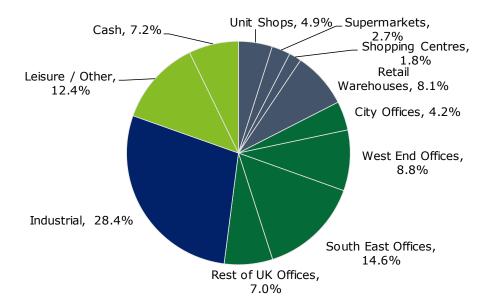
In January 2019 the Manager completed a letting with CDS (Superstores International) Ltd, The Range, for a 15-year term for a single warehouse unit covering a total area of c. 60,000 sq. ft. The unit was previously let to Homebase. The new lease with The Range will provide annual rental income of £700k p.a. after tenant's incentives (18 months rent free by way of 36 months at half rent).

Following the acquisition and amalgamation of the Childerditch estate into the Horndon Industrial Park, over the last 12 months the Manager has been working on a project of phased refurbishments of the vacant industrial units. The buildings were pre-let during the refurbishments which led, at completion of the work, to a

significant reduction in the vacancy rate in the estate and an increase in the annual rental income to £2.9m per annum as at the end of March 2019 (compared to £1.8m as at the end of December 2017).

#### 11.3 Portfolio Summary as at 31 March 2019

The Hermes Property Unit Trust invests across retail, offices, industrials and other sectors, with the split as at 31 March 2019 shown below.



The table below shows the top 10 directly held assets in the fund as at 31 March 2019, representing c. 31.9% of the fund.

Asset	Sub-sector	Value (£m)
Maybird Shopping Park, Stratford-upon-Avon	Retail Warehouses	85.5
8/10 Great George Street, London SW1	Offices	65.3
Polar Park, Bath Road, Heathrow	Industrial	54.7
Horndon Industrial Park, West Horndon CM13	Industrials	49.2
Broken Wharf House, London	Leisure/Other	47.8
27 Soho Square, London W1	Offices	46.3
Sainsbury's, Beaconsfield	Supermarket	42.9
Jurys Inn Hotel, Liverpool	Leisure/Other	42.4
Round Foundry & Marshalls Mill, Leeds	Offices	40.5
Camden Works, London	Offices	40.0
Total		514.6

# 12 Aberdeen Standard Investments – Long Lease Property

Aberdeen Standard Investments was appointed to manage a long lease property mandate with the aim of outperforming the FT British Government All Stocks Index benchmark by 2.0% p.a. The manager has an annual management fee.

12.1 Long Lease Property – Investment Performance to 31 March 2019

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)				
Aberdeen Standard - Gross of fees	1.1	6.9	8.1	8.8				
Net of fees <sup>1</sup>	1.0	6.4	7.6	8.3				
Benchmark	3.9	5.8	5.6	6.6				
Relative (on a net basis)	-2.9	0.6	2.0	1.7				

Source: Aberdeen Standard Investments

(1) Estimated by Deloitte

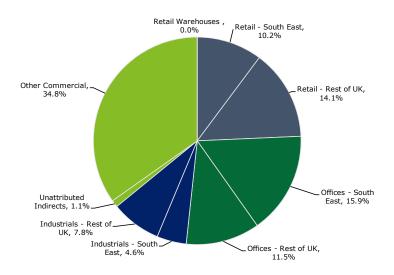
See appendix 1 for more detail on manager fees

Since inception: 14 June 2013

The ASI Long Lease Property Fund underperformed its FTSE Gilt All Stocks Index +2% benchmark by 2.9% over the quarter to 31 March 2019, delivering an absolute return of 1.0% on a net of fees basis.

#### 12.2 Portfolio Holdings

The sector allocation in the Long Lease Property Fund as at 31 March 2019 is shown in the graph below.



Over the quarter, the fund's allocation to the office sector increased from 26.4% to 27.4% as at 31 March 2019. The holdings in both the retail and other commercial sectors reduced by 0.7% and 0.2% respectively to 24.3% and 34.8% respectively at quarter end.

The table below shows details of the top ten tenants in the fund measured by percentage of net rental income:

Tenant	% Net Income
Tesco	8.1
Whitbread	6.1
Marston's	4.8
Sainsbury's	4.8
Asda	4.2
Salford University	3.8
QVC	3.8
Save the Children	3.7
Lloyds Bank	3.7
Park Holidays UK Limited	3.5
Total	46.5 *

<sup>\*</sup>Total may not equal sum of values due to rounding

The top 10 tenants contributed 46.5% of the total net income into the fund. Supermarkets continue to make up a significant part of the fund with Tesco, Sainsbury's and Asda contributing 17.1% to the fund's total net rental income as at 31 March 2019.

The fund's average unexpired lease term decreased over the quarter from 26.4 years to 26.1 years. The proportion of income with fixed, CPI or RPI rental increases increased by 0.3% to 90.7% over the quarter, as a result of the new inflation-linked acquisitions.

#### 12.3 Sales and Purchases

Over the first quarter of 2019:

- The fund exchanged contracts for a car storage facility in Immingham, North Lincolnshire, which has 41 acres of land, for c. £23.9m. This represents a net initial yield of 5.4%, subject to 5-yearly RPI rent reviews capped at 9% with a 25 year lease.
- The fund finalised the purchase of St James Place, Cirencester, on a 23.5 year term for c. £47.4m. The purchase of St James Place will provide a net initial yield of 4.0% and is subject to RPI-linked rent reviews with a cap of 5%.
- The fund's Dartford based distribution centre reached completion, triggering the final payment of the total c. £21.5m to the developer. The centre is pre-let to Berendsen UK Ltd for a 25 year term, with a net initial yield of 3.9% and a 5-yearly RPI-linked rent review subject to a 10% cap.

# 13 Pantheon – Global Infrastructure Fund III

Pantheon was appointed to manage a global infrastructure mandate with the aim of outperforming the 3 month Sterling LIBOR benchmark by 8% p.a. The manager has an annual management fee and performance fee.

#### 13.1 Global Infrastructure - Investment Performance to 31 March 2019

#### **Capital Calls and Distributions**

- Westminster committed \$91.5m to Pantheon in February 2019.
- Over the quarter, Pantheon issued an equalisation call drawing down c. 20.5% (\$18.8m) of Westminster's total commitment for payment by 20 March 2019.
- Following quarter end, Pantheon issued two more capital calls:
  - \$2.7m for payment by 16 April 2019, representing c. 3.0% of Westminster's total commitment; and
  - \$4.3m for payment by 13 May 2019, representing c. 4.7% of Westminster's total commitment.

#### **Activity**

During the first quarter of 2019, the fund added two new investments to its portfolio:

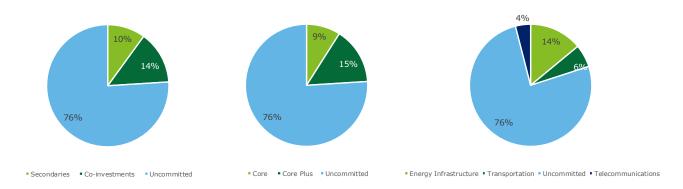
- Project Fairway a diversified portfolio of 17 assets including renewables, thermal power and midstream assets, primarily in North America and Europe; and
- Project Persea a co-investment opportunity in a market-leading European transportation business.

#### **Pipeline**

Pantheon currently has a healthy investment pipeline of infrastructure opportunities, with near-term deals representing c. \$1.5bn of potential investments across secondaries and co-investments.

#### 13.2 Asset Allocation

The charts below show the current diversification by strategy, stage and sector in PGIF3 as at 31 March 2019.



The target geographic diversification is 30-50% North America, 40-60% Europe and 3-15% Asia and others. The PGIF3 also aims to be 15-20% energy infrastructure (midstream), 20-30% energy infrastructure (power/utility), 20-30% transportation, 10-20% PPP/social infrastructure and 10-20% other.

#### 13.3 Investments Held

The table below shows a list of the investments held by PGIF3 as at 31 March 2019.

Project Name	Geography	Sector	Туре	Deal Size (\$m)	Commitment Date
Persea	Europe	Utilities	Co-investment	106	21/03/2019
Fairway	Global	Renewables	Secondary	134	17/01/2019
Megabyte	North America	Telecom	Secondary	124	21/12/2018
Starlight	Europe	Telecom	Co-investment	109	18/12/2018
Inti	Europe	Renewables	Secondary	65	12/12/2018
Lancaster	Europe	Logistics	Co-investment	110	27/09/2018
Infinity	North America	Power	Co-investment	75	24/08/2018
Ribera	Europe	Power	Co-investment	109	25/07/2018
Springbank	North America	Transportation	Secondary	225	In closing
Cadence	North America	Midstream	Co-investment	87	In closing

# 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	Long Term Strategic Benchmark Allocation	Benchmark	Outperformance Target	Inception Date	Fees (p.a.)
Majedie	UK Equity	22.5	FTSE All-Share Index	+2.0 p.a. (net of fess)	31/05/06	60bps base fees
LGIM	Global Equity	22.5	FTSE World GBP Hedged	Passive	01/11/12	13bps base fees
Baillie Gifford	Global Equity	20.0	MSCI AC World Index	+2.0 p.a. (net of fess)	18/03/14	36bps base fee
Longview	Global Equity	0.0	MSCI World (GBP) Index	To outperform the benchmark over a market cycle	15/01/15	75bps base fees minus a rebate dependent on fund size
Insight	Buy and Maintain	13.5	Insight Custom Benchmark	n/a	12/04/18	9.5bps base fees
CQS	Multi Asset Credit	6.5	3 Month Libor	+ 4% p.a. (net of fees)	30/10/18	40bps base fees
Hermes	Property	5.0	IPD UK PPFI Balanced PUT Index	+0.5 p.a. (net of fess)	26/10/10	40bps base fee
Aberdeen Standard Investments	Property	5.0	FTSE Gilts All Stocks Index +2% p.a.	+0.5 p.a. (net of fees)	14/06/13	50bps on first £25m, 40bps on next £25m, 30bps thereafter
Pantheon	Global Infrastructure	5.0	3 month Libor	+ 8% p.a. (net of fees)	15/04/19	85bps base fee with a 10% performance fee over 8% return hurdle, 100% catch- up
	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 – 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.

Our advice will be specific to your current circumstances and intentions and therefore will not be suitable for use at any other time, in different circumstances or to achieve other aims or for the use of others. Accordingly, you should only use the advice for the intended purpose.

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# Appendix 4 – MiFID II Cost Summary

On 3 January 2018, the Markets in Financial Instruments Directive II ("MiFID II") was introduced. A key component of this legislation is for fund managers to disclose all costs incurred, with the view to increasing transparency.

	Total costs over the year to 31 March 2019 (£'000)	Total costs over the year to 31 March 2019 (%) <sup>1</sup>
London CIV	405	0.03
Majedie	1,718	0.12
Legal & General	148	0.01
Baillie Gifford	891	0.06
Longview	794	0.06
Insight	204	0.01
cqs	191	0.01
Hermes	111	0.01
Aberdeen Standard Investments	259	0.02
Northern Trust <sup>2</sup>	38	0.00
Total	4,759	0.34
Deloitte	113	0.01
Total	4,872	0.35

<sup>(1)</sup> As a percentage of total Fund value as at 31 March 2019.

<sup>(2)</sup> Custodian fees.

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# City of Westminster Pension Fund

Funding update report as at 31 December 2018

**Barnett Waddingham LLP** 

11 January 2019



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#### Introduction

Westminster City Council, as administering authority for the City of Westminster Pension Fund (the Fund) has asked that we carry out a quarterly monitoring assessment of the Fund as at 31 December 2018. The purpose of this assessment is to provide an update on the funding position.

We have shown the funding position as at 31 December 2018 using assumptions consistent with the triennial valuation as at 31 March 2016 (the ongoing basis) and also on a "SCAPE basis" where we have used the SCAPE discount rate of CPI plus 2.4%. The SCAPE discount rate is the discount rate that will be used in the unfunded public service schemes valuations and this rate may have an influence on the assumptions that we adopt at the forthcoming 2019 triennial valuation.

The Fund participates in the Local Government Pension Scheme (LGPS). The LGPS is a defined benefit statutory scheme administered in accordance with Local Government Pension Scheme Regulations 2013 (the Regulations).

The information in this report is addressed to and is provided for use by Westminster City Council as the administering authority to the Fund. This report may be shared with other interested parties but it does not constitute advice to them.

This report complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300) as issued by the Financial Reporting Council (FRC).

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.

This is version 2 of the report which supersedes the initial report. This version contains additional information about the projected financial position of Westminster City Council up until 31 March 2020. This projection can be found in Appendix 3.

#### **Assets**

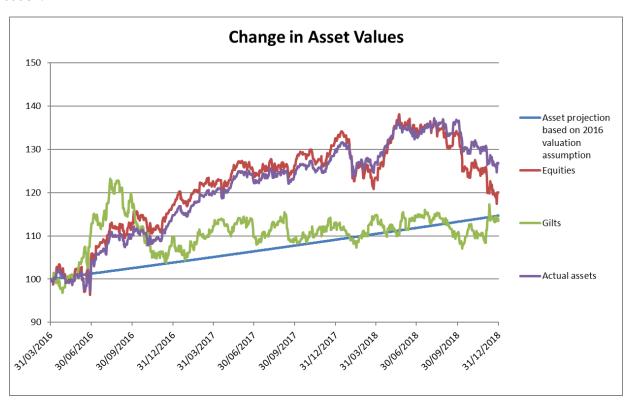
The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 31 December 2018, based on data received from Westminster City Council, is as follows:

Assets (market value)	31 Dec	31 Dec 2018		30 Sep 2018		2016
	£000s	%	£000s	%	£000s	%
UK and overseas equities	908,047	68.1%	1,103,033	76.8%	790,289	74.1%
Bonds	281,358	21.1%	191,031	13.3%	130,390	12.2%
Property	127,148	9.5%	125,928	8.8%	105,811	9.9%
Gilts	0	-	0	-	26,733	2.5%
Cash and accruals	16,780	1.3%	16,250	1.1%	13,120	1.2%
Total assets	1,333,332	100%	1,436,242	100%	1,066,343	100%

The investment return achieved by the Fund's assets in market value terms for the quarter to 31 December 2018 is estimated to be -7.2%. The return achieved since the previous valuation is estimated to be 26.8% (which is equivalent to 9.0% p.a.).



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:



As we can see the asset value as at 31 December 2018 in market value terms is more than where it was projected to be at the previous valuation.

# Changes in market conditions – market yields and discount rates

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.

For the purpose of this exercise it is appropriate to use the method and assumptions consistent with those set by the Fund actuary for the purpose of the 31 March 2016 actuarial valuation, updated where necessary to reflect market conditions. Further details of the derivation of the financial and demographic assumptions can be found in the relevant actuarial valuation report.

The following table show how these assumptions have changed since the last triennial valuation:

Assumptions (smoothed)	31 Dec 2018		30 Sep 2	2018	31 Mar 2016		
	Nominal	Real	Nominal	Real	Nominal	Real	
	% p	% p.a.		% p.a.		% p.a.	
Pension increases (CPI)	2.76%	-	2.68%	-	2.39%	-	
Salary increases	4.26%	1.50%	4.18%	1.50%	3.89%	1.50%	
Discount rate	5.52%	2.75%	5.29%	2.61%	5.10%	2.71%	

In addition to that, it is assumed that salaries increase in line with CPI until 31 March 2020.



The ongoing discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. Consistent with the method adopted for the 31 March 2016 valuation, we have included in the discount rate assumption an explicit prudence allowance of 1.1%

As noted in the Introduction, the discount rate on the SCAPE basis is CPI plus 2.4% p.a.

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As we see the real discount rate is broadly similar as at the 31 March 2016 valuation, maintaining the value of liabilities used for funding purposes.

The real discount rate on the SCAPE basis is lower than on the ongoing basis and therefore would place a higher value on the liabilities.

#### **Results**

The funding position for each month has been rolled forward from the formal valuation and 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.

The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 December 2018 is 94.5% and the average required employer contribution would be 20.6% of payroll assuming the deficit is to be paid by 2038.
- This compares with the reported (smoothed) funding level of 80.0% and average required employer contribution of 29.1% of payroll at the 31 March 2016 funding valuation.

The ongoing discount rate underlying the smoothed funding level as at 31 December 2018 is 5.5% p.a. The investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 5.8% p.a.

### **Westminster City Council**

We have also estimated the funding position of Westminster City Council. The development since 31 December 2017 can be found in the table below.

Smoothed					
	Assets £000s	Liabilities £000s	Surplus / Deficit £000s	Funding level %	CARE ongoing cost
			EUUUS	ievei /o	(% of payroll)
31 Dec 2017	842,147	1,043,061	(200,914)	81%	17.3%
31 Mar 2018	858,830	1,044,850	(186,020)	82%	17.1%
30 Jun 2018	874,734	1,051,143	(176,410)	83%	17.1%
30 Sep 2018	883,354	1,032,151	(148,796)	86%	16.3%
31 Dec 2018	857,312	1,014,836	(157,524)	84%	15.5%



#### **SCAPE** basis

The results summarised above and in the Appendix are based on the ongoing basis. On the SCAPE basis, as at 31 December 2018, we estimate the comparable funding level for the Fund to be 89% and the average required employer contribution rate would be 27.3% of payroll assuming the deficit is to be paid by 2038. This contribution includes 18.8% of payroll towards the cost of future benefits and 8.5% of payroll towards deficit recovery.

On the SCAPE basis, as at 31 December 2018, we estimate the comparable funding level of Westminster City Council to be 79% and the average required employer contribution rate would be 33.1% of payroll assuming that the deficit is to be paid by 2038. The contribution includes 17.5% of payroll towards the cost of future benefits and 15.6% of payroll towards deficit recovery.

Although the SCAPE discount rate is used for the purpose of the valuations of the unfunded public service pension schemes rather than the LGPS, it is likely that this will be used as a guide for the purpose of the Section 13 assessments applied to the local LGPS valuations and therefore may influence the assumptions to be adopted for the Fund's 2019 valuation.

#### **Final comments**

There are many factors that affect the Fund's funding position and could lead to the Fund's funding objectives not being met within the timescales expected. Some of the key risks that could have a material impact on the Fund include longevity risk and financial risks (including inflation and investment risk). There is more detail on this contained within the Fund's Funding Strategy Statement and the 31 March 2016 actuarial valuation report.

Note that the funding position at a future date will be dependent on the investment performance of the Fund as well as future market conditions which determine the financial assumptions.

#### Looking forward to 2019

Since the last valuation at 31 March 2016, assets have performed well and deficits have reduced (using assumptions consistent with the 2016 valuation), reducing the deficit recovery rate (the secondary rate).

Overall, on a basis consistent with the 2016 valuation, the total required contribution rate is estimated to have reduced since 31 March 2016. The next triennial valuation will be taking place as at 31 March 2019, with revised contribution rates payable from 1 April 2020. As part of the 2019 valuation, the Fund and Fund Actuary will work together in setting the assumptions for the valuation.

Given the improvement in funding position over the period and the level of uncertainty in the markets going forward, it may be appropriate to increase the level of prudence underlying the valuation funding assumptions.

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

**Matthew Paton FFA** 

**Actuary** 

**Barnett Waddingham LLP** 

Version 2



## Appendix 1 Financial position since previous valuation

Below we show the financial position on a smoothed 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.

The results shown below are calculated on the ongoing basis.

Please note that the results shown below are sensitive to the underlying assumptions. For example, increasing the discount rate assumption by 0.5% will increase the funding level by about 9%, and increasing the CPI inflation assumption by 0.5% will reduce the funding level by about 8%.

Valuation date	Assets £000s	Liabilities £000s	Surplus / Deficit £000s	Funding level %	CARE ongoing cost (% of	Past service ctbn	Total ctbn (% of payroll)	Discount rate	Return required to restore funding level (p.a.)
31 Mar 2016	1,056,747	1,320,797	(264,050)	80%	<b>payroll)</b> 16.9%	12.2%	29.1%	5.1%	6.1%
30 Apr 2016	1,069,289	1,336,329	(267,040)	80%	17.2%	12.6%	29.8%	5.0%	6.0%
31 May 2016	1,088,792	1,362,238	(273,446)	80%	17.2%	12.8%	30.6%	4.9%	5.9%
30 Jun 2016	1,103,684	1,384,191	(280,507)	80%	18.2%	13.0%	31.2%	4.9%	5.9%
31 Jul 2016	1,121,960	1,404,739	(282,779)	80%	18.6%	13.1%	31.7%	4.8%	5.8%
31 Aug 2016	1,121,960	1,421,201	(287,799)	80%	18.9%	13.1%	31.7%	4.8%	5.0%
		1,437,793	(287,779)	80%	19.3%	13.3%	32.2%	4.6%	5.9%
30 Sep 2016 31 Oct 2016	1,150,014 1,172,816	1,449,639	(276,823)	81%	19.5%	12.7%	32.0%	4.9%	5.9%
30 Nov 2016	1,172,616	1,456,544	(271,205)	81%	19.5%	12.7%	32.2%	5.0%	6.0%
	1,105,339	1,462,515	(256,323)	82%	19.5%	12.5%	32.0%	5.0%	6.0%
31 Dec 2016 31 Jan 2017	1,206,192	1,466,703	(248,942)	83%	19.6%	11.5%	31.4%	5.1%	6.0%
	1,217,761		(238,516)	84%	19.5%	11.1%	30.8%	5.1%	5.9%
28 Feb 2017 31 Mar 2017	1,261,355	1,476,212 1,485,068	(223,713)	85%	19.7%	10.4%	30.6%	5.1%	5.8%
					19.8%	9.6%	30.2% 29.3%	5.0%	
30 Apr 2017	1,272,195	1,484,924	(212,729)	86%					5.8%
31 May 2017	1,291,739	1,484,738	(192,999)	87%	19.6%	8.7%	28.3%	5.0%	5.7%
30 Jun 2017	1,297,593	1,481,802	(184,209)	88%	19.4%	8.4%	27.8%	5.0%	5.7%
31 Jul 2017	1,305,713	1,480,613	(174,900)	88%	19.2%	8.0%	27.2%	5.0%	5.7%
31 Aug 2017	1,309,876	1,477,979	(168, 103)	89%	19.1%	7.7%	26.8%	5.1%	5.7%
30 Sep 2017	1,313,109	1,477,681	(164,572)	89%	19.0%	7.6%	26.6%	5.1%	5.7%
31 Oct 2017	1,328,003	1,482,309	(154,306)	90%	19.0%	7.1%	26.1%	5.1%	5.6%
30 Nov 2017	1,325,817	1,479,561	(153,744)	90%	18.8%	7.2%	26.0%	5.1%	5.7%
31 Dec 2017	1,330,352	1,476,578	(146,226)	90%	18.6%	6.8%	25.4%	5.1%	5.7%
31 Jan 2018	1,341,968	1,475,210	(133,242)	91%	18.5%	6.3%	24.8%	5.1%	5.6%
28 Feb 2018	1,358,573	1,478,129	(119,556)	92%	18.5%	5.6%	24.1%	5.1%	5.6%
31 Mar 2018	1,379,889	1,481,363	(101,474)	93%	18.5%	4.8%	23.3%	5.1%	5.5%
30 Apr 2018	1,383,869	1,481,851	(97,982)	93%	18.4%	4.6%	23.0%	5.1%	5.4%
31 May 2018	1,392,524	1,488,835	(96,311)	94%	18.4%	4.6%	23.0%	5.1%	5.4%
30 Jun 2018	1,394,788	1,493,108	(98,320)	93%	18.4%	4.7%	23.1%	5.1%	5.4%
31 Jul 2018	1,409,340	1,489,981	(80,641)	95%	18.2%	3.9%	22.1%	5.1%	5.4%
31 Aug 2018	1,406,781	1,480,121	(73,340)	95%	17.9%	3.5%	21.4%	5.2%	5.5%
30 Sep 2018	1,407,799	1,468,021	(60,222)	96%	17.5%	2.9%	20.4%	5.3%	5.5%
31 Oct 2018	1,391,799	1,460,566	(68,767)	95%	17.2%	3.4%	20.6%	5.4%	5.6%
30 Nov 2018	1,383,503	1,452,101	(68,598)	95%	17.0%	3.4%	20.4%	5.4%	5.7%
31 Dec 2018	1,365,927	1,445,343	(79,416)	95%	16.7%	3.9%	20.6%	5.5%	5.8%



## Appendix 2 Data, method and assumptions

#### **Data**

In completing our calculations we have used the following items of data, which we received from Westminster City Council:

- The results of the valuation as at 31 March 2016 which was carried out for funding purposes;
- Estimated whole Fund income and expenditure items for the period to 31 December 2018; and
- Estimated Fund returns based on Fund asset statements provided to 31 December 2018, and Fund income and expenditure as noted above.

The data has been checked for reasonableness and we are happy that the data is sufficient for the purpose of this report.

Full details of the benefits being valued are as set out in the Regulations as amended and summarised on the LGPS <u>website</u> and the Fund's membership booklet. We have made no allowance for discretionary benefits.

#### Method

To assess the value of the Fund's liabilities as at 31 December 2018, we have rolled forward the value of the liabilities calculated for the funding valuation as at 31 March 2016 using the financial assumptions below and estimated cashflows paid to and from the Fund.

It is not possible to assess the accuracy of the estimated value of the liabilities as at 31 December 2018 without completing a full valuation. However, we are satisifed that the approach of rolling forward the previous valuation data to 31 December 2018 should not introduce any material assumptions in the results provided that the actual experience of the Fund is broadly in line with the underlying assumptions and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

We have been provided with the Fund assets at various dates but for dates that these are not available, we calculate the Fund assets by rolling forward the previous assets provided allowing for investment returns (estimated where necessary), and estimated cashflows paid to and from the Fund. The latest date that we have been provided with the Fund assets is 31 December 2018.

## **Assumptions**

For the purpose of this exercise it is appropriate to use the method and assumptions consistent with those set by the Fund actuary for the purpose of the 31 March 2016 actuarial valuation, updated where necessary to reflect market conditions.

A summary of the main financial assumptions adopted is set out in the main body of this report.



#### The main demographic assumptions are:

- The post retirement mortality tables adopted are the S2PA tables with a multiplier of 80% for males and 85% for females. These base tables are then projected using the CMI 2015 Model, allowing for a long term rate of improvement of 1.5% p.a;
- The dependant post retirement mortality tables adopted are the S2PMA tables with a multiplier of 95% for males and the S2DFA tables with a multiplier of 100% for females. These base tables are then projected using the CMI 2015 Model, allowing for a long term rate of improvement of 1.5% p.a;
- Members retire at a single age, based on the average age at which they can take each tranche of their pension; and
- It is assumed that members will exchange 50% of their commutable pension for cash at retirement.

Further details of the derivation of the financial and demographic assumptions can be found in the relevant actuarial valuation report.



## **Appendix 3** Projected financial position

Below we show the projected financial position on a smoothed basis for each following quarter up to 31 March 2020. We assume that the assets increase in line with the ongoing discount rate as at 31 December 2018, i.e. 5.5%. For the liabilities we show the results on both an ongoing basis and the SCAPE basis. The relevant cashflows are estimated based on the Fund accounts for the period from 31 March 2017 to 31 March 2018 and the revised contribution rates from 1 April 2017. Please note that the following projections make no allowance for the review of employer contribution rates and the funding basis of the Fund that will take place during the 2019 valuation.

Smoothed			Ongoing Basis			SCAPE basis	
Valuation date	Assets £000s	Liabilities £000s	Surplus / Deficit £000s	Funding level %	Liabilities £000s	Surplus / Deficit £000s	Funding level %
31 Mar 2019	867,548	1,022,892	(155,345)	85%	1,089,093	(221,546)	80%
30 Jun 2019	877,922	1,031,058	(153, 136)	85%	1,097,235	(219,313)	80%
30 Sep 2019	888,437	1,039,335	(150,898)	85%	1,105,480	(217,043)	80%
31 Dec 2019	899,094	1,047,724	(148,630)	86%	1,113,830	(214,737)	81%
31 Mar 2020	909,895	1,056,227	(146,333)	86%	1,122,287	(212,393)	81%

Any changes to the discount rate or inflation assumption will affect the funding level at all times in the same way as described in Appendix 1.



# Committee Report

Decision Maker: PENSION FUND COMMITTEE

Date: 20 June 2019

Classification: General Release

Title: Exit Cap Consultation

Wards Affected: None

Policy Context: Effective control over council activities

Financial Summary: There are no immediate financial implications

arising from this report.

Report of: Phil Triggs

Tri-Borough Director of Treasury and

Pensions

ptriggs@westminster.gov.uk

020 7641 4136

#### 1. Executive Summary

1.1 This paper provides the Pension Fund Committee with a summary of the background of the proposed £95,000 cap on exit payments in the public sector.

#### 2. Recommendations

2.1 The Committee is requested to:

Note the report, make appropriate comments and feedback with a view to making a suitable response.

#### 3. Exit Payments

- 3.1 In 2015, the Government first announced plans to introduce a cap on exit payments in the public sector. It was intended that a cap would include any pension strain cost. The cap was legislated for in the Enterprise Act 2016, which amends the Small Business, Enterprise and Employment Act 2015, but required secondary legislation to be introduced.
- 3.2 It is intended that the exit cap will apply to the whole of the public sector. At the first stage of implementation, the Regulations will apply to exit payments made by all local authorities, the UK Civil Service, the NHS in England and Wales,

academy schools, Police Forces (including civilian staff) and Fire and Rescue Authorities. Exceptions are housing management companies, further and higher education corporations and sixth form college corporations who are not covered by the Regulations.

- 3.3 On 10 April 2019, HM Treasury opened a consultation on the draft Regulations, directions and guidance to implement the exit cap. The consultation will run for 12 weeks and close on 3 July 2019.
- 3.4 The background of the proposed cap is the prevention of senior managers retiring early with significant six-figure pension strain and other statutory redundancy pay-offs.
- 3.5 Payments related to death in service, ill health retirement, pay in lieu of holiday and payments made in compliance with an order made by a court or tribunal are not exit payments for the purposes of these Regulations.
- 3.6 If the cap is imposed, with an individual taking an early, enforced retirement as a result of the local authority's implementation of business efficiency changes (applies to officers aged over 55), whereas under the current regime that officer's pension would be made up to retirement age with no pensions reduction, under the new rules the total of the statutory redundancy payment and the pension strain would not be allowed to exceed £95,000. As a result, the officer would suffer an actuarial reduction in their pension if the pension strain exceeded the cap.
- 3.7 The exit cap covers redundancy payments (including statutory redundancy payments), severance payments, pension strain costs and all other payments made as a result of termination of employment. The statutory redundancy element of an exit payment cannot be reduced. If the cap is exceeded, other elements that make up the exit payment must be reduced, so that an exit payment at or below £95,000 is achieved.
- 3.8 The proposed Regulations do not apply to the lump sum element of a retiree's pension.

#### 4. Applying the cap in the LGPS

- 4.1 The impact of the Regulations on a LGPS member if the exit cap was to be exceeded (with the exit payment including pension strain cost) is not 100% clear in the consultation document. It is understood that the policy intent is for the member's pension benefits to be actuarily reduced to the extent that the total exit payment cap of £95,000 is not breached, with the member having the option of paying extra to buy out some or all the reduction, or the member taking a pension cut.
- 4.2 Amendments to current LGPS Regulations would be required to facilitate this change, plus guidance from the Government Actuary Department on how to calculate the pension reduction.

- 4.3 A person who receives any exit payment must inform any other public body that employs them about that payment. Employers are required to record and publish information about capped exit payments.
- 4.4 The consultation invites responses from employing bodies within scope and out of scope of the Regulations, employees, bodies representing those employers or employees, academics with expertise in this area, public and private sector pay, pension, remuneration and HR professionals and anyone else who might be impacted by this consultation.
- 4.5 Westminster City Council will be responding formally to the consultation ahead of the deadline on 3 July 2019. This will be a collaboration between feedback from this meeting, the Pension Board and Westminster City Council overall.
- 4.6 The following questions have been asked:
  - 1. Does draft schedule 1 to the regulations capture the bodies intended? If not, please provide reasons.
  - 2. Do you agree with the current list of bodies in scope for the first round of implementation? If not, please provide reasons.
  - 3. Do you agree with the exemptions outlined? If not, please provide evidence.
  - 4. Does the guidance adequately support employers and individuals to apply the draft regulations as they stand? If not, please provide information on how the guidance could be enhanced.
  - 5. Is the guidance sufficiently clear on how to apply the mandatory and discretionary relaxation of the regulations, especially in the case of whistle-blowers?
  - 6. Is there further information or explanation of how the regulations should be applied which you consider should be included in the guidance? If so, please provide details.
  - 7. Are there other impacts not covered above which you would highlight in relation to the proposals in this consultation document?
  - 8. Are you able to provide information and data in relation to the impacts set out above?

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Billie Emery pensionfund@westminster.gov.uk or 0207 641 7062

BACKGROUND PAPERS: None

**APPENDICES:** 

Appendix 1: Exit Cap Consultation Document





- 1. Home (https://www.gov.uk/)
- Restricting exit payments in the public sector
   (https://www.gov.uk/government/consultations/restricting-exit-payments-in-the-public-sector)
- 1. HM Treasury (https://www.gov.uk/government/organisations/hm-treasury)

Open consultation

# Restricting exit payments in the public sector: consultation on implementation of regulations

Published 10 April 2019

#### **Contents**

- 1. Introduction
- Proposed scope of draft regulations
- 3. Guidance and directions
- 4. Devolution summary and equalities impacts
- 5. Summary of questions

# **OGL**

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This publication is available at https://www.gov.uk/government/consultations/restricting-exit-payments-in-the-public-sector/restricting-exit-payments-in-the-public-sector-consultation-on-implementation-of-regulations

#### 0.1 Executive summary

Exit payments to employees leaving the public sector workforce in 2016-2017 cost the taxpayer £1.2 billion<sup>1</sup>, with payments at and above £100,000 amounting to £0.2 billion. Exit payments can be important to employers' ability to reform and react to new circumstances, whilst providing support for employees as they find new employment or as a bridge until retirement age. However, public sector employers have a responsibility to demonstrate that they are using public money efficiently and responsibly, and to ensure that pay and terms are always proportionate, justifiable and fair to the taxpayers who fund them.

The government does not believe that the majority of six figure exit payments, which are far in excess of those available to most workers in the public sector or wider economy, are proportionate or provide value for money for taxpayers.

The government therefore introduced powers to cap exit payments in the public sector at £95,000 in the Small Business, Enterprise and Employment Act 2015. This consultation sets out the proposed method of implementing that cap, including which bodies should be in scope.

These regulations will help public sector employers to ensure exit payments represent value for money to the taxpayer who funds them.

#### 1. Introduction

#### 1.1 Policy background

Exit payments associated with loss of employment, including redundancy, are important to employers' ability to reform, and an important source of support for employees as they find new employment, or as a bridge until retirement age. However, it is also important that exit payments are proportionate and fair to the taxpayer and the government is concerned about the number of exit payments made to public sector workers that exceed or come close to £100,000.

Such payments can exceed three times the average annual earnings in the public sector<sup>2</sup>, and are far higher than the value of exit payments made to the majority of public sector workers<sup>3</sup>. The government does not believe that such payments often provide value for money or are fair to the taxpayers who fund them.

The government legislated for a cap of £95,000 on exit payments (the cap) in the public sector in the Small Business Enterprise and Employment Act 2015 (the 2015 act) as amended by the Enterprise Act 2016 (the 2016 act). The 2015 act sets out the duty to implement the cap through secondary legislation.

This consultation sets out the proposed draft regulations, schedule to the regulations, accompanying guidance and directions. The government welcomes comments on the draft regulations.

The draft schedule 1 sets out in detail the proposed scope of the regulations for this first stage of implementation. The government will expand the bodies in scope to the whole of the public sector in due course, with exemptions for certain bodies. Exemptions will be considered on a case by case basis, taking into account the nature of and functions undertaken by the employer.

#### 1.2 Policy intention

Sections 153A to 153C of the 2015 act enable HM Treasury to make regulations restricting public sector exit payments to a maximum of £95,000. The draft regulations define the types of payments intended to be subject to the cap, how the proposed cap is intended to operate, and the scope of the regulations. The bodies in scope of the draft regulations are set out in schedule 1 of the draft regulations. It is the government's intention to extend the scope of the regulations to the whole public sector in due course.

#### 1.3 Aim and scope of the consultation

The government will consider the consultation responses and decide on how best to achieve its aims in relation to the questions and proposals set out in this document. Responses are particularly welcomed from:

- employing bodies within the scope of the draft regulations as well as employing bodies within the wider public sector but not included in schedule 1 at present
- bodies representing public sector employers
- employees and their representative bodies
- members of the academic community with expertise in this area
- pay, pension, remuneration and HR professionals in both the private and public sectors
- anyone else who may be impacted by this consultation

#### 1.4 How to respond

This consultation will run for twelve weeks and will close on 3 July. Responses can be submitted online (https://www.smartsurvey.co.uk/s/QABLW/) or sent by email to:

ExitPaymentCap@hmtreasury.gov.uk with the subject heading 'Consultation on Exit Payment Cap'.

Alternatively please send responses by post to:

Workforce, Pay & Pensions Team, HM Treasury, 1 Horse Guards Road, London SW1A 2HQ

When responding please say if you are a business, individual or representative body. In the case of representative bodies, please provide information on the number and nature of people you represent.

#### 1.5 Consultation principles

This consultation is being run in accordance with the government's consultation principles (https://www.gov.uk/government/publications/consultation-principles-guidance).

#### 1.6 Privacy notice

This notice sets out how HM Treasury will use your personal data for the purposes of the 'public sector exit payment' and explains how your rights under the General Data Protection Regulation (GDPR) and the Data Protection Act 2018 (DPA).

#### Your data (data subject categories)

The personal information relates to you as either a member of the public, parliamentarians, and representatives of organisations or companies.

#### The data we collect (data categories)

Information may include your name, address, email address, job title, and employer of the correspondent, as well as your opinions. It is possible that you will volunteer additional identifying information about themselves or third parties.

#### Legal basis of processing

The processing is necessary for the performance of a task carried out in the public interest or in the exercise of official authority vested in HM Treasury. For the purpose of this consultation the task is consulting on departmental policies or proposals or obtaining opinion data in order to develop good effective government policies.

#### Special categories data

Any of the categories of special category data may be processed if such data is volunteered by the respondent.

#### Legal basis for processing special category data

Where special category data is volunteered by you (the data subject), the legal basis relied upon for processing it is: the processing is necessary for reasons of substantial public interest for the exercise of a function of the Crown, a Minister of the Crown, or a government department.

This function is consulting on departmental policies or proposals, or obtaining opinion data, to develop good effective policies.

#### **Purpose**

The personal information is processed for the purpose of obtaining the opinions of members of the public and representatives of organisations and companies, about departmental policies, proposals, or generally to obtain public opinion data on an issue of public interest.

#### Who we share your responses with

Information provided in response to a consultation may be published or disclosed in accordance with the access to information regimes. These are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA) and the Environmental Information Regulations 2004 (EIR).

If you want the information that you provide to be treated as confidential, please be aware that, under the FOIA, there is a statutory Code of Practice with which public authorities must comply and which deals with, amongst other things, obligations of confidence.

In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on HM Treasury. Where someone submits special category personal data or personal data about third parties, we will endeavour to delete that data before publication takes place.

Where information about respondents is not published, it may be shared with officials within other public bodies involved in this consultation process to assist us in developing the policies to which it relates. Examples of these public bodies (https://www.gov.uk/government/organisations).

As the personal information is stored on our IT infrastructure, it will be accessible to our IT contractor, NTT. NTT will only process this data for our purposes and in fulfilment with the contractual obligations they have with us.

#### How long we will hold your data (Retention)

Personal information in responses to consultations will generally be published and therefore retained indefinitely as a historic record under the Public Records Act 1958.

Personal information in responses that is not published will be retained for three calendar years after the consultation has concluded.

#### Your rights

- you have the right to request information about how your personal data are processed and to request a copy of that personal data
- you have the right to request that any inaccuracies in your personal data are rectified without delay
- you have the right to request that your personal data are erased if there is no longer a
  justification for them to be processed
- you have the right, in certain circumstances (for example, where accuracy is contested), to request that the processing of your personal data is restricted
- you have the right to object to the processing of your personal data where it is processed for direct marketing purposes
- you have the right to data portability, which allows your data to be copied or transferred from one IT environment to another

#### How to submit a Data Subject Access Request (DSAR)

To request access to personal data that HM Treasury holds about you, contact:

HM Treasury Data Protection Unit G11 Orange 1 Horse Guards Road London SW1A 2HQ

dsar@hmtreasury.gov.uk

#### **Complaints**

If you have any concerns about the use of your personal data, please contact us via this mailbox: privacy@hmtreasury.gov.uk.

If we are unable to address your concerns to your satisfaction, you can make a complaint to the Information Commissioner, the UK's independent regulator for data protection. The Information Commissioner can be contacted at:

Information Commissioner's Office Wycliffe House Water Lane Wilmslow Cheshire SK9 5AF

0303 123 1113

casework@ico.org.uk

Any complaint to the Information Commissioner is without prejudice to your right to seek redress through the courts.

#### **Contact details**

The data controller for any personal data collected as part of this consultation is HM Treasury, the contact details for which are:

HM Treasury 1 Horse Guards Road London SW1A 2HQ

020 7270 5000

public.enquiries@hmtreasury.gov.uk

The contact details for HM Treasury's Data Protection Officer (DPO) are:

The Data Protection Officer
Corporate Governance and Risk Assurance Team
Area 2/15
1 Horse Guards Road
London
SW1A 2HQ

privacy@hmtreasury.gov.uk

## 2. Proposed scope of draft regulations

Employers in the whole of the public sector have a responsibility to demonstrate that they are using public money efficiently and responsibly, and to ensure that pay and terms are always proportionate, justifiable and fair to taxpayers.

In order to determine the scope of the cap, HM Treasury will be guided by the Office for National Statistics (for National Account purposes) classification of bodies within the central and local government, and non-financial public corporation sectors. There will be a limited number of

exemptions.

The government is proposing a staged process of implementation across the public sector. The first stage will capture most public sector employees, before extending the cap to the rest of the public sector in the second stage. Prioritising in this way will ensure most exit payments in the public sector are limited to £95,000 without further delay, while work continues on expanding the scope of the regulations.

#### 2.1 Bodies in scope of the current draft regulations

The draft regulations apply to payments made by public sector authorities to employees and by public sector offices to office holders. However, they do not apply to the following payments:

- A. Payments made by a relevant Scottish authority, as defined in s 153B(5) of the 2015 act (see section 4.1 below)
- B. A relevant Welsh exit payment, as defined in s 153B(6) of the 2015 act
- C. Payments made by Northern Irish authorities which wholly or mainly exercise devolved functions

The following categories of public sector employer are within scope of these regulations where they fall within the responsibility of the UK government, regarding their employment:

- the UK Civil Service, its executive agencies, non-ministerial departments and nondepartmental public bodies (including Crown non-departmental public bodies and Her Majesty's Prison and Probation Service)
- the NHS in England and Wales<sup>4</sup>
- academy schools
- local government including fire authorities' employees and maintained schools
- police forces, including civilian and uniformed officers

Some bodies have more than one classification. For example, if an executive agency is also classified as a type of body not currently in scope of the cap, such as a trading fund, it should not be captured during this round of implementation.

The full list of proposed public sector bodies in scope of the draft regulations are listed in draft schedule 1. The categories of final employers which will be included in schedule 1 is subject to responses to the consultation.

All public sector employers should make value for money decisions on exit payments, and spend public money responsibly. It is the government's strong expectation that bodies not in the proposed scope of these regulations will come forward with their own, commensurate cap on exit payments.

#### 2.2 Bodies and payments exempt in the draft regulations

The government proposes that the Secret Intelligence Service, the Security Service, the Government Communications Headquarters and the Armed Forces should be exempt from the cap. Therefore, these employers are not listed in draft schedule 1 to the regulations.

Careers in these organisations have unique features, and the special requirements made of individuals – including the transition to civilian life – are reflected in the range and level of compensation payments for these workforces. Compensation and resettlement payments make up a core part of the overall remuneration and reward package for those working in these fields, and payments are sometimes required in order to ensure that individuals are properly compensated for what can be lifelong impacts, felt at relatively early ages. The government believes it is right that – in general – these employers have flexible and responsive remuneration practices which may fall outside of the scope of the draft regulations.

As a general rule accrued pension rights, including rights to pension commutation lump sums, are not within scope of the draft regulations because they do not normally involve any cost to the employer. However, in some cases pension payments do involve an additional employer cost relating to an exit and often represent a significant amount of an individual's exit payment. For this reason they are within scope of the draft regulations unless an exemption applies. These payments arise when an employer has to make a 'pension strain' payment, for example to provide the pension scheme member with an immediate unreduced pension before the member's Normal Pension Age or when an employer has to make a pension commutation related payment.

Fire and Rescue Authorities (FRAs) have discretion to remove the current commutation lump sum restriction (of 2.25 x pension) that applies to firefighter members of the 1992 Firefighters' Pension Scheme who are under age 55 and have less than 30 years' service. Where a FRA exercises this discretion, this results in an employer related cost because it is required to make a payment equivalent to the additional amount to the member's pension fund account. It is proposed that these payments should be exempt from the scope of the regulations as they do not fund an increase in the actuarial value of the firefighter's pension.

Therefore, regulation 7(c)(i) exempts payments made by a FRA to their pension fund account, where the FRA exercises its discretion to allow a firefighter (who is subject to the above 2.25 times pension commutation lump sum restriction) to commute up to a maximum of 25% of their annual pension for a pension lump sum. Effectively, this discretion aligns with the commutation entitlement available to firefighters who are aged 55 or over, or who have accrued the maximum 30 years' service.

The government is also considering an exemption for payments made by FRAs to their pension fund account in respect of firefighters who are unable to maintain operational fitness through no fault of their own and where the FRA has agreed to put into payment an authority initiated early retirement pension. This will honour the government's previous commitment

(https://publications.parliament.uk/pa/cm201415/cmhansrd/cm141215/wmstext/141215m0001.htm) that firefighter members of the 2006 and 2015 Firefighters' Pension Schemes in these circumstances should be awarded an unreduced pension if they cannot be redeployed.

#### **Question 1**

Does draft schedule 1 to the regulations capture the bodies intended (described in section 2.1 above)? If not, please provide details.

#### **Question 2**

Do you agree with the current list of bodies in scope, for the first round of implementation? If not, please provide reasons.

#### **Question 3**

Do you agree with the exemptions outlined? If not, please provide evidence.

#### 3. Guidance and directions

The government welcomes comment on the attached guidance and directions.

The guidance aims to explain, in plain English, how the draft regulations should be applied. In particular, the guidance details the circumstances in which the cap may and must be relaxed, and which actors have the power to relax the cap.

Section 5 of the guidance and the separate mandatory HMT directions are intended to ensure that the cap must be relaxed in specific mandatory cases, for example where a settlement agreement is entered into following a whistleblowing or discrimination complaint, and where it may be relaxed in specific discretionary cases, for example where imposing the cap would cause undue hardship.

This reflects the government's position – and the position reflected in the draft regulations – that the public sector exit payment cap is not designed to discourage workers from making disclosures covered by whistleblowing law or to prevent such people from receiving an appropriate remedy from an employment tribunal.

#### **Question 4**

Does the guidance adequately support employers and individuals to apply the draft regulations as they stand? If not, please provide information on how the guidance could be enhanced.

#### **Question 5**

Is the guidance sufficiently clear on how to apply the mandatory and discretionary relaxation of the regulations, especially in the case of whistleblowers?

#### **Question 6**

Is there further information or explanation of how the regulations should be applied which you consider should be included in the guidance? If so, please provide details.

### 4. Devolution summary and equalities impacts

#### 4.1 Devolution

The cap policy extends to all the bodies where employment terms are subject to approval by the UK government (subject to exemptions set out in the remaining paragraphs of section 4.1).

Payments made by authorities which wholly or mainly exercise functions that could be devolved to Northern Ireland are not covered by the draft regulations.

Payments made by a relevant Scottish authority, namely the Scottish Parliamentary Corporate authority or any authority which wholly or mainly exercises functions devolved to Scotland are also not covered by these regulations, with the exception of payments made by the Scottish Administration to holders of non-ministerial offices in the administration or to staff of the administration, which are covered by these regulations.

Relevant Welsh exit payments, namely payments made to the holders of the offices specified in s 153B(6) of the Enterprise Act 2016 are not covered by these regulations.

The regulations contain a power in regulation 12 to relax the exit payment cap following compliance with HMT directions or with consent of HMT, however this power does not apply to exit payments made by a devolved Welsh authority.

#### 4.2 Equalities

An equalities impact assessment of the cap (https://www.gov.uk/government/consultations/consultation-on-a-public-sector-exit-payment-cap/consultation-on-a-public-sector-exit-payment-cap#impact-analysis) was conducted in the previous consultation, ahead of legislation on the policy.

If, following consultation, the government decides to implement a two stage implementation process, it will do so on the basis of a further assessment of the equalities impact.

#### **Question 7**

Are there other impacts not covered above which you would highlight in relation to the proposals in this consultation document?

### **Question 8**

Are you able to provide information and data in relation to the impacts set out above?

### 5. Summary of questions

### **Question 1**

Does draft schedule 1 to the regulations capture the bodies intended (described in section 2.1 above)? If not, please provide details.

### **Question 2**

Do you agree with the current list of bodies in scope, for the first round of implementation? If not, please provide reasons.

### **Question 3**

Do you agree with the exemptions outlined? If not, please provide evidence.

### **Question 4**

Does the guidance adequately support employers and individuals to apply the draft regulations as they stand? If not, please provide information on how the guidance could be enhanced.

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### **Question 6**

Is there further information or explanation of how the regulations should be applied which you consider should be included in the guidance? If so, please provide details.

### **Question 7**

Are there other impacts not covered above which you would highlight in relation to the proposals in this consultation document?

### **Question 8**

Are you able to provide information and data in relation to the impacts set out above?

- Whole of Government Accounts 2016-17
   (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\_data/file/720178/
   WGA\_2016-17\_web.pdf), page 70.
- 2. Mean public sector earnings according to the ONS: £29,574
- 3. Whole of Government Accounts 2016-17 (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\_data/file/720178/WGA\_2016-17\_web.pdf), page 70, Table 4.E.
- 4. The 2015 Act confers power to cap exit payments in the NHS in Wales, because the compensation schemes are not devolved to Welsh ministers.



# Committee Report

Decision Maker: PENSION FUND COMMITTEE

Date: 20 June 2019

Classification: General Release

Title: LGPS Cost Cap, McCloud Appeal (Supreme

**Court) and Actuarial Valuation Consultation** 

(Quadrennial Periods)

Wards Affected: None

Policy Context: Effective control over council activities

Financial Summary: There are no immediate financial implications

arising from this report.

Report of: Phil Triggs

Tri-Borough Director of Treasury and

Pensions

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020 7641 4136

### 1. Executive Summary

- 1.1 This paper provides the Pension Fund Committee with a summary of:
  - a. Background information on the LGPS cost cap in public service pensions and recent developments.
  - b. Proposed changes to the actuarial valuation process where the process could move from triennial to quadrennial valuations.

### 2. Recommendations

- 2.1 The Committee is requested to note:
  - a. The report and potential implications for the WCC pension fund.
  - b. The consultation on the actuarial valuation process at Appendix 1.

### 3. The LGPS Cost Cap

- 3.1 In 2010, following the Lord Hutton report of public service pensions, one of the key recommendations was that the retention of public service defined benefit schemes should have a "cost cap" mechanism to control the cost of future pension provision.
- 3.2 HM Treasury decided that it was mainly the uncertainty around how long pensions are expected to be paid (pensioner longevity) that should be included in the mechanism. If future pensions in payment were longer than initially anticipated, then the additional costs should be reflected in a reduction in pension payment or, alternatively, an increase in member contributions in order to reflect that the members' pensions will be paid for a longer period.
- 3.3 Whilst the original concept from the Hutton report was a cost "cap", it was also argued that there should be a "floor". This would apply where the duration of pension paid to retired members is shorter than expected. In this event, theoretically, it would mean an increase in pensions benefit or a reduced employee contribution rate.
- 3.4 As new cost cap/floor mechanisms were constructed to accommodate the above points, there was an unexpected slowdown in UK longevity improvements. The result of this was that the cost floor became a far more significant issue than was initially anticipated at the time of the Hutton report. Any slowdown in longevity would mean that pensions would not be in payment for as long.
- 3.5 Whilst the cost cap/floor mechanism would normally be underway at this time, the Government Actuaries Department has suspended the process, pending the outcome of the McCloud Supreme Court case (see below).

### 4. McCloud Case

- 4.1 In connection with the cost cap/floor process, revised actuarial assumptions were implemented to reflect the slowdown in longevity and had nearly reached completion when the Appeal Court judgment of the McCloud pensions case was reached. This is a case where the Appeal Court examined benefit protections offered to judges in the reform of the Judiciary Pension Scheme, which were intended to protect them from changes being made to the scheme in the move from final salary to career average revalued earning (CARE) related benefits.
- 4.2 The reforms to the judges' scheme and protection offered to older judges were found to be age discriminatory, on the basis that younger members of the judges' scheme were offered no such protection. In December 2018, the Appeal Court found against the Government. The Government has since appealed the decision to the Supreme Court.
- 4.3 The implications of this case are that the transitional changes to public service schemes, when moving from final salary to career average revalued earnings (CARE) are now deemed, or likely to be deemed, to be unlawful, mainly on age

discrimination grounds. On the basis that the appeal to the Supreme Court will not be resolved quickly, the cost cap/floor management process has now been paused with the understanding that any implications to LGPS pensions following the final ruling will be backdated to 1 April 2019.

4.4 As it is highly unlikely there will be any resolution before the 2019 actuarial valuation is complete, there are several possible ways of treating the outcome of the McCloud appeal and the cost management process. The LGPS Scheme Advisory Board is to issue guidance to funds and actuaries on the preferred approach.

### 5. Triennial Actuarial Valuation

- 5.1 With regard to the current triennial valuation, the Government has issued a consultation paper which suggests moving to quadrennial valuations (every four years instead of the current three) in line with the other public service pension schemes. Post 2019, the next actuarial valuation is widely expected to be 2024, both for LGPS Funds in England and Wales, and Scotland.
- 5.2 Whilst this would mean that LGPS scheme would fall into the same four-year cycle as the other public sector schemes and be aligned, a gap of five years between valuations would not be without complications in setting employer contributions over such a long period. It is likely that there would be an interim valuation in 2022 to solve the problem of the five-year gap.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Billie Emery pensionfund@westminster.gov.uk or 0207 641 7062

BACKGROUND PAPERS: None

### APPENDICES:

Appendix 1: Local Government Pension Scheme: Changes to the Local Valuation Cycle and the Management of Employer Risk





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

Policy consultation



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# Scope of the consultation

Topic of this consultation:	This consultation seeks views on policy proposals to amend the rules of the Local Government Pension Scheme 2013 in England and Wales.  It covers the following areas:  1. Amendments to the local fund valuations from the current three year (triennial) to a four-year (quadrennial) cycle 2. A number of measures aimed at mitigating the risks of moving from triennial to quadrennial cycles 3. Proposals for flexibility on exit payments 4. Proposals for further policy changes to exit credits 5. Proposals for policy changes to employers required to offer LGPS membership	
Scope of this consultation:	MHCLG is consulting on changes to the regulations governing the Local Government Pension Scheme (LGPS).	
Geographical scope:	These proposals relate to the Local Government Pension Scheme in England and Wales only.	
Impact Assessment:	·	
	Question 19 asks for views from respondents on equalities impacts and on any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation.	

When we bring forward legislation, a fuller analysis will include the equality impacts of any final policy proposals.

## **Basic Information**

То:	Any changes to the LGPS rules are likely to be of interest to a wide range of stakeholders, such as local pension funds, administering authorities, those who advise them, LGPS employers and local taxpayers.			
Body/bodies responsible for the consultation:	Local Government Finance Reform and Pensions, Ministry of Housing Communities and Local Government			
Duration:	This consultation will last for 12 weeks from 8 May 2019 to 31 July 2019			
Enquiries:	For any enquiries about the consultation please contact:			
	LGPensions@communities.gov.uk			
How to respond:	Please respond by email to:			
	LGPensions@communities.gov.uk			
	Alternatively, please send postal responses to: LGF Reform and Pensions Team			
	Ministry of Housing, Communities and Local Government 2nd Floor, Fry Building			
	2 Marsham Street London SW1P 4DF			
	When you reply, it would be very useful if you could make it clear which questions you are responding to.			
	Additionally, please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:			
	<ul><li>- your name,</li><li>- your position (if applicable),</li></ul>			
	<ul><li>the name of organisation (if applicable),</li><li>an address (including post-code),</li></ul>			
	- an email address, and - a contact telephone number.			

## Introduction

This consultation contains proposals on a number of matters relating to the Local Government Pension Scheme (LGPS) in England and Wales.

Amongst these, it is proposed to amend the local fund valuation cycle of the LGPS from the current three year (triennial) cycle to a four year (quadrennial) one. The Government has moved the LGPS scheme valuation to a quadrennial cycle<sup>1</sup>, and our consultation is intended to ensure that scheme and local valuations are aligned. Views are sought on whether this is the right approach and the best way of transitioning the LGPS to a quadrennial local valuation cycle.

The LGPS is a locally administered funded pension scheme, established primarily to provide retirement benefits to individuals working in local government in England and Wales. Local fund valuations are used to set employer contribution rates and to assess whether funds are on target to meet their pension liabilities as they fall due in the years ahead. In making our proposals, we aim to ensure that a lengthening of the valuation cycle would not materially increase the risks that pension funds and their employers face. We are therefore proposing mitigation measures that would allow LGPS funds to act between valuations and address any issues as they arise, specifically:

- We propose the introduction of a power for LGPS funds to undertake interim valuations. This would allow LGPS administering authorities to act when circumstances change between valuations and undertake full or partial valuations of their funds.
- We also propose the widening of a power that allows LGPS administering authorities to amend an employer's contribution rate in between valuations, so that contribution rates can be adjusted following the outcome of a covenant check or where liabilities are estimated to have significantly reduced.

Views are sought on the detail of these measures and what LGPS funds should put in their funding strategy statements regarding these matters.

These measures are intended to help funds manage their liabilities and ensure that employer contributions are set at an appropriate level. However, for some employers, a significant issue is the cost of exiting the scheme which can be prohibitive. Current regulations require that when the last active member of an employer leaves the scheme, the employer must pay a lump sum exit payment calculated on a full buy-out basis. We are seeking views on two alternative approaches that would reduce the cliff-edge faced by employers:

 To introduce a 'deferred employer' status that would allow funds to defer the triggering of an exit payment for certain employers who have a sufficiently strong

<sup>&</sup>lt;sup>1</sup> https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations

covenant. Whilst this arrangement remains in place, deferred employers would continue to pay contributions to the fund on an ongoing basis:

To allow an exit payment calculated on a full buy-out basis to be recovered flexibly – i.e. over a period of time. This may be of use where an administering authority does not feel that granting deemed employer status would be appropriate but that some level of flexibility is in the interests of the fund and other employers.

We also seek views on an issue that has come to light in recent months. In 2018, the LGPS Regulations 2013 were amended<sup>2</sup> to allow the payment of 'exit credits' to scheme employers who are in surplus at the time their last active member leaves the scheme. This followed a consultation on the introduction of exit credits undertaken by the Department in 2016<sup>3</sup>. However, it has since been highlighted that the amendments can cause issues where an LGPS employer has outsourced a service and used contractual arrangements to share risk with their contractor. Views are sought on a mechanism via which we can address this issue.

And finally, given the LGPS's funded nature, with liabilities potentially falling back on local authorities and other public bodies in a particular area in the event an employer cannot meet its obligations, the Government is conscious of the need to ensure that scheme participation requirements remain appropriate. Changes in the higher education and further education sectors have taken place in recent years and we are consulting on proposals that would remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer membership of the LGPS to their non-teaching staff. Instead, reflecting their status as non-public sector, autonomous organisations, we propose it will be for each institution to determine whether to offer the LGPS to new employees or not.

Under our proposals, current active LGPS members and those eligible for active membership in an employment with a further education corporation, sixth form college corporation or higher education corporation in England would have a protected right to membership of the scheme.

Your comments are invited on the questions contained in sections 1 to 5. **The closing** date for responses is 31 July 2019.

<sup>&</sup>lt;sup>2</sup> S.I. 2018/493

<sup>3</sup> https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations

# Changes to the Local Government Pension Scheme (LGPS) valuation cycle

### 1.1 Changes to the local fund valuation cycle

The Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes<sup>4</sup>.

Aligning the LGPS scheme valuation with other public sector schemes allows for outcomes of each valuation to be looked at in parallel and for Government to make consistent decisions for the public sector as a whole.

Each LGPS fund also carries out a local valuation which is used to assess its financial health and to determine local employer contributions. Currently the valuation cycle of the scheme and of individual funds align. This will no longer be the case as the scheme nationally has moved to a quadrennial cycle. We therefore propose that LGPS funds should also move from triennial to quadrennial valuation cycles.

Moving the LGPS local fund valuations to quadrennial cycles would deliver greater stability in employer contribution rates and reduce costs. The Scheme Actuary's review of local valuations under s13 of the Public Service Pensions Act 2013 would also move to a quadrennial cycle.

However, we recognise that there are potential risks that changes in employer contribution rates may be greater as a result of longer valuation periods and that longer valuation periods could also lead to reduced monitoring of any risks and costs. Section 2 of this consultation sets out proposals to mitigate these matters.

If we move to quadrennial local fund valuations, we propose to produce draft regulations making the necessary amendments to the LGPS Regulations 2013, amending regulation 62(2), 62(3) and other consequential regulations in due course.

Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

Question 2 - Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

Question 3 - Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

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<sup>&</sup>lt;sup>4</sup> <u>https://www.gov.uk/government/publications/public-service-pensions-actuarial-valuations</u>

### 1.3 Transition to a new LGPS valuation cycle

Given that LGPS funds and the other public sector schemes have carried out a valuation as at 1 April 2016, now is the best opportunity to achieve consistency. If missed, it would be 2028 before valuations of all the schemes align again. On the assumption that scheme and fund valuations are carried out at the same date, potential approaches are as follows:

- a) For the next fund valuation to complete as anticipated, using data as at 31 March 2019, giving rates and adjustment certificates for the **coming five years** (i.e. from 1 April 2020-2025) but with the administering authority having the option to perform an interim valuation if circumstances require changes to contribution rates. Further fund valuations would be done using data as at 31 March 2024 and every four years thereafter.
- b) For the next fund valuation to complete as anticipated, using data as at 31 March 2019, giving rates and adjustment certificates for the **coming three years** (i.e. from 1 April 2020-2023). The following valuation would be done with fund data as at 31 March 2022 but giving new rates and adjustments certificates for **only two years**. Further fund valuations would be done using data as at 31 March 2024 and every four years thereafter.

Our proposal is to adopt approach b) as it provides continuity and potentially gives LGPS funds greater funding certainty than a five-year cycle would provide.

Question 4 - Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

# Dealing with changes in circumstances between valuations

### 2.1. Ability to conduct an interim valuation of local funds

With a longer valuation period of four years, there is greater scope for changes in assets and liabilities between valuations with a consequent potential increase in risks. In relation to the value of assets, this might include a significant downturn in value or increased volatility in returns. In relation to liabilities, this could be due to a sustained lower level of interest rates. The Government Actuary considered the potential impact of volatility of asset returns and changes in economic conditions on funds in their report on the 2016 local valuations<sup>5</sup>. The results showed that funds could face significant pressure on employer contributions in some future scenarios.

As part of a package of mitigation measures, we are proposing to introduce a new power to enable funds to conduct an interim valuation to reassess their position and, where appropriate, adjust the level of contributions outside of the regular cycle. This would not affect the timing of the next quadrennial fund valuation or the scheme valuation. It would, however, allow administering authorities to manage risk and avoid the need for very sharp corrections if maintaining the longer review cycle. This is consistent with the aim of the current regulations in preserving as much stability as possible in contribution rates across valuations (see Reg 66(2)(b) of the 2013 LGPS Regulations).

Depending on the trigger for the interim valuation, different levels of actuarial advice might be needed. For example, it may not be necessary to revisit all of the demographic assumptions and scheme experience where the trigger is a major financial down-turn shortly after the last valuation was completed. Funds will want to assure themselves that they have access to such data and analysis as is proportionate to the nature of the trigger and the time elapsed since the previous valuation.

Allowing an interim valuation gives greater adaptability should longer-term trends emerge that it would be prudent to address ahead of the next scheduled valuation.

To limit the risk that interim valuations could be timed to take advantage of short-term market conditions and undermine the cost and administrative advantages of a longer valuation cycle, we propose that interim valuations may take place only for the reasons set out in an authority's Funding Strategy Statement. In exceptional circumstances not envisaged in the Funding Strategy Statement, a fund could apply for a direction from the Secretary of State to carry out an interim valuation. The Secretary of State would also have a power to require interim valuations of funds either on representation from funds, scheme employers or of his own motion.

We propose to include in the regulations, supported by statutory guidance, certain protections so that decisions on whether to undertake an interim valuation should only be

 $<sup>^{5} \ \</sup>underline{\text{https://www.gov.uk/government/publications/local-government-pension-scheme-review-of-the-actuarial-valuations-of-funds-as-at-31-march-2016}$ 

made by the administering authority having due regard to the views of their actuary and following consultation with the Local Pension Board. Where an administering authority undertakes an interim valuation it would also be obliged to notify the Secretary of State of the reasons for it and the conclusions reached. The costs of the valuation would be recovered in the usual way from all employers. As interim valuations should not be necessary frequently, the cost is likely to be more than offset by the move to four-yearly valuations.

Question 5 - Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

Question 6 - Do you agree with the safeguards proposed?

### 2.2. Review of employer contributions

A four-year valuation cycle would also mean fewer opportunities to respond to changes in the financial health of scheme employers. This means that the assessment made at the time of the valuation about that employer being able to meet all of its obligations to the fund, most importantly to make contributions (often referred to as an employer's "covenant strength"), might be out of date.

CIPFA's guidance on maintaining a Funding Strategy Statement<sup>6</sup> requires funds to identify the employer risks that inevitably arise from managing a large and often changing group of scheme employers. In their related guidance on *Managing Risk in the Local Government Pension Scheme* (2018) they emphasise the importance of maintaining a knowledge base to track and identify risk levels for each employer. It further suggests that employers be categorised into groups depending on the level of risk they present to the fund as a whole.

We understand that some funds already carry out frequent reviews of their employers' covenant strength. Currently, the LGPS regulations provide funds with a limited number of tools to manage or reduce any risks identified. These tools include:

- At each valuation specifying secondary rate contributions that target a funding level that has been set with regard to the covenant strength of that employer (as allowed by Regulation 62(7) of the 2013 LGPS Regulations);
- Requiring adequate security for new admission bodies (as required in Part 3 of Schedule 2 to the 2013 LGPS Regulations);
- Increasing the security where existing admitted bodies wish to make changes to their admission agreement (as allowed for in Part 3 of Schedule 2 to the 2013 LGPS Regulations);
- Reviewing employer contributions where there is evidence that the employer is likely to exit the scheme (Regulation 64(4) of the 2013 LGPS Regulations);

<sup>&</sup>lt;sup>6</sup> Preparing and Maintaining a Funding Strategy Statement, published September 2016

 Reviewing employer contributions where there is evidence that the liabilities of that employer have increased substantially (see Regulations 64(6)(b) of the 2013 LGPS Regulations).

Whilst a four-yearly review of employer contributions would be sufficient for statutory or tax-payer backed employers, we recognise that for some scheme employers, and in particular admitted bodies, it may be prudent to allow funds to amend contribution rates more frequently. That would be driven by a change in the deficit recovery period and/or funding target level for a single employer, or group of employers, where this was felt necessary to protect other employers in the scheme or the solvency of the fund itself.

This would include giving funds the ability to offer employers a reduction in their contribution rate if they were able to make a one-off deficit reduction payment or there was a significant change in the composition of their workforce following a merger. We propose to introduce the ability for an employer to request a reassessment of its contribution rate where it believes that its liabilities have reduced.

We propose that funds would need to specify in their Funding Strategy Statement those employers (generally statutory or tax-raising employers) for whom the regular assessment of employer contributions through valuations is sufficient and what events would trigger reassessment through covenant reviews for other employers.

As these reassessments of employer contributions are designed to protect the interest of all employers and the scheme as a whole, the costs of conducting them anticipated in the Funding Strategy Statement, or triggered by a particular event or concern over covenant, would normally be met by the fund as a whole. However, where a scheme employer requested a reassessment because it believed that this would lead to a reduction in its contribution rate, then this would be paid for by the employer concerned.

Question 7 – Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

### 2.3. Guidance on setting a policy

As set out above we are proposing that the regulations would require funds to include their policy on interim valuations and reviews of employer contributions in their Funding Strategy Statement. We would also anticipate that CIPFA would want to reflect these new tools to manage risk in the guidance which it offers to funds on drafting an Funding Strategy Statement and in managing risk. However, to help ensure consistency of approach between funds, we also propose that in setting their policy they would also be required to have regard to advice that we would invite the Scheme Advisory Board to provide. This would include advice in the following areas:

- The exceptional circumstances where the case for an interim valuation could be made to the Secretary of State;
- The process for triggering and timescale for completing interim valuations;

- Best practice in working with scheme employers and other interested parties where an interim valuation is undertaken;
- What level of professional advice is appropriate to deliver the interim valuation.

In relation to action being taken to review employer contributions we would similarly ask the Scheme Advisory Board to consider guidance on the following areas:

- How to work with employers when a request is made for a review of its employer contributions;
- The process for carrying out employer covenant reviews and how to work with employers where the fund feels that further action is needed;
- Communicating with all scheme employers on how risk is being managed and how the cost of reviews will be met;
- What comprises a proportionate level of actuarial and other professional advice.

Question 8 – Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?

Question 9 – Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

## Flexibility on exit payments

### 3.1 Introduction

We know that some smaller and less financially robust employers are finding the current exit payment regime in LGPS onerous. Rather than protecting the interests of members, it may mean employers continue to accrue liabilities that they cannot afford. It can also create the risk that some employers could be driven out of business as a result of inability to meet a substantial exit payment when they finally come to leave. This can have implications for other jobs, the delivery of local services and future support for the scheme.

These problems arise because employer debt is calculated at full buy-out basis<sup>7</sup> on the employer's total accrued liabilities to the scheme, and the amount due up-front or in a short period of time if the last active member leaves an employer can be significantly higher than their on-going contributions. If an employer does not have a source of capital available with which to pay the employer debt, they can effectively find themselves tied to the scheme indefinitely, even if this is not the most prudent way to proceed for all those concerned.

The current regime is designed to protect those scheme employers who remain in the scheme when one or more other employers have ceased to employ active members and who may be left with orphan liabilities. Any changes to the employer debt regime would have to be carefully considered to ensure that they would not result in an increased risk to members or remaining scheme employers.

In recognition of these and other issues, the Scheme Advisory Board has commissioned AON to look at the potential funding, legal and administrative issues presented by the participation of what it calls Tier 3 employers<sup>8</sup> in the scheme, and to identify options to improve the situation. A working group has been established by the Scheme Advisory Board with a view to making recommendations to the Secretary of State later in the year. It is hoped that the Scheme Advisory Board working group will be able to include this consultation in its deliberations.

We have also heard from many in the sector that the time is right to bring LGPS more in line with wider practice in the private pensions sector. Deferred debt arrangements in the private sector enable an employer in a multi-employer pension scheme, who fulfils certain conditions, to defer their obligation to pay an employer debt on ceasing to employ an active scheme member. The arrangement requires the employer to retain all their previous responsibilities to the scheme and continue to be treated as if they were the employer in

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<sup>&</sup>lt;sup>7</sup> Exit payments are currently based on that employer's share of the deficit in the scheme calculated on a 'full-buy out basis' (i.e. the amount that would need to be paid to an insurer to take on the pension scheme's liabilities).

<sup>&</sup>lt;sup>8</sup> Scheme Advisory Board defines Tier 3 bodies as being those which are not tax-payer backed ("Tier 1"), academies ("Tier 2") or admitted bodies performing services under contract to local authorities ("Tier4")

relation to that scheme. A key consideration in considering whether to introduce a similar arrangement into LGPS will be how to ensure that employers wanting to take advantage of this option have sufficient and appropriate assets to cover their liabilities and that the arrangement will not adversely affect other employers.

We therefore propose to grant funds more flexibility to manage an employer's liabilities in this situation, by spreading exit payments over a period or by allowing an employer with no active members to defer exit payments in return for an ongoing commitment to meet their existing liabilities.

### 3.2 Flexibility in recovering exit payments

This proposal aims to enable scheme employers which are ceasing to employ any active members with the flexibility, in agreement with the administering authority, to spread exit payments over a period, where this would also be in the interests of the fund and other employers.

This option would be available in situations where an administering authority considered that some flexibility over the repayment programme would be in the best interests of the fund and other employers. We understand that some funds have been attempting to achieve a similar objective through side-agreements with employers at the time of exit. However, we feel that it would be more appropriate to regularise this approach and put it on a firm legislative footing.

In order to implement this new flexibility we have considered the model implemented by the Scottish Public Pensions Agency. This allows administering authorities to adjust an exiting employer's contributions to ensure that the exit payment due is made by the expected exit date or spread over such a period as the fund considers reasonable. This is set out in their Regulation 61(6)<sup>9</sup>:

- "(6) Where in the opinion of an administering authority there are circumstances which make it likely that a Scheme employer (including an admission body) will become an exiting employer, the administering authority may obtain from an actuary a certificate specifying the percentage or amount by which, in the actuary's opinion—
- (a) the contribution at the primary rate should be adjusted; or
- (b) any prior secondary rate adjustment should be increased or reduced,

with a view to providing that assets equivalent to the exit payment that will be due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet that liability by that date, over such period of time thereafter as the administering authority considers reasonable."

<sup>&</sup>lt;sup>9</sup> In the Local Government Pension Scheme (Scotland) Regulations 2018

This is a permissive model that gives administering authorities considerable flexibility to use their judgement and local knowledge in balancing the competing interests involved.

We propose to follow this approach but would welcome views from consultees on whether some additional protections are required, such as a maximum time limit over which exit payments could be spread (perhaps three years).

For the avoidance of doubt, we propose that the exit payment in these circumstances would continue to be calculated as now on a full buy-out basis.

Question 10 – Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?

### 3.3 Deferred employer status and deferred employer debt arrangements

These proposals aim to enable scheme employers who are ceasing to employ any active members to defer exit payments in return for an ongoing commitment to meet their existing liabilities, in agreement with the fund. This commitment would protect the fund and other employers. This will be of particular help to smaller employers (such as charities) in managing their obligation to make an exit payment when they cease to employ an active member of the scheme.

Drawing on the model of the S75 approach that was recently introduced by DWP for private sector<sup>10</sup> defined benefit multi-employer funds, we have set out a possible model for the LGPS. We would welcome views from consultees on how to develop the model to best reflect the needs of all parties participating in LGPS.

### i) Definition of deferred employer status

Employers taking advantage of this ability to maintain a link with the scheme, despite no longer having active members, would become "deferred employers". A deferred employer is defined as an employer who, at the point that their last active member leaves the scheme, enters into a deferred employer debt arrangement with the administering authority, and that arrangement has not been terminated by a 'relevant event' (see section iii below).

ii) Basis on which a deferred employer debt arrangement would be offered To enter into a deferred employer debt arrangement, the fund would need to be satisfied that the employer has just, or is about to, become an exiting employer as defined in LGPS regulations and has a sufficient covenant not to place the fund under undue risk. When DWP consulted on the equivalent provisions for private sector schemes (referred to earlier) they considered the introduction of a test whereby employers could only be eligible

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<sup>&</sup>lt;sup>10</sup> These are the employer debt arrangements made under S75 of the Pensions Act 1995. More information is available here: <a href="https://www.gov.uk/government/consultations/the-draft-occupational-pension-schemes-employer-debt-amendment-regulations-2017">https://www.gov.uk/government/consultations/the-draft-occupational-pension-schemes-employer-debt-amendment-regulations-2017</a>

for the equivalent of a deferred employer debt arrangement if they were already funded above a prescribed level. In line with the decision DWP took in relation to private sector DB schemes, we have considered and rejected the option of setting such a minimum level of funding. We believe that this will be a relevant factor in scheme managers' assessment of covenant and risk and therefore needs to be weighed alongside all the other evidence available.

### iii) Termination of a deferred employer debt arrangement

In order to protect the fund, we would expect any deferred employer debt arrangement to set out in the following circumstances which would trigger termination, to be known as "relevant events":

- the employer has new active members;
- the employer and scheme manager both agree to terminate the agreement and an exit payment falls due;
- the scheme manager assesses that the covenant has significantly deteriorated and a relevant event occurs (insolvency, voluntary winding up, CVA);
- the employer restructures and the covenant value is significantly affected in the view of the scheme manager. Restructuring for these purposes occurs where the employer's corporate assets, liabilities or employees pass to another employer;
- the fund serves notice that the employer has failed to comply with any of its duties under LGPS regulations or other statutory provisions governing the operation of a pension fund.

### iv) Responsibilities of the deferred employer

An employer in a deferred employer debt arrangement would still be an employer for scheme funding and scheme administration purposes. Funds will continue to carry out regular actuarial valuations to establish whether or not their funding position is on track according to the funding strategy they have adopted, and to put in place a recovery plan where any shortfalls are identified. Deferred employers will be required to make secondary contributions as part of this plan and this requirement will apply to any employer who has entered into a deferred debt arrangement.

We will expect administering authorities to adopt a robust policy to be set out in their Funding Strategy Statement, following consultation with employers and their Local Pension Board and having regard to any guidance issued by CIPFA or the Secretary of State. Our intention is to give funds some flexibility to use their judgement and local knowledge to reach suitable arrangements that balances the competing interests involved.

We would expect administering authorities to offer deferred employer debt arrangements when this is in the interests of the other fund employers and where there is not expected to be a significant weakening of the employer covenant within the coming 12 months.

Question 11 – Do you agree with the introduction of deferred employer status into LGPS?

Question 12 – Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

# 3.4 Proposed approach to implementation of deferred employer debt arrangements

We do not intend to legislate for every aspect of the model above. Our starting point is that the key obligations and entitlements of parties should be in the regulations. Statutory guidance can be helpful in putting more flesh on the bones and ensuring that there is consistency in application. On the assessment of risk and in balancing competing interests of scheme stakeholders we consider that the Scheme Advisory Board is better placed to offer real-world, credible guidance to funds. We would welcome views from consultees about the appropriate balance to be struck between legal requirements to be set out in regulations, statutory guidance issued under regulation 2(3A) of the 2013 Regulations, and guidance from the Scheme Advisory Board.

Question 13 – Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

### 3.5 Summary of options for management of employer exits

Implementing the proposals above on exit payments would make the following set of options available to administering authorities when dealing with employer exits:

- 1. Calculate and recover an exit payment as currently for employers ready and able to leave and make a clean break:
- 2. Agree a repayment schedule for an exit payment with employers who wish to leave the scheme but need to be able to spread the payment;
- 3. Agree a deferred employer debt arrangement with an employer to enable them to continue paying deficit contributions without any active members where the scheme manager was confident that it would fully meet its obligations.

We expect that employers will want to see a level of transparency and consistency in the use which administering authorities make of this new power. We expect that that statutory or Scheme Advisory Board guidance will be necessary in addition to a change to regulations and welcome views on which type of guidance would be appropriate for which aspects of the proposals.

Question 14 – Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

Question 15 – Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

# Exit credits under the LGPS Regulations 2013

### 4.1 Introduction of exit credits in May 2018

In April 2018, the Government made changes<sup>11</sup> to the LGPS Regulations 2013 allowing exit credits to be paid from the Scheme for the first time. Following the amendments, which were effective from 14 May 2018, where the last active member of a scheme employer leaves the LGPS, an exit credit may be payable if an actuarial assessment shows that the employer is in surplus on a full buy-out basis at the time of their exit. Prior to the changes, the 2013 Regulations had only provided that a scheme employer would be responsible for any shortfall and where such a shortfall occurred they would be responsible for paying an exit payment.

The amendments to allow exit credits to be paid from the Scheme were intended to address this imbalance. They also followed prior concerns that the lack of such a provision meant some scheme employers who were nearing their exit were reluctant to pre-fund their deficit out of concern that, if they contributed too much, they would not receive their excess contributions back. Accordingly, the government consulted on addressing this via the introduction of exit credits in May 2016<sup>12</sup>, as part of a wider consultation exercise.

Feedback from the consultation exercise was broadly supportive of this change. Responses focussed on two technical issues:

- Some respondents suggested that our proposed timescales for payment of an exit credit were too tight (at one month).
- Some also suggested that we should include a clarifying provision noting that where an exit credit had been paid there could be no further claim on the fund.

Both concerns were addressed in the final regulations, which provided that funds would have three months to pay an exit credit and that no further payment could be made to a scheme employer from an administering authority after an exit credit had been paid.

### 4.2 Exit credits and pass-through

In the period since the 2013 Regulations were amended, some concerns have been raised about a consequential impact of the introduction of exit credits, specifically where a scheme employer has outsourced a service or function to a service provider. In such

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<sup>&</sup>lt;sup>11</sup> S.I. 2018/493

<sup>12</sup> https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations

situations, scheme employers often use a 'pass-through' approach to limit the service provider's exposure to pensions risk to obtain a better contract price. Where pass-through is used, service contracts, or side agreements to service contracts between LGPS employers and their service providers will often be used to set out the terms that apply.

It has been drawn to our attention that where LGPS employers entered into a contract with a service provider before the introduction of exit credits, the terms of the pass-through agreement may cause unforeseen issues to arise. This may occur where an employer has entered into a side agreement with a service provider which includes pass-through provisions, and under this side agreement, the authority has agreed to pay the service provider's LGPS employer contributions for the life of the contract as well as meet any exit payment at the end of the contract. When the contract ceases, the service provider (as the scheme employer) may be significantly in surplus and entitled to an exit credit, even though the employer has borne the costs and the risk in relation to the service provider's liabilities through the life of the contract.

This situation would clearly not have been what was intended when the contract was agreed. It would be unfair for a service provider to receive an exit credit in such a situation and it is our intention to make changes that would mean that service providers cannot receive the benefit of exit credits in such cases.

### 4.3 Proposal to amend LGPS Regulations 2013

We therefore propose to amend the 2013 Regulations to provide that an administering authority must take into account a scheme employer's exposure to risk in calculating the value of an exit credit. There would be an obligation on the administering authority to satisfy itself if risk sharing between the contracting employer and the service provider has taken place (for example, via a side agreement which the administering authority would not usually have access to). If the administering authority is satisfied that the service provider has not borne any risk, the exit credit may be calculated as nil.

We also intend that such a change would be retrospective to the date that the LGPS Regulations 2013 were first amended to provide for the introduction of exit credits – i.e. to 14 May 2018. This would ensure that where a service provider has not borne pensions risk but has become entitled to an exit credit, they should not receive the benefit of that exit credit.

By making this change retrospective, the revised exit credit provisions would apply in relation to all scheme employers who exit the scheme on or after 14 May 2018.

In the event of any dispute or disagreement on the level of risk a service provider has borne, the appeals and adjudication provisions contained in the LGPS Regulations 2013 would apply.

It should also be noted that the government is consulting on the introduction of a new way for service providers to participate in the LGPS<sup>13</sup>. Use of the deemed employer approach,

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<sup>&</sup>lt;sup>13</sup> https://www.gov.uk/government/consultations/local-government-pension-scheme-fair-deal-strengthening-pension-protection

if introduced, would also prevent exit credits becoming payable to service providers where they have not borne contribution or funding risks.

Question 16 – Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

Question 17 – Are there other factors that should be taken into account in considering a solution?

# Employers required to offer LGPS membership

# 5.1 Further education corporations, sixth form college corporations and higher education corporations

Under the LGPS Regulations 2013, further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

In recent years, a number of changes have taken place in the further education and higher education sectors.

- In 2012, the Office for National Statistics took further education and sixth form college corporations in England out of the General Government sector, reflecting changes introduced by the Education Act 2011 which, in the view of the ONS, took public control away from such organisations.
- The Technical and Further Education Act 2017 provided for the introduction of a new statutory insolvency regime for further education and sixth form college corporations in England and Wales meaning, for the first time, it will be possible for such bodies to become legally insolvent. The Government expects cases of insolvency to be rare.
- The Higher Education and Research Act 2017 established a new regulatory framework and a new single regulator of higher education in England, the Office for Students (the OfS). The OfS adopts a proportionate, risk-based approach to regulating registered higher education providers consistent with its regulatory framework.

Reflecting the independent, non-public sector status, of further education, sixth form colleges, and the autonomous, non-public sector status of higher education corporations, these bodies are responsible for determining their own business models and for ensuring that their financial positions are sound. As such, these bodies may value greater flexibility in determining their own pension arrangements for their own workforces. Indeed, some respondents to the Department for Education consultation 'Insolvency regime for further education and sixth form colleges', held in 2017-18, requested that the obligation to offer LGPS to all eligible staff be removed.

The LGPS is, unlike many public service pension schemes, a "funded scheme". This means that employee and employer contributions are set aside for the payment of pensions and are invested to maximise returns. It is a statutory scheme, with liabilities potentially falling back on other LGPS employers in the event of an employer becoming insolvent. The costs associated with meeting the liabilities of a failed organisation could therefore fall back on local authorities and other scheme employers, meaning there may be a direct impact on the finances of public bodies in a particular area if an organisation fails.

Given the nature of the LGPS and the changes in the further education and higher education sectors, it is right to consider whether it is still appropriate for LGPS regulations to require that these employers offer the LGPS for all eligible staff.

We propose to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS.

Under our proposals each corporation would have the flexibility to decide whether to offer the LGPS to all or some eligible new employees. We recognise that corporations will continue to view offering LGPS as a valuable and important tool in recruitment and retention strategies, but the flexibility as to when to use the tool should be for the corporations themselves.

We also propose that those already in employment with a further education, sixth form college or a higher education corporation in England and who are eligible to be a member of the LGPS before the regulations come into force have a protected right to membership of the scheme. These employees would retain an entitlement to membership of the scheme for so long as they remain in continuous employment with the body employing them when the regulations come into force. These employees would also retain an entitlement to membership of the scheme following a compulsory transfer to a successor body, for example, following the merger of two corporations.

Further and higher education policy is devolved to the Welsh Government. Whilst some of the changes in the sectors highlighted here apply to bodies in Wales as well as in England, at the moment, the Welsh Government does not propose to change the requirements of the LGPS Regulations 2013 in relation to further education corporations and higher education corporations in Wales. These bodies will continue to be required to offer membership of the LGPS to their non-teaching staff.

Question 18 – Do you agree with our proposed approach?

## Public sector equality duty

### 6.1 Consideration of equalities impacts

The Ministry's policies, guidance and procedures aim to ensure that any decisions, new policies or policy changes do not cause disproportionate negative impacts on particular groups with protected characteristics, and that in formulating them the Ministry has taken due regard to its obligations under the Equality Act 2010 and the Public Sector Equality Duty. We have made an initial assessment under the duty and do not believe there are equality impacts on protected groups from the proposals in sections 1 to 4 which set out changes to valuations, flexibilities on exit payments and in relation to exit credits payable under the scheme, as there will be no change to member contributions or benefits as a result.

Our proposals in section 5 to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS may result in a difference in treatment between the staff of an institution who are already in the LGPS when the change comes into force (who would have a protected right to membership of the LGPS), and new employees (who would not). It will be up to each institution to consider the potential equalities impacts when making their decision on which, if any, new employees should be given access to the scheme.

Question 19 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

## Summary of consultation questions

Question 1 – As the Government has brought the LGPS scheme valuation onto the same quadrennial cycle as the other public service schemes, do you agree that LGPS fund valuations should also move from a triennial to a quadrennial valuation cycle?

Question 2 - Are there any other risks or matters you think need to be considered, in addition to those identified above, before moving funds to a quadrennial cycle?

Question 3 - Do you agree the local fund valuation should be carried out at the same date as the scheme valuation?

Question 4 - Do you agree with our preferred approach to transition to a new LGPS valuation cycle?

Question 5 - Do you agree that funds should have the power to carry out an interim valuation in addition to the normal valuation cycle?

Question 6 - Do you agree with the safeguards proposed?

Question 7 – Do you agree with the proposed changes to allow a more flexible review of employer contributions between valuations?

Question 8 – Do you agree that Scheme Advisory Board guidance would be helpful and appropriate to provide some consistency of treatment for scheme employers between funds in using these new tools?

Question 9 – Are there other or additional areas on which guidance would be needed? Who do you think is best placed to offer that guidance?

Question 10 – Do you agree that funds should have the flexibility to spread repayments made on a full buy-out basis and do you consider that further protections are required?

Question 11 – Do you agree with the introduction of deferred employer status into LGPS?

Question 12 – Do you agree with the approach to deferred employer debt arrangements set out above? Are there ways in which it could be improved for the LGPS?

Question 13 – Do you agree with the above approach to what matters are most appropriate for regulation, which for statutory guidance and which for fund discretion?

Question 14 – Do you agree options 2 and 3 should be available as an alternative to current rules on exit payments?

Question 15 – Do you consider that statutory or Scheme Advisory Board guidance will be needed and which type of guidance would be appropriate for which aspects of these proposals?

Question 16 – Do you agree that we should amend the LGPS Regulations 2013 to provide that administering authorities must take into account a scheme employer's exposure to risk in calculating the value of an exit credit?

Question 17 – Are there other factors that should be taken into account in considering a solution?

Question 18 – Do you agree with our proposed approach?

Question 19 – Are you aware of any other equalities impacts or of any particular groups with protected characteristics who would be disadvantaged by the proposals contained in this consultation?

## About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at Annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure.

### Annex A

### Personal data

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

# 1. The identity of the data controller and contact details of our Data Protection Officer

The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at <a href="mailto:dataprotection@communities.gov.uk">dataprotection@communities.gov.uk</a>

### 2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

### 3. Our legal basis for processing your personal data

The Data Protection Act 2018 states that, as a government department, MHCLG may process personal data as necessary for the effective performance of a task carried out in the public interest. i.e. a consultation.

Section 21 of the Public Service Pension Act 2013 requires the responsible authority, in this case the Secretary of State, to consult such persons as he believes are going to be affected before making any regulations for the Local Government Pension Scheme. MHCLG will process personal data only as necessary for the effective performance of that duty

### 3. With whom we will be sharing your personal data

We do not anticipate sharing personal data with any third party.

# 4. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for two years from the closure of the consultation.

### 5. Your rights, e.g. access, rectification, erasure

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

- a. to see what data we have about you
- b. to ask us to stop using your data, but keep it on record
- c. to ask to have all or some of your data deleted or corrected

- d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <a href="https://ico.org.uk/">https://ico.org.uk/</a>, or telephone 0303 123 1113.
- 6. Your personal data will not be sent overseas
- 7. Your personal data will not be used for any automated decision making.
- 8. Your personal data will be stored in a secure government IT system.





# Committee Report

Decision Maker: PENSION FUND COMMITTEE

Date: 20 June 2019

Classification: General Release

Title: Investment Strategy Consideration

Wards Affected: All

Policy Context: Effective control over council activities

Financial Summary: There are no immediate financial implications

arising from this report.

Report of: Phil Triggs

Tri-Borough Director of Treasury and

**Pensions** 

ptriggs@westminster.gov.uk

020 7641 4136

### 1. Executive Summary

1.1 During 2019/20 and future years, the Pension Fund could receive a substantial sum in forward deficit recovery receipts. This report summaries the current strategic asset allocation and discusses the future investment strategy of the Fund, taking into consideration these potential receipts and the current triennial valuation outcome.

### 2. Recommendation

- 2.1 The Committee is asked to:
  - note the strategy consideration paper prepared by our investment advisor, Deloitte.
  - ➤ approve an outline investment strategy option for the forward funding receipt, pending clarification of future funding decisions taken by the Cabinet.

### 3. Current Strategic Asset Allocation

- 3.1 During 2018/19, the benchmark strategic asset allocation of the Fund was: 65% equities, 20% fixed income, 10% property and 5% infrastructure. As at 31 March 2019, the actual asset allocation was: 69% equities, 21% fixed income, 9% property and 1% infrastructure across seven fund managers.
- 3.2 The Fund will reach 5% asset allocation to infrastructure as the Pantheon fund draws down the allocation over the coming years, due to be transitioned from the Fund's Longview equities portfolio. The estimated median return of the current allocation is 5.4% p.a., with a standard deviation of 12.0% p.a.
- 3.3 The Fund has historically allocated a high proportion of equities due to the larger potential returns. However, the Fund has borne a higher level of risk as a result.

### 4. Future Strategy Considerations

- 4.1 The estimated funding level for the Westminster City Council Fund as assessed by the actuary at 31 December 2018 was 94.5%, with a £79m deficit. Future forward receipts could bring a full funding position. It is expected a review of the Investment Strategy Statement will take place following the triennial valuation but, in the meantime, the Pension Fund Committee should consider how to allocate these funds.
- 4.2 The investment advisor has set out the following options for consideration:
  - ➤ Invest the funds across the current strategic asset allocation: this would maintain a high level of equity risk.
  - ➤ De-risk the Fund by investing in fixed income: additional funds could be placed within the LCIV Multi Asset Credit (MAC) fund and Insight Buy and Maintain mandate, given that both are relatively liquid. It is estimated that if the funds were allocated two-thirds to buy and maintain and one-third to MAC, the expected return would be 5.2% p.a. with a standard deviation of 11.3%, 0.7% lower than the current strategic allocation.
  - ➤ De-risk the Fund by investing in buy and maintain credit: the forward funding capital could be invested solely in the buy and maintain credit mandate, this would give an expected return of 5.1% p.a. and a lower standard deviation of 11.1%.
- 4.3 On balance, the Committee is recommended to consider investing the forward funding capital within a fixed income asset class.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

Billie Emery pensionfund@westminster.gov.uk or 0207 641 7062

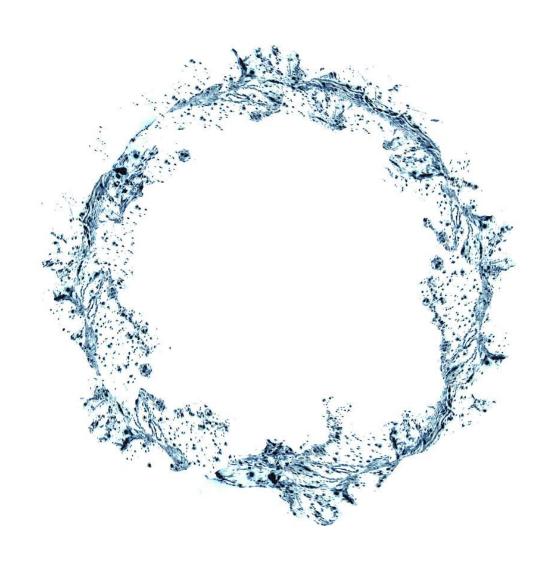
**BACKGROUND PAPERS: None** 

**APPENDICES:** 

Appendix 1: Deloitte Strategy Consideration Report



# **Deloitte.**



## **City of Westminster Pension Fund** Strategy Consideration

June 2019

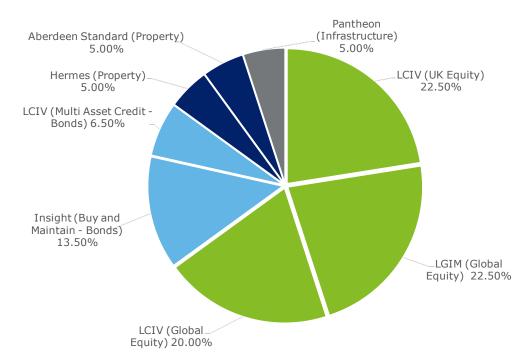
#### Introduction

This report has been prepared for the City of Westminster Pension Fund Committee ("the Committee") and is a discussion piece on the future investment strategy of the City of Westminster Pension Fund ("the Fund"). The Fund is due to receive £170m through a forward funding agreement, which should bring the funding position to a surplus. The Fund is also currently part through its triennial actuarial valuation. Both of which should be taken into consideration by the Committee when considering strategy changes as well as the more immediate issue of where to invest additional funds as and when they are received.

#### **Current Investment Strategy**

### **Current strategic asset allocation**

As at 31 March 2019, the Fund's investment strategy contains an asset mix of equities, bonds, property and infrastructure. The Fund invests in seven strategies with the strategic asset allocation of equities 65%, fixed income 20%, property 10% and infrastructure 5%, as shown below.



The table below shows the current asset allocation (as at 31 March 2019) as well as the strategic benchmark asset allocation of the Fund.

Asset Class	Current Asset Allocation (%)	Benchmark Allocation (%)
UK Equity	20.8	22.5
Global Equity	48.3	42.5
Fixed Income	20.7	20.0
Property	9.3	10.0
Infrastructure	1.0	5.0
Total	100.0	100.0

Figures may not sum due to rounding

During the first quarter of 2019, the Fund committed \$91.5m to the Pantheon Global Infrastructure III. As can be seen from the table above, the Fund has a 1.0% allocation to infrastructure as at 31 March 2019, however this allocation will reach 5% as the Pantheon Fund draws down the allocation over the coming years.

Based on the current strategic allocation of the Fund we estimate the median return would be 5.4% p.a. with a standard deviation of 12.0% p.a.

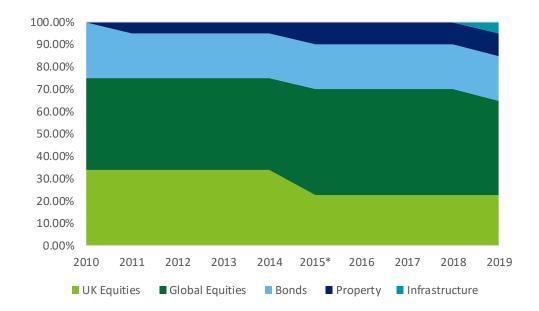
#### **Historic Investment Strategy**

### Historic strategic asset allocation

The strategic asset allocation of the Fund has evolved over time to reflect its risk and return requirements. Historically the Fund has had a high allocation to return seeking assets, most notably equities and property. This strategic allocation gives the Fund a larger return potential; however, the Fund also bears a higher amount of risk as a result. Overall since the first quarter of 2010 the Fund's strategic allocation to equity has fallen, with bond allocation remaining the same. Property and Infrastructure allocations have increased as they have been implemented to add diversification investment strategy.

Asset Class	Strategic asset allocation (% as at 31 March of year)									
	2010	2011	2012	2013	2014	2015 <sup>1</sup>	2016	2017	2018	2019
UK Equity	33.8	33.8	33.8	33.8	33.8	22.5	22.5	22.5	22.5	22.5
Global Equity	41.2	41.2	41.2	41.2	41.2	47.5	47.5	47.5	47.5	42.5
Fixed Income	25.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0	20.0
Property	-	5.0	5.0	5.0	5.0	10.0	10.0	10.0	10.0	10.0
Infrastructure	-	-	-	-	-	-	-	-	-	5.0

<sup>&</sup>lt;sup>1</sup>During the first quarter of 2015, the Fund underwent a strategy review in which 5.0% of the allocation was to be invested in either a property or infrastructure. This was later invested back into equity.



### **Thoughts and observations**

#### **Future strategy considerations**

The Fund's last funding valuation was at 31 March 2016, showing a funding level of 80%. On a basis consistent with the 2016 valuation, the Fund Actuary has estimated that the funding level as at 31 December 2018 is 95%, with a deficit of £79m.

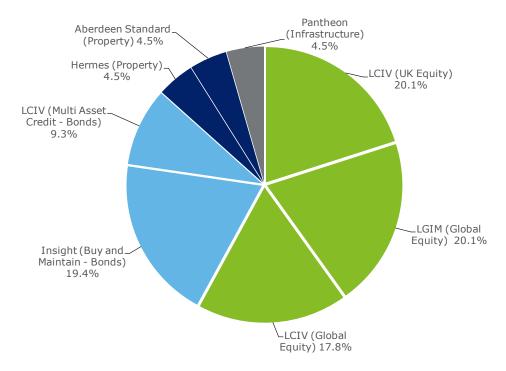
The Fund is expecting a £170m payment over the next 12 months (£20m in Q2 2019 and £150m in Q2 2020) through a forward funding agreement, which is expected to take the overall funding position into surplus. While the investment strategy should be considered more thoroughly following the final actuarial valuation, the Committee must also consider where to allocate these funds as and when they are received. We have outlined some options below for consideration and discussion at the next Pension Fund Committee Meeting.

### 1. Use the funds to invest across the current strategic asset allocation.

The Fund is currently running a lot of equity risk, which would not be appropriate for a funding position of above or near 100%. There would also be significant transaction costs of investing across all asset classes as well as a delay to getting money invested (c. 6-12 months for property and c. 24 – 36 months for infrastructure).

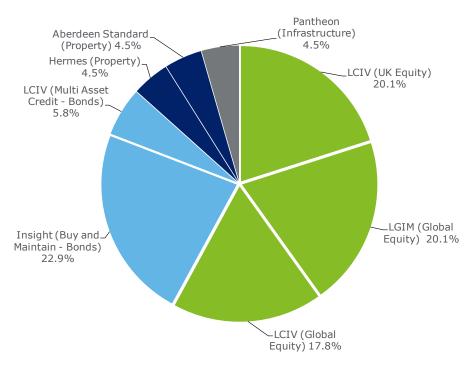
### 2. <u>De-risk the Fund by investing in fixed income.</u>

Both the buy and maintain credit and multi-asset credit strategies are relatively liquid and could take additional investments. If the Fund were to invest the forward funding capital into fixed income in the same split as is currently in place (two-thirds buy and maintain and one third multi-asset credit), we estimate the resulting portfolio would have an expected return of 5.2% p.a. with a standard deviation of 11.3% p.a. The overall allocation as a result of this is shown in the pie chart below.



### 3. De-risk the Fund further by invest in buy and maintain credit only.

The Fund's buy and maintain credit carries the lowest expected risk (and return), investing in investment grade liquid credit only with the aim of holding securities until maturity. The expected yield is 1%-1.5% above that of UK government bonds. If the Fund were to invest the forward funding capital into buy and maintain credit only, we estimate the resulting portfolio would have an expected return of 5.1% p.a., with a standard deviation of 11.1%. The overall allocation as a result of this is shown in the pie chart below.



### **Estimated Asset Allocation**

Asset class	Current strategic asset allocation (%)	Estimated asset allocation following de-risking (%)
UK Equity	22.5	20.1
Global Equity	42.5	37.9
Fixed Income	20.0	28.7
Property	10.0	8.9
Infrastructure	5.0	4.5
Total	100.0	100.0

### Conclusion

The Fund's current allocation to equity is high, and although investing the forward funding capital in fixed income will reduce the equity allocation (to c. 60%), there may still be scope to reduce this further.

If the Fund were to reduce the equity allocation and invest this as well as all of the forward funding capital in buy and maintain credit, this may reduce the expected return by too great an extent.

The Committee may wish to consider other fixed income asset classes that still achieve the desired derisking of the overall strategy while also delivering a level of return, and importantly income, required by the Fund. Asset classes such as private debt/illiquid credit are areas which may be worth considering.

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